

Sofa Brands International Limited

Consolidated financial statements

31 December 2006

Registered number 5456332

THURSDAY



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Sofa Brands International Limited

Consolidated financial statements for the year ended 31 December 2006

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Sofa Brands International Limited

Directors' report for the year ended 31 December 2006

The directors submit their report together with the audited consolidated accounts of the Sofa Brands International Limited group for the year ended 31 December 2006

Principal activity

The principal activity of the company is to act as a holding company. The principal activity of the group is the manufacture, sale and distribution of furniture and associated furnishings.

Review of business and future developments

Sofa Brands International Limited (the "Company") commenced trading on 1 July 2005 and prepared its first accounts for the six month period to 31 December 2005. Hence these accounts for the year to 31 December 2006 represent the first full year of trading of the Company and its subsidiaries.

During the year to 31 December 2006 the Company and its subsidiaries achieved gross sales of £88.7 million compared with £40 million in the six months to 31 December 2005. Trading profit before exceptional items, goodwill amortisation, interest and taxation amounted to £6 million (directly in line with budget) compared with £2.3 million in the six months to 31 December 2005.

Exceptional costs of £620,000 were incurred as a result of transferring production capacity to Lithuania. The Company also disposed of its 49% stake in ACT Leather (Thailand) Limited during the year as Lithuanian capacity increased. On a group basis no gain or loss arises on the disposal as the provisional fair value of the carrying value of this investment was adjusted to realisable value in accordance with Financial Reporting Standard 7 "Fair Values in Acquisition Accounting".

Net debt was reduced in the year from £52.3m to £49.6m whilst interest payable amounted to £4.9 million.

In accordance with Financial Reporting Standard 10 "Goodwill and Intangible Assets" the carrying value of Goodwill has been the subject of a detailed "first full year" impairment review. The result of this is that Goodwill has been impaired by £28.8 million in addition to the annual provision for amortisation of £4 million leaving an on-going carrying value of £45 million.

The Company has updated its actuarial assumptions in calculating the liabilities of its defined benefit pension scheme under Financial Reporting Standard 17 "Retirement Benefits". As a consequence of this, offset to some extent by increases in pension assets, the deficit shown in the accounts has increased from £9.1 million to £13.3 million (net of deferred taxation).

Whilst market conditions remain tough, the directors have budgeted in 2007 for growth in sales and trading profit providing further headroom in covering the servicing costs associated with the remaining Term debt of £48.5 million. Projections allow for the scheduled repayments of £2 million of this Term debt in 2007.

Financial risk management

The group's operations expose it to a variety of financial risks that include the effects of changes in market prices, credit risk and liquidity risk. The group has in place a risk management programme that seeks to limit any adverse effects on the financial performance of the group by monitoring such areas closely. The group does not use derivative financial instruments to manage interest rate costs, and as such no hedge accounting is applied.

Given the size of the group, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of management. The policies and procedures, as set by the Board, are implemented by the group's finance department.

Sofa Brands International Limited

Directors' report for the year ended 31 December 2006 (*continued*)

Market prices

The group is exposed to market prices for certain purchased materials. Recently the group has been provided with appropriate facilities to cover its exposure arising from the purchase of raw materials denominated in foreign currencies.

Credit risk

The group has implemented policies that require appropriate levels of credit check on potential customers before sales are made in addition to having in place an insurance policy to cover any losses arising from the insolvency or default of its customers.

Liquidity risk

The group actively maintains a mixture of long term and short term debt finance that is designed to ensure the group has sufficient funds available for operations.

Dividends

No dividends were paid or proposed.

Directors and their interests

The directors who served during the year were as follows:

D S Malvenan

B Stitfall

V McGinlay – appointed as a non executive director on 1 June 2006

None of the directors had any interest in the shares of the company or its subsidiaries at 1 January 2006 or 31 December 2006.

Charitable donations

Donations made by the group for charitable purposes in the United Kingdom amount to £2,685 (2005 £174).

Sofa Brands International Limited

Directors' report for the year ended 31 December 2006 (*continued*)

Employees

It is the board's policy to employ disabled persons whenever suitable vacancies arise, to continue employment of employees who become disabled and to provide for such employees the appropriate level of training and career progression within the group.

The directors recognise the importance of communications with the group's employees and therefore hold regular meetings with the employees' representatives and the directors make it their policy to be accessible to all employees.

Statement of disclosure of information to auditors

In accordance with Section 234A of the Companies Act, the directors are not aware of any relevant audit information of which the auditors are unaware.

The directors have taken all reasonable steps in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information

Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting

By order of the board



E. Jones
Company Secretary
24 April 2007

Severn Road
Treforest Industrial Estate
Pontypridd
Nr Cardiff
CF37 5YH

Sofa Brands International Limited

Statement of directors' responsibilities

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 the group and of the profit or loss of the group for that year. 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 statutory financial statements comply with the Companies Act 1985

They are also responsible for safeguarding the assets of the company and group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities



E. Jones
Company Secretary
24 April 2007

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Sofa Brands International Limited

Independent Auditors' Report to the Members of Sofa Brands International Limited

We have audited the group and parent company financial statements (the "financial statements") of Sofa Brands International Limited for the year ended 31 December 2006 which comprise the Group Profit and Loss Account, the Group and Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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.

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 other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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 group's and 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.

