Sofa Brands International Limited

Annual report and consolidated financial statements

30 June 2010

Registered number 5456332

Sofa Brands International Limited

Consolidated financial statements for the year ended 30 June 2010

Contents	*Page*
Directors' report	1-4
Statement of directors' responsibilities	5
Independent auditors' report	6
Consolidated profit and loss account for the year ended 30 June 2010	7
Statement of group total recognised gains and losses for the year ended 30 June 2010	8
Consolidated and company balance sheets as at 30 June 2010	9
Consolidated cash flow statement for the year ended 30 June 2010	10
Notes to the consolidated financial statements for the year ended 30 June 2010	11-31

Sofa Brands International Limited

Directors' report for the year ended 30 June 2010

The directors submit their report together with the audited consolidated financial statements of the Sofa Brands International Limited group for the year ended 30 June 2010

The company changed its year end to 30 June in 2009 and therefore these financial statements contain comparatives for an 18 month period

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

Gross sales for the whole Group in the year to 30 June 2010 were £66 4 million compared with £105 8 million in the 18 months to 30 June 2009 During the previous year £14 8 million of the sales were attributable to Cameo Sofa Company which ceased trading in the spring of 2009 The like for like comparison is therefore £91 0 million and on a pro-rata basis, therefore, gross sales within continuing businesses increased by almost 10%

Operating profit before exceptional items, goodwill impairment and amortisation, interest and taxation amounted to £5 8 million in the year to 30 June 2010 compared with £4 4 million in the 18 months to 30 June 2009 The ongoing businesses contributed £6 5 million in the previous 18 month period and on a pro-rata basis therefore profits measured at this level in the ongoing business increased from £4 3 million to £5 8 million, being almost 35%

Exceptional costs in the year to 30 June 2010 were significantly lower than those incurred in the previous 18 month period and relate almost entirely to costs associated with pension and debt restructuring activities which have concluded since the year end

The charge of £1 7 million to the profit and loss account for the year in relation to goodwill consists solely of the annual amortisation with no further impairment considered necessary following a review in June 2009 when a charge of £12 6 million was taken in addition to amortisation of £3 6 million for the 18 month period

Whilst the profit and loss account for the year shows a charge of £2 2 million for net interest payable, compared with £7 0 million in the previous 18 month period, this interest has remained unpaid with the agreement of the company's lenders whilst new facilities were negotiated These negotiations have been concluded since the year end

Net debt reduced from £59 0 million to £57 6 million due to operating cash flows outweighing financing costs Debt has been fundamentally restructured since the year end

A pre-tax loss of £1 4 million for the year represents a significant reduction from the £29 4 million loss recorded for the previous 18 month period

The directors believe that, assisted by the significant post balance sheet events disclosed below, that the company will return to profitability at pre tax level in the year ahead

Sofa Brands International Limited

Directors' report for the year ended 30 June 2010 *(continued)*

Post balance sheet events

Since the end of the year the Company has concluded negotiations which have been running since early 2008 The parties to these negotiations in addition to the Company were the Company's lenders (a syndicate of banks), the Trustees of the Christie Tyler Retirement Benefits Scheme and the Pension Protection Fund (the "PPF")

The outcome of these negotiations has meant that two key events have had a significant impact on the Consolidated Balance Sheet as illustrated in the pro forma balance sheet shown below This shows an increase in total shareholders' funds by £71 million resulting in positive shareholders' funds carried forward of £9 million after allowing for interest and commissions accrued from 30 June 2010 to 17 September 2010

	Audited Consolidated 30 June 2010	Unaudited Pension	Unaudited Refinancing	**Unaudited Pro forma Consolidated 30 June 2010**
	£'000	£'000	£'000	**£'000**
Fixed assets				
Intangible assets	25,035	-	-	**25,035**
Tangible assets	1,095	-	-	**1,095**
	26,130	-	-	**26,130**
Current assets				
Stocks	4,089	-	-	**4,089**
Debtors amounts due within one year	6,036	-	-	**6,036**
Debtors amounts due after one year	763	-	-	**763**
Cash at bank and in hand	6,771	(224)	(506)	**6,041**
	17,659	(224)	(506)	**16,929**
Creditors amounts falling due within one year	(76,952)	140	60,103	**(16,709)**
Net current (liabilities)/assets	(59,293)	(84)	59,597	**220**
Total assets less current liabilities	(33,163)	(84)	59,597	**26,350**
Creditors amounts falling due after more than one year	-	(1,055)	(13,490)	**(14,545)**
Provision for liabilities	(2,597)	-	-	**(2,597)**
Net (liabilities)/assets excluding pension liability	(35,760)	(1,139)	46,107	**9,208**
Pension liability	(26,064)	26,064	-	-
Net (liabilities)/assets including pension liability	(61,824)	24,925	46,107	**9,208**
Capital and reserves				
Called up share capital	25,000	35,080	46,224	**106,304**
Share premium	-	-	1,071	**1,071**
Profit and loss reserve	(86,824)	(10,155)	(1,188)	**(98,167)**
Total shareholders' (deficit)/funds	(61,824)	24,925	46,107	**9,208**

- On 1st September 2010 the defined benefit pension scheme entered a PPF assessment period, thus removing the pension liability (which at 30 June 2010 was valued at £26 million) from the Balance Sheet of the Company and from the Consolidated Balance Sheet in exchange for the PPF receiving cash, loan notes and equity