Sofa Brands International Limited

Independent Auditors' Report to the Members of Sofa Brands International Limited (*continued*)

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2006 and of the group's loss and cash flows 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



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors,
Cardiff,
25 April 2007

Sofa Brands International Limited

Consolidated profit and loss account

for the year ended 31 December 2006

	Note	Year ended 31 December 2006 £'000	Period from 1 July 2005 to 31 December 2005 £'000
Gross sales	3	88,704	39,952
Less rebates and discounts		<u>(4,317)</u>	<u>(1,722)</u>
Turnover	3	84,387	38,230
Cost of sales		<u>(57,984)</u>	<u>(27,847)</u>
Gross profit		26,403	10,383
Distribution costs		(3,007)	(1,454)
Administration expenses		<u>(50,903)</u>	<u>(9,743)</u>
Operating profit before amortisation of intangibles and exceptional items		6,026	2,303
Exceptional items	5	(620)	(1,092)
Amortisation and impairment of intangibles	4	<u>(32,913)</u>	<u>(2,025)</u>
Group operating loss	4	(27,507)	(814)
Share of operating profits of associates	12	<u>-</u>	<u>136</u>
Total operating loss and loss on ordinary activities before interest		(27,507)	(678)
Interest payable	8	(4,862)	(2,536)
Other finance income	26	300	100
Loss on ordinary activities before taxation		<u>(32,069)</u>	<u>(3,114)</u>
Taxation on loss on ordinary activities	10	(1)	(8)
Loss for the financial year	20,21	<u>(32,070)</u>	<u>(3,122)</u>

All operations are classed as continuing. There have been no acquisitions or disposals in the year other than the sale of the 49% equity share in ACT Leather (Thailand) Limited (see Note 12).

There is no difference between the loss on ordinary activities before taxation and the loss for the year stated above, and their historical cost equivalents.

Sofa Brands International Limited

Statement of group total recognised gains and losses for the year ended 31 December 2006

		Year ended 31 December	Period from 1 uly 2005 to 31 December
	<i>Note</i>	2006 £'000	2005 £'000
Loss for the financial year	20	(32,070)	(3,122)
Actuarial loss on pensions	26	(6,600)	(300)
Movement on deferred tax relating to pension deficit		1,910	-
Exchange adjustment on translation of subsidiary		(56)	(2)
Total recognised losses for the year	21	<u>(36,816)</u>	<u>(3,424)</u>

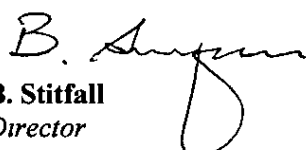
Sofa Brands International Limited

Consolidated and company balance sheets

as at 31 December 2006

	Note	Consolidated 31 December 2006 £'000	Company 31 December 2006 £'000	Consolidated 31 December 2005 £'000	Company 31 December 2005 £'000
Fixed assets					
Tangible assets	11	2,590	6	2,987	4
Investments	12	-	47,376	3,150	80,488
Intangible assets	13	46,805	341	78,976	360
		<u>49,395</u>	<u>47,723</u>	<u>85,113</u>	<u>80,852</u>
Current assets:					
Stocks	14	5,755	-	5,665	-
Debtors amounts due within one year	15	9,178	3,581	10,567	429
Debtors amounts due after one year	16	1,013	5,000	1,010	6,089
Cash at bank and in hand		3,644	2,201	1,716	136
		<u>19,590</u>	<u>10,782</u>	<u>18,958</u>	<u>6,654</u>
Creditors amounts due within one year	17	<u>(21,607)</u>	<u>(17,855)</u>	<u>(21,357)</u>	<u>(7,167)</u>
Net current liabilities		(2,017)	(7,073)	(2,399)	(513)
Total assets less current liabilities		47,378	40,650	82,714	80,339
Creditors due after more than one year	18	<u>(46,340)</u>	<u>(56,340)</u>	<u>(49,151)</u>	<u>(59,141)</u>
Provision for liabilities and charges	19	<u>(2,978)</u>	<u>(502)</u>	<u>(2,887)</u>	<u>(608)</u>
Net (liabilities)/assets excluding pension liability		(1,940)	(16,192)	30,676	20,590
Pension liability	26	<u>(13,300)</u>	<u>(19,000)</u>	<u>(9,100)</u>	<u>(13,100)</u>
Net (liabilities)/assets including pension liability		<u>(15,240)</u>	<u>(35,192)</u>	<u>21,576</u>	<u>7,490</u>
Capital and reserves					
Equity share capital	20	25,000	25,000	25,000	25,000
Profit and loss account	20	<u>(40,240)</u>	<u>(60,192)</u>	<u>(3,424)</u>	<u>(17,510)</u>
Total shareholders' (deficit)/funds	21	<u>(15,240)</u>	<u>(35,192)</u>	<u>21,576</u>	<u>7,490</u>

These financial statements on pages 7 to 34 were approved by the board of directors on 24 April 2007 and were signed on its behalf by


B. Stitfall
 Director

Sofa Brands International Limited

Consolidated cash flow statement

for the year ended 31 December 2006

		Year ended 31 December 2006 £'000	Period from 1 July 2005 to 31 December 2005 £'000
	Note		
Net cash inflow from operating activities	23	5,709	2,243
Return on investments and servicing of finance	23	(4,439)	(2,549)
Taxation		-	-
Capital expenditure and financial investment	23	677	(1,230)
Acquisitions and disposals	23	1,196	806
Cash inflow/(outflow) before financing		<u>3,143</u>	<u>(730)</u>
Financing:			
Net cash(outflow)/inflow from debt and lease financing	23	(1,215)	2,446
		<u>1,928</u>	<u>1,716</u>
Increase in cash in the year			
Reconciliation of net cash flow to movement in net debt			
Increase in cash in the year		1,928	1,716
Net cash outflow/(inflow) from movement in debt and lease financing	23	1,215	(2,446)
		<u>3,143</u>	<u>(730)</u>
Change in net debt arising from cash flows	24		
Net debt at 1 January 2006	24	(52,305)	-
Loans and finance leases acquired with subsidiaries		-	(51,376)
Amortisation of capitalised debt issuance costs	24	(399)	(199)
Net debt at 31 December 2006	24	<u>(49,561)</u>	<u>(52,305)</u>

Sofa Brands International Limited

Notes to the consolidated financial statements for the year ended 31 December 2006

1 Principal accounting policies

A summary of the principal group accounting policies which have been consistently applied during the year, is shown below

Basis of accounting

The financial statements have been prepared on a going concern basis and in accordance with applicable accounting standards, in the United Kingdom and in accordance with the historical cost convention.

Basis of consolidation

The consolidated financial information includes the financial statements of Sofa Brands International Limited and all of its subsidiary undertakings. The financial statements of the holding company and each subsidiary company within the group are prepared to the same year end. Uniform accounting policies are adopted throughout the group. Intra-group transactions and balances have been eliminated on consolidation.

Goodwill and other intangible assets

When the cost of an acquisition exceeds the fair values attributable to the group's share of the net assets acquired, the difference is treated as purchased goodwill which is capitalised and is currently amortised to the profit and loss account over its estimated useful economic life (maximum 20 years).

Other intangible assets including trademarks, are valued at cost or fair value if part of the acquisition of a business. They are currently amortised over their estimated useful economic life (maximum 20 years).

Impairment reviews are carried out to ensure that goodwill and intangible assets are not carried at above their recoverable amounts.

Turnover and gross sales

Turnover represents gross sales, less rebates and discounts and excludes value added tax. Gross sales represents the invoiced value of goods supplied by the company and is recognised on delivery of the goods.

Where discounts relate to the timing of settlement of invoices, they are recognised at the time of invoicing by a reduction of gross sales. Settlement of the invoice is net of the discount if the payment terms are met. Where rebates are volume related, an accrual is made for rebates as earned, which is also deducted from gross sales.

Sofa Brands International Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 *(continued)*

1 Principal accounting policies *(continued)*

Stocks

Stocks are valued on a first in first out ("FIFO") basis at the lower of cost, being direct cost plus overheads applicable to the stage of manufacture reached, and estimated net realisable value

Provision is made for redundant and discontinued stock lines in order to write down their value to amounts expected to be realised on sale. Slow moving stock is provided for by reference to historical usage and forecast sales. The replacement cost of stock is not considered to be materially different from its book value.

Exceptional items

Exceptional items are those that need to be disclosed by virtue of their size or incidence. Such items are included within operating profits/losses unless they represent profits or losses on the sale or termination of operations, costs of a fundamental reorganisation or restructuring having a material effect on the nature and focus of the group, or profits or losses on the disposal of fixed assets. In these cases separate disclosure is provided on the face of the profit and loss account which does not form part of operating profits/losses of the group.

Tangible fixed assets

The cost of tangible fixed assets, which represents purchase cost together with any incidental cost of acquisition, is written off on a straight line basis over their estimated useful lives, as follows:

Leasehold improvements	-	over term of the lease
Plant and machinery	-	10% to 20% per annum
Fixtures and fittings	-	10% to 20% per annum
Computer equipment	-	33⅓ % per annum

The Sofa Brands International Limited group selects its depreciation rates carefully and reviews them regularly to take into account any changes in circumstances. When setting useful economic lives, the principal factors the group takes into account are the intensity at which the assets are expected to be used, the historical capital renewal experience of similar assets within the group and the rate of technology change that the asset may be subject to.

Website development costs are capitalised as tangible fixed assets and written off on a straight line basis in accordance with the depreciation policy for computer equipment.

Website planning costs and maintenance costs are charged to the profit and loss account as incurred.

Sofa Brands International Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 (*continued*)

1 Principal accounting policies (*continued*)

Foreign currency translation

Assets and liabilities of subsidiaries denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the end of the financial year, and the results of overseas subsidiaries are translated at the average rate of exchange during the year. Differences on exchange arising from the re-translation of the opening net investment in subsidiary undertakings, and from the re-translation of the results of those companies at an average rate of exchange are taken to reserves.

Transactions denominated in foreign currency are translated at the rate ruling at the date of the transaction. Exchange differences that arise on the settlement of such transactions and on the re-translation of monetary assets and liabilities at closing rates of exchange are dealt with in the profit and loss account. However, where a forward currency contract has been entered into in order to hedge against exchange rate fluctuations, the related asset or liability is translated into sterling at the contract rate.

Leasing

Finance leases, which are leases that give substantially the same rights as ownership, relating to significant items of plant, machinery and vehicles have been capitalised and depreciated in accordance with the group's depreciation policy, subject to a maximum period of the term of the lease. The capital element of future lease payments is included in other creditors. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the profit and loss account over the period of the lease.

Payments under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

Design and development

Expenditure on design and development is written off in the year in which it is incurred.

Deferred taxation

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

A net deferred tax asset is recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Sofa Brands International Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 *(continued)*

1 Principal accounting policies *(continued)*

Pension costs

Pension costs for the year through to 31 December 2006 have been accounted for in accordance with FRS 17 'Retirement benefits'.

The Scheme operated by the Sofa Brands International Limited is a defined benefit scheme. As such the assets within the Scheme are measured using closing market values. Pension scheme liabilities are measured using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

The increase in the present value of the liabilities of the defined benefit scheme expected to arise from employee service in the year is charged to the income and expenditure account. The expected return on the Scheme's assets and the increase during the year in the present value of the Scheme's liabilities, arising from the passage of time, are included in other finance income or expense. Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

The group also operates several stakeholder schemes. These are defined contribution schemes and therefore any contributions payable are charged in the profit and loss account.

Cash and liquid resources

Short-term cash deposits, which can be called on demand or without notice without any material penalty are included within cash balances within the consolidated balance sheet and consolidated cash flow statements.

Debt issuance costs

All borrowings are initially stated at the fair value of the consideration received after deduction of issue costs. Issue costs together with finance costs are charged to the profit and loss account over the terms of the borrowings and represent a constant proportion of the capital repayments outstanding. Accrued finance costs attributable to borrowings where the maturity at the date of issue is less than twelve months are included in accrued charges within current liabilities. For all other borrowings, accrued finance charges and issue costs are added to the carrying value of those borrowings.

2 Ultimate controlling party

In the directors' opinion, there is no ultimate controlling party.

Sofa Brands International Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 *(continued)*

3 Summary segmental analysis

The analysis of gross sales by geographical area is

	Year ended 31 December 2006 £'000	Period from 1 July 2005 to 31 December 2005 £'000
United Kingdom	83,830	38,043
Rest of Europe	3,943	1,725
Other	931	184
Total gross sales – acquired operations	88,704	39,952
Less rebates & discounts	(4,317)	(1,722)
Turnover	84,387	38,230

Turnover, operating loss and net assets attaching to operations outside of the United Kingdom are immaterial to the group and, as such, further segmental analysis has not been produced.

All turnover and profits arise from one class of business being the manufacture and sale of furniture

4 Group operating loss

This is stated after charging/(crediting).	Year ended 31 December 2006 £'000	Period from 1 July 2005 to 31 December 2005 £'000
Depreciation of owned assets	797	244
Depreciation of leased assets	18	9
Amortisation and impairment of goodwill	32,813	1,975
Amortisation of trademarks	100	50
Profit on disposal of tangible fixed assets	(7)	(26)
Hire of plant and machinery	857	514
Other operating lease rentals	1,352	840
Auditors' remuneration - group and statutory audit	95	69
- tax compliance	15	31
- other	30	-
Design and development costs	1,442	762

The audit fees for the parent company were £19,000 (2005 £24,000). The parent company incurred non-audit fees of £30,000 during the year (2005 £nil)

Sofa Brands International Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 (continued)

5 Exceptional items

	Year ended 31 December	Period from 1 July 2005 to 31 December
	2006 £'000	2005 £'000
Administrative expenses	620	1,092

In 2006 exceptional costs relate to restructuring costs across the group, principally redundancy costs of £375,000 and factory closure costs of £219,000. In 2005 the exceptional items principally comprised losses incurred on the re-launch of the Parker Knoll brand (£365,000), disruption costs on the re-organisation of the business following the acquisition by Cameo Sofa Company Limited of the trade and assets of Cambria Mobel Limited on 1 July 2005 from its Administrative Receiver and transfer of certain production activities to Sofa Brands UAB in Lithuania (£428,000).

6 Employee information

Employee remuneration and related costs (including directors' emoluments) were as follows

	Group Year ended 31 December 2006 £'000	Company Year ended 31 December 2006 £'000	Group period from 1 July 2005 to 31 December 2005 £'000	Company period from 1 July 2005 to 31 December 2005 £'000
Wages and salaries	21,633	738	10,846	233
Social security costs	2,125	85	992	26
Other pension costs	464	40	608	17
	<u>24,222</u>	<u>863</u>	<u>12,446</u>	<u>276</u>

The average number of employees, including directors, during the year was as follows

	Group 2006 Number	Company 2006 Number	Group period from 1 July 2005 to 31 December 2005 Number	Company period from 1 July 2005 to 31 December 2005 Number
Management	29	4	27	3
Administration	160	3	167	3
Production, distribution and other	1,160	-	936	-
	<u>1,349</u>	<u>7</u>	<u>1,130</u>	<u>6</u>

Sofa Brands International Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 (continued)

7 Remuneration of directors

	Company Year ended 31 December 2006	Company period from 1 July 2005 to 31 December 2005
Aggregate directors' emoluments	609	294

Retirement benefits are accruing to the following number of directors at 31 December under the group's defined benefit pension scheme

	Number of directors	
	Company Year ended 31 December 2006	Company period from 1 July 2005 to 31 December 2005
Defined benefit schemes	2	1
Highest paid director:		
	Company Year ended 31 December 2006 £'000	Company period from 1 July 2005 to 31 December 2005 £'000
Total amount of emoluments	348	181
Defined benefit pension scheme Accrued pension at year end	6	4

8 Interest payable

	Year ended 31 December 2006 £'000	Period from 1 July to 31 December 2005 £'000
Bank loans and overdrafts	4,462	2,336
Amortisation of capitalised debt issuance costs	399	199
Finance lease interest	1	1
Total interest payable	4,862	2,536

Sofa Brands International Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 (continued)

9 Parent company loss for the year

As permitted by section 230 of the Companies Act 1985, the parent company's profit and loss account has not been included in these financial statements. The parent company's retained loss for the year is £36,082,117 which includes £4,861,654 of interest payable, £3,934,651 loss on the sale of ACT Leather (Thailand) Limited and the subsequent liquidation of Sofa Brands (Thailand) Limited and £29,075,000 provision for impairment of investments held. In the period from 1 July 2005 to 31 December 2005 the parent company's retained loss was £17,510,000 which included £13,100,000 relating to the pension liability arising on the introduction of FRS 17 and £2,535,645 of interest payable.

10 Taxation on loss on ordinary activities

(a) Analysis of tax charge in the year	Year ended 31 December	Period from 1 July 2005 to 31 December 2005
	2006 £'000	2005 £'000
The charge based on the loss for the year comprises		
Current tax		
UK corporation tax on loss for the year before exceptional items	-	-
Total current tax (Note 10(b))	-	-
Deferred tax:		
Origination and reversal of timing differences	(209)	8
Pension cost relief in excess of pension costs charge	210	
Tax on loss on ordinary activities	1	8

The tax assessed for the year is different from the standard rate of corporation tax in the UK (30%) for the year. The differences are explained below.

(b) Current tax reconciliation	Year ended 31 December	Period from 1 July 2005 to 31 December 2005
	2006 £'000	2005 £'000
Loss on ordinary activities before taxation	(32,069)	(3,114)
Loss multiplied by standard rate of corporation tax in the UK of 30%	(9,621)	(934)
<i>Effects of</i>		
Capital allowances in excess of depreciation	(62)	(18)
Permanent differences	9,571	1,019
Short term timing differences	101	21
Losses utilised	11	667
Group relief not paid for	-	(755)
Total current tax charge for the year (Note 10(a))	-	-

Sofa Brands International Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 (continued)

11 Tangible fixed assets

Group	Short leasehold land & buildings £'000	Plant & machinery £'000	Fixtures, fittings & office equipment £,000	Total £'000
<i>Cost</i>				
At 1 January 2006	1,210	1,555	364	3,129
Additions	14	343	116	473
Disposals	(186)	(6)	(10)	(202)
Difference on exchange	(25)	(15)	(3)	(43)
At 31 December 2006	1,013	1,877	467	3,357
<i>Depreciation</i>				
At 1 January 2006	30	87	25	142
Charge for year	268	383	164	815
Disposals	(186)	-	-	(186)
Difference on exchange	(3)	(1)	-	(4)
At 31 December 2006	109	469	189	767
<i>Net book value</i>				
At 31 December 2006	904	1,408	278	2,590
At 31 December 2005	1,180	1,468	339	2,987

Included in plant & machinery at 31 December 2006 were assets held under finance lease with a cost of £39,542 (2005 £39,542) and accumulated depreciation of £27,375 (2005 £9,125)

Company

The company has fixtures, fittings & office equipment with a net book value of £5,551 at 31 December 2006 (2005 £3,947)

Sofa Brands International Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 (continued)

12 Fixed asset investments

	Group 31 December 2006 £'000	Company 31 December 2006 £'000	Group 31 December 2005 £'000	Company 31 December 2005 £'000
At 1 January 2006	3,150	80,488	-	-
Acquisitions made in the year	-	1,887	3,150	80,488
Disposals in year	(3,150)	(5,924)	-	-
Provision for impairment	-	(29,075)	-	-
At 31 December 2006	-	47,376	3,150	80,488

Investments by the parent in group undertakings are stated at cost less provisions for impairment. See note 27 for a list of the principal undertakings.

On 30 September 2006 the group disposed of its 49% equity interest in ACT Leather (Thailand) Limited for the net consideration of £1,147,000. No consolidated gain or loss has arisen on this disposal as provisional fair values on acquisition have been adjusted to reflect actual cash received from this investment including sales proceeds and post acquisition dividends. This is permitted under FRS 7 during the post acquisition "hindsight" period (see also Note 28).

As a direct consequence of the disposal the group has now liquidated Sofa Brands (Thailand) Limited.

The additions in the year, in respect of the company, represent a further investment, via an increase in share capital, in the existing 100% owned subsidiary, UAB Sofa Brands.

Sofa Brands International Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 (continued)

13 Intangible assets

Group	Goodwill £'000	Trademarks £'000	Total £'000
At 1 January 2006	79,001	2,000	81,001
Additions (Note 28)	1,938	-	1,938
Final cash settlement from Receiver	(1,196)	-	(1,196)
At 31 December 2006	79,743	2,000	81,743
At 1 January 2006	1,975	50	2,025
Provided in year	4,013	100	4,113
Provision for impairment	28,800	-	28,800
At 31 December 2006	34,788	150	34,938
Net carrying amount at 31 December 2006	44,955	1,850	46,805
Net carrying amount 1 January 2006	77,026	1,950	78,976

The goodwill above arose on the trade and assets and share capital acquisitions on 1 July 2005 (see Note 28)

The provision for impairment resulted from a review of the carrying value of goodwill on our balance sheet, as 31 December 2006 is the end of the first full year following the acquisition. A calculation of the carrying value based on value in use of the group has led to a decision to impair the value of goodwill by £28.8m

Company

The company has trademarks with a net carrying amount of £341,189 at 31 December 2006 (2005 £359,631)

14 Stocks

	Group 31 December 2006 £'000	Company 31 December 2006 £'000	Group 31 December 2005 £'000	Company 31 December 2005 £'000
Raw materials	4,795	-	4,358	-
Work in progress	512	-	779	-
Finished goods and goods held for resale	448	-	528	-
	5,755	-	5,665	-

The replacement cost of the stocks in the directors' opinion does not differ significantly from the amounts shown above

Sofa Brands International Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 (continued)

15 Debtors: amounts due within one year

	Group 31 December 2006 £'000	Company 31 December 2006 £'000	Group 31 December 2005 £'000	Company 31 December 2005 £'000
Trade debtors	7,397	-	8,539	-
Other debtors	484	53	539	-
Prepayments	1,297	36	1,489	191
Corporation tax – group relief receivable	-	1,574	-	-
Due from subsidiary undertakings	-	1,918	-	238
	<u>9,178</u>	<u>3,581</u>	<u>10,567</u>	<u>429</u>

16 Debtors: amounts due after one year

	Group 31 December 2006 £'000	Company 31 December 2006 £'000	Group 31 December 2005 £'000	Company 31 December 2005 £'000
Other debtors	632	-	838	-
Due from subsidiary undertakings	-	5,000	-	6,089
Deferred tax (see below)	381	-	172	-
	<u>1,013</u>	<u>5,000</u>	<u>1,010</u>	<u>6,089</u>

The deferred taxation balance can be analysed as follows

	Group 31 December 2006 £'000	Group 31 December 2005 £'000
Excess of capital allowances over depreciation	268	78
Short term timing differences	113	94
Deferred tax asset	381	172
Deferred tax asset on net pension liability	<u>5,700</u>	<u>4,000</u>
	<u>6,081</u>	<u>4,172</u>

The deferred tax asset on net pension liability of £5,700,000 (2005 £4,000,000) has been deducted in arriving at the net pension deficit on the balance sheet (see Note 26)

Sofa Brands International Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 (continued)

16 Debtors: amounts due after one year (continued)

The movement in deferred tax can be analysed as follows

	Group 31 December 2006 £'000	Group 31 December 2005 £'000
At 1 January 2006	4,172	-
On acquisition	-	180
Charged to the profit and loss (Note 10(a))	(1)	(8)
Amount credited to statement of total recognised gains and losses	1,910	4,000
Provision at end of year including deferred tax on pension liability	6,081	4,172

The group has a deferred tax asset of £1,767,877 (2005 £716,000) which has not been recognised on consolidation due to the uncertainty surrounding its recoverability.

Company

The company has a deferred tax asset of £6,322,241 which has not been recognised due to the uncertainty surrounding its recoverability. The amount includes £5,700,000 relating to the net pension liability which has been provided for on a group basis.

17 Creditors: amounts due within one year

	Group 31 December 2006 £'000	Company 31 December 2006 £'000	Group 31 December 2005 £'000	Company 31 December 2005 £'000
Senior credit facility (Note 18)	7,250	7,250	5,250	5,250
Capitalised debt issuance costs	(395)	(395)	(399)	(399)
Bank overdraft	-	8,480	-	-
	6,855	15,335	4,851	4,851
Trade creditors	6,364	88	7,671	29
Finance leases (Note 18)	10	-	19	-
Other taxation and social security	2,695	41	2,281	272
Due from subsidiary undertakings	-	95	-	-
Accruals and deferred income	5,683	2,296	6,535	2,015
	21,607	17,855	21,357	7,167

Sofa Brands International Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 (continued)

18 Creditors: amounts due after more than one year

	Group 31 December 2006 £'000	Company 31 December 2006 £'000	Group 31 December 2005 £'000	Company 31 December 2005 £'000
Borrowings				
Secured credit facility (see below)	46,500	46,500	49,696	49,696
Capitalised debt issuance costs	(160)	(160)	(555)	(555)
Finance leases (see below)	-	-	10	-
	<u>46,340</u>	<u>46,340</u>	<u>49,151</u>	<u>49,141</u>
Due to subsidiary undertakings	-	10,000	-	10,000
	<u>46,340</u>	<u>56,340</u>	<u>49,151</u>	<u>59,141</u>
Maturity profile of borrowings under senior credit facility				
Due between 1 and 2 years	46,500	46,500	2,000	2,000
Due between 2 and 5 years	-	-	47,696	47,696
	<u>46,500</u>	<u>46,500</u>	<u>49,696</u>	<u>49,696</u>
Maturity profile of finance leases				
			Group 31 December 2006 £'000	Group 31 December 2005 £'000
Due in less than one year			10	19
Due between 1 and 2 years			-	10
			<u>10</u>	<u>29</u>

Credit Agreement

The subscribers to Sofa Brands International Limited comprise the syndicate of bankers providing facilities to the group.

Under the Senior Credit Agreement dated 1 July 2005, loan facilities totalling £65 million have been made available to Sofa Brands International Limited

The facilities originally comprised (i) a sterling Term A loan facility of £48.5 million (ii) a sterling Term B loan facility of £4 million (iii) a multi currency revolving loan and guarantee facility of £7.5 million (iv) a standby facility of £5.0 million.

Sofa Brands International Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 (continued)

18 Creditors: amounts due after more than one year (continued)

£0.5 million of the Term Loans is repayable on 30 June 2007. A further £1.5 million of the Term Loans is repayable on 31 December 2007. The balance of the Term Loans is payable on the 30 June 2008. The repayment of the Term Loans is applied in first repaying Term Loan B and then Term Loan A.

In 2006 the remainder of the Term B facility was repaid following the receipt of funds from the Administrative Receiver of Christie Tyler Limited (see Note 24).

The revolving loan facility is available in pounds sterling or certain foreign currencies and as part of the revolving facility. Optional ancillary facilities may be utilised by way of overdrafts on usual banking terms, the issuance of bank guarantees and any other banking facilities agreed between the group and the ancillary facility bank. The revolving loan facility will cease to be available on 30 June 2008.

The standby facility is an additional revolving loan facility of £5 million initially available until 31 March 2006. This has subsequently been reduced to £2.85 million through to 30 June 2008, to reflect the group's requirements.

Interest on all advances under the various facilities is payable at the rate per annum equal to LIBOR, plus applicable mandatory liquid asset costs plus 3% margin.

Security and Guarantees

The obligations of Sofa Brands International Limited under the Credit Agreement are guaranteed by each of its material operating subsidiaries. In addition, each charging subsidiary has granted security over substantially all of its assets, including English law fixed charges over material properties, bank accounts, insurances, debts and shares and a floating charge over all of its other undertakings and assets.

19 Provisions for liabilities and charges

Group	Other £'000	Fair value provisions £'000	Total £'000
At 1 January 2006	1,050	1,837	2,887
Charged to the profit and loss account	402	-	402
Charged to goodwill	170	200	370
Utilised during the year	(59)	(622)	(681)
At 31 December 2006	1,563	1,415	2,978

Sofa Brands International Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 *(continued)*

19 Provisions for liabilities and charges *(continued)*

Company	Fair value provisions £'000
At 1 January 2006	608
Charged to the profit and loss account	200
Utilised during the year	<u>(306)</u>
At 31 December 2006	<u>502</u>

Fair value provisions

In accordance with Financial Reporting Standard 7, 'Fair Values in Acquisition Accounting', provisions were recognised as at 1 July 2005 with regard to the acquisitions made by the group at that date (*Note 28*). Fair value provisions were made on a provisional basis as at 31 December 2005 and have been reassessed during the current year "hindsight" period. There is still uncertainty as to when these provisions are likely to be utilised.

Other provisions

Other provisions principally relate to the directors' best estimate of liabilities arising from contractual arrangements and provisions for property repairs across the group. The utilisation of the provisions is dependent upon the timing of the discontinuance of these arrangements, which is uncertain.

20 Share capital & reserves

	31 December 2006 £'000	31 December 2005 £'000
<i>Authorised</i>		
27,778,000 ordinary shares of £1 each	27,778,000	27,778,000
	<hr/>	<hr/>
<i>Allotted, called up and fully paid</i>		
25,000,000 ordinary shares of £1 each	25,000,000	25,000,000
	<hr/>	<hr/>

Sofa Brands International Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 (continued)

20 Share capital & reserves (continued)

Reserves

The movement in reserves during the year is as follows

Group	Profit and loss reserve £'000
At 1 January 2006	(3,424)
Movements in year	
Loss for the year	(32,070)
Movement in deferred tax relating to pension deficit	1,910
Actuarial loss	(6,600)
Exchange rate reserve movements	(56)
	<u>(40,240)</u>
At 31 December 2006	
	<u>(40,240)</u>
Company	Profit and loss reserve £'000
At 1 January 2006	(17,510)
Loss for the year (see Note 9)	(36,082)
Actuarial loss	(6,600)
	<u>(60,192)</u>
At 31 December 2006	
	<u>(60,192)</u>

21 Reconciliation of movements in shareholders' funds

	Group 31 December 2006 £'000	Company 31 December 2006 £'000	Group 31 December 2005 £'000	Company 31 December 2005 £'000
Loss for the financial year	(32,070)	(6,994)	(3,122)	(17,510)
Exchange adjustment on re-translation of subsidiary	(56)	-	(2)	-
Actuarial loss	(6,600)	(6,600)	(300)	-
Movement on deferred tax relating to pension deficit	1,910	-	-	-
Issue of share capital	-	-	25,000	25,000
Net change in shareholders' funds	<u>(36,816)</u>	<u>(13,594)</u>	<u>21,576</u>	<u>7,490</u>
Opening shareholders' funds	<u>21,576</u>	<u>7,490</u>	<u>-</u>	<u>-</u>
Closing shareholders' (deficit)/funds	<u>(15,240)</u>	<u>(6,104)</u>	<u>21,576</u>	<u>7,490</u>

Sofa Brands International Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 (continued)

22 Commitments under operating leases

At 31 December 2006 the group and company had annual commitments in respect of the year ending 31 December 2006 under non-cancellable operating leases as below

	Group 31 December 2006 £'000	Company 31 December 2006 £'000	Group 31 December 2005 £'000	Company 31 December 2005 £'000
Land and buildings				
Within 1 year	1	-	60	-
Within 2-5 years	378	-	379	-
After 5 years	966	-	966	-
	<u>1,345</u>	<u>-</u>	<u>1,405</u>	<u>-</u>
Other				
Within 1 year	115	10	96	13
Within 2-5 years	313	18	436	13
After 5 years	176	-	141	-
	<u>604</u>	<u>28</u>	<u>673</u>	<u>26</u>
Total operating lease commitments	<u>1,949</u>	<u>28</u>	<u>2,078</u>	<u>26</u>

23 Cash flow from operating activities

	Year ended 31 December 2006 £'000	Period from 1 July to 31 December 2005 £'000
Reconciliation of operating loss to operating cash flows		
Operating loss	(27,507)	(814)
Depreciation	815	253
Profit/(loss) on disposal of assets	7	-
Amortisation and impairment of goodwill and trademarks	32,913	2,025
Other non cash changes	(38)	-
Increase in stocks	(205)	(1,204)
Decrease/(increase) in debtors	1,517	(911)
(Decrease)/increase in creditors and provisions	(1,750)	2,758
Cash dividends from investment in associate	357	136
Difference between pension charge and contributions	(400)	-
Net cash inflow from operating activities	<u>5,709</u>	<u>2,243</u>

Sofa Brands International Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 *(continued)*

23 Cash flow from operating activities *(continued)*

	Year ended 31 December 2006 £'000	Period from 1 July 2005 to 31 December 2005 £'000
Analysis of cash flows for headings in the cash flow statement		
Return on investments and servicing of finance		
Interest paid	4,405	1,396
Debt issue costs paid	34	1,153
	<hr/>	<hr/>
Return on investments and servicing of finance	4,439	2,549
	<hr/>	<hr/>
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(473)	(1,256)
Sale of tangible fixed assets	3	26
Sale of investment	1,147	-
	<hr/>	<hr/>
Capital expenditure and financial investment	677	(1,230)
	<hr/>	<hr/>
Acquisitions and disposals		
Net cash balances acquired with subsidiary undertaking	-	806
Final cash settlement from receiver <i>(see Note 18)</i>	1,196	-
	<hr/>	<hr/>
	1,196	806
	<hr/>	<hr/>
Financing		
Decrease/increase in borrowings	(1,196)	2,447
Capital element of finance lease rental payments	(19)	(1)
	<hr/>	<hr/>
Financing	(1,215)	2,446
	<hr/>	<hr/>

Sofa Brands International Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 *(continued)*

24 Reconciliation of movement in net debt

	At 1 January 2006	Cash flow	Other non cash changes	At 31 December 2006
	£'000	£'000	£'000	£'000
Cash balances and deposits	1,716	1,928	-	3,644
Net cash	<u>1,716</u>	<u>1,928</u>	<u>-</u>	<u>3,644</u>
Debt due after one year	(49,696)	1,196	2,000	(46,500)
Debt due within one year	(5,250)	-	(2,000)	(7,250)
Capitalised debt issuance costs	954	-	(399)	555
Net borrowings	<u>(53,992)</u>	<u>1,196</u>	<u>(399)</u>	<u>(53,195)</u>
Finance leases	<u>(29)</u>	<u>19</u>	<u>-</u>	<u>(10)</u>
Net debt	<u>(52,305)</u>	<u>3,143</u>	<u>(399)</u>	<u>(49,561)</u>

25 Capital commitments

The group and company had no capital commitments at 31 December 2006 and 31 December 2005

Sofa Brands International Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 (continued)

26 Pensions

The group operates a funded defined benefit Scheme named the Christie Tyler plc Retirement Benefits Scheme (the "Scheme") There are in addition a number of stakeholder schemes and life assurance only arrangements The Scheme funds are administered by trustees and are independent of Sofa Brands International Limited

FRS 17 Retirement Benefits

A full actuarial valuation was carried out at 31 March 2006 and the results were adjusted to 31 December 2006 by a qualified independent actuary to reflect the difference in actuarial assumptions and the time period elapsed

The financial assumptions used to calculate liabilities of the Scheme under FRS 17 at 31 December 2006 are

	At 31 December 2006 %	At 31 December 2005 %
Inflation assumption	3.0	2.5
Rate of increase in pensionable salaries	3.0	2.5
Rate of increase in pensions in payment	3.0	2.5
Discount rate	5.1	5.0
Mortality	PA 90 – 2 years	PA 90 – 2 years

The assets and liabilities in the Scheme and the expected rate of return on assets are:

	Long-term rate of return expected at 31 December 2006 %	Value at 31 December 2006 £'000	Long-term rate of return expected at 31 December 2005 %	Value at 31 December 2005 £'000
Equities	n/a	-	7.0	48,300
Target return fund	8.4	56,600	n/a	-
Cash	5.0	1,000	4.5	5,300
Total market value of assets	-	57,600	-	53,600
Present value of Scheme liabilities	-	(76,600)	-	(66,700)
Deficit in the Scheme	-	(19,000)	-	(13,100)
Related deferred tax asset	-	5,700	-	4,000
Net pension liability	-	(13,300)	-	(9,100)

To aid comparability, and to be consistent with 2006, AVC funds of £2,400,000 have been removed from total market value of assets and present value of Scheme liabilities in 2005

Sofa Brands International Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 (continued)

26 Pensions (continued)

The following amounts have been recognised in the performance statements in the year to 31 December 2006 under the requirements of FRS 17

Analysis of the amount charged to operating loss

	2006 £'000	2005 £'000
Current service cost	(1,100)	(400)
Total operating charge	(1,100)	(400)

Analysis of the amount credited/(debited) to other finance income

	2006 £'000	2005 £'000
Expected return on Scheme assets	3,600	1,800
Interest on Scheme liabilities	(3,300)	(1,700)
Net return	300	100

Analysis of the amount recognised in statement of total recognised gains and losses (STRGL)

	2006 £'000	2005 £'000
Actual return less expected return on Scheme assets	1,600	2,200
Experience gains and losses arising on the Scheme liabilities	(2,500)	-
Changes in assumptions underlying the present value of the Scheme liabilities	(5,700)	(2,500)
Actuarial loss recognised in STRGL	(6,600)	(300)

Movement in deficit during the year

	2006 £'000	2005 £'000
Deficit in Scheme at beginning of the year	(13,100)	-
Liability acquired on acquisition of former Christie Tyler Group businesses	-	(13,100)

Movement in year:

Current service costs	(1,100)	(400)
Contributions	1,500	600
Other finance income	300	100
Actuarial loss	(6,600)	(300)
Deficit in Scheme at end of the year	(19,000)	(13,100)

Sofa Brands International Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 (continued)

26 Pensions (continued)

History of experience gains and losses	2006	2005
Difference between the expected and actual return on Scheme assets		
• amount (£'000)	1,600	2,200
• percentage of Scheme assets	3%	4%
Experience gains and losses on Scheme liabilities		
• amount (£'000)	(2,500)	-
• percentage of the present value of the Scheme liabilities	3%	-
Total actuarial gain recognised in statement of total recognised gains and losses		
• amount (£'000)	(6,600)	300
• percentage of the present value of the Scheme liabilities	9%	-

27 Principal Undertakings

The following represent the principal undertakings of Sofa Brands International Limited. Percentages indicate ownership of the undertakings' ordinary share capital by Sofa Brands International Limited, directly or indirectly. Details of the country of incorporation and principal operations and the main activity of each undertaking are also given. All undertakings shown are included in the Consolidated Financial Statements.

Subsidiary Undertakings	Country of Incorporation or Registration	Business	% Owned
Cameo Sofa Company Limited	England & Wales	Upholstery manufacturer	100
Derwent Upholstery Limited	England & Wales	Upholstery manufacturer	100
Duresta Upholstery Limited	England & Wales	Upholstery manufacturer	100
G Plan Upholstery Limited	England & Wales	Upholstery manufacturer	100
UAB Sofa Brands	Lithuania	Upholstery manufacturer	100

Sofa Brands International Limited

Notes to the consolidated financial statements for the year ended 31 December 2006 *(continued)*

28 Goodwill

	Provisional fair value of assets and liabilities acquired	Hindsight period adjustments 2006	Final fair value of assets and liabilities acquired
	2005 £'000	£'000	2006 £'000
Tangible fixed assets	2,092	-	2,092
Intangibles	2,000	-	2,000
Investments	3,150	(1,645)	1,505
Stock	3,987	(115)	3,872
Debtors			
- Trade debtors	6,274	-	6,274
- Other debtors	345	(78)	267
- Prepayments	2,785	-	2,785
Cash	806	-	806
Finance lease creditor	(30)	-	(30)
Trade creditors	(5,630)	500	(5,130)
Tax and social security	(1,234)	-	(1,234)
Other creditors	(582)	-	(582)
Accruals and deferred income	(5,054)	(400)	(5,454)
Provisions	(4,113)	(200)	(4,313)
Provision for pension liability (i)	(13,100)	-	(13,100)
Deferred tax on pension liability (i)	4,000	-	4,000
Total net liabilities acquired	(4,304)	(1,938)	(6,242)
Consideration, being assumption of bank debt from Christie Tyler Ltd			(77,500)
Less amounts received from Administrative Receiver			3,999
Final goodwill on acquisition (ii)			(79,743)

Notes

- (i) The provision for pension liability is the valuation of the pension deficit at the date of acquisition under FRS 17. The deferred tax asset relates directly to this liability.
- (ii) The businesses purchased have been accounted for using the acquisition method and the resulting goodwill taken to the balance sheet. The goodwill is being amortised in accordance with the group accounting policies (*see also Note 13*).

As explained in the financial statements for the period ended 31 December 2005, fair values related to the assets and liabilities of acquired businesses could only be determined on a provisional basis at that time. In accordance with FRS 7 "Fair Values in Acquisition Accounting", final fair values have now been re-assessed for assets and liabilities acquired which have resulted in the above adjustments to the provisional fair values. The principal adjustment of £1,645,000 relates to the 49% investment in ACT Leather (Thailand) Limited which was sold during the year and has been written down to its post acquisition realisable value including dividends received.