  The pension deficit of £26 million (£35 million gross of deferred tax) has effectively been compromised in exchange for the PPF receiving cash, a loan note plus accrued interest and shares in Sofa Brands International Limited

Post balance sheet events *(continued)*

- On 17th September the subscribers to Sofa Brands International Limited, comprising a syndicate of bankers providing facilities to the group, entered into a Restated Credit Agreement providing credit facilities to the group for a two year period

  On the same date a Debt Restructuring Agreement became effective whereby the bank syndicate agreed to convert £47 2 million of Term Debt and rolled up interest into share capital and share premium At the same time, the shareholding of the banks in Sofa Brands International Limited was thereby reduced from 100% to 67%

Restated Credit Agreement

Under the Restated Credit Agreement, dated 17th September 2010, facilities totalling £21 839 million have been made available to Sofa Brands International Limited

These facilities comprise -

- A Term loan of £12 679 million,
- A multi-currency revolving loan facility of £4 175 million,
- A standby credit facility of £2 85 million, and
- Other optional ancillary facilities of £2 135 million

The revolving loan facility is available in pounds sterling or certain foreign currencies and as part of the revolving facility, as well as by way of overdraft on normal banking terms

The standby credit facility is an additional revolving loan facility available should the multi-currency facility be exhausted

Optional ancillary facilities comprise facilities for foreign exchange currency contracts, bank guarantees and letters of credit and are available for appropriate use when required

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 4% margin

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

Market prices

The group is exposed to market prices for certain purchased materials The group has 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 losses arising from the insolvency or default of its customers

Liquidity risk

The group currently maintains short term debt finance that is designed to ensure the group has sufficient funds available for operations As explained in the Directors' Report and Note 32 the group has renegotiated its debt financing structure to a mixture of long term and short term debt

Dividends

No dividends were paid or proposed in the year (2009 £Nil)

Directors and their interests

The directors who were in office during the year and up to the date of signing the financial statements were as follows

L T R Higgins
D S Malvenan
B Stitfall
V McGinlay

None of the directors had any interest in the shares of the company or its subsidiaries at 1 July 2009 or 30 June 2010

Charitable donations

Donations made by the group for charitable purposes in the United Kingdom amount to £1,313 *(2009 £1,137)*

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

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

Independent 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

20 September 2010

Wilson House
Ashtree Court
Woodsy Close
Cardiff Gate Business Park
Cardiff
CF23 8RW

Sofa Brands International Limited

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have prepared the group and parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group 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 accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and to enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

By order of the Board

E Jones

E Jones
Company Secretary

20 September 2010

Wilson House
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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 30 June 2010 These comprise the consolidated profit and loss account, the statement of group total recognised gains and losses, the consolidated and parent company balance sheets, the consolidated cash flow statement and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Respective responsibilities of directors and auditors
As explained more fully in the Statement of Directors' Responsibilities set out on page 5 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with part 3 of chapter 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, 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

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of

- whether the accounting policies are appropriate to the group's and parent company's circumstances and have been consistently applied and adequately disclosed,
- the reasonableness of significant accounting estimates made by the directors, and
- the overall presentation of the financial statements

Opinion on financial statements
In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 30 June 2010 and of the group's loss and cash flows for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been properly prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received by branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Mark Ellis (Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cardiff

20 September 2010

Consolidated profit and loss account

for the year ended 30 June 2010

	Note	Year to 30 June 2010 Continuing Operations £'000	Year to 30 June 2010 Discontinued Operations £'000	Year to 30 June 2010 TOTAL £'000	18 month period to 30 June 2009 Continuing Operations £'000	18 month period to 30 June 2009 Discontinued Operations £'000	18 month period to 30 June 2009 TOTAL £'000
Gross sales	3	**66,411**	-	**66,411**	90,981	14,848	105,829
Less rebates and discounts	3	(2,995)	-	(2,995)	(3,572)	(719)	(4,291)
Turnover	3	**63,416**	-	**63,416**	87,409	14,129	101,538
Cost of sales		(41,962)	-	(41,962)	(56,303)	(13,599)	(69,902)
Gross profit		**21,454**	-	**21,454**	31,106	530	31,636
Distribution costs		(1,900)	-	(1,900)	(2,814)	(799)	(3,613)
Administration expenses		(17,127)	(708)	(17,835)	(42,047)	(4,013)	(46,060)
Less release of provision made in period to 30 June 2009	20	-	708	708			
Operating profit/(loss) before amortisation and impairment of intangibles and exceptional items		**5,758**	-	**5,758**	6,512	(2,132)	4,380
Exceptional items	6	(1,662)	-	(1,662)	(4,076)	(2,019)	(6,095)
Amortisation and impairment of intangible assets	4	(1,669)	-	(1,669)	(16,191)	(131)	(16,322)
Group operating profit/(loss)	4	**2,427**	-	**2,427**	(13,755)	(4,282)	(18,037)
Loss on termination of operations	6	-	-	-	-	(3,955)	(3,955)
Profit/(loss) on ordinary activities before interest		**2,427**	-	**2,427**	(13,755)	(8,237)	(21,992)
Interest receivable and similar income				**5**			5
Interest payable and similar charges	9			**(2,212)**			(7,037)
Other finance charges	28			**(1,600)**			(400)
Loss on ordinary activities before taxation				**(1,380)**			(29,424)
Tax on loss on ordinary activities	11			**148**			189
Loss for the financial year	21, 22			**(1,232)**			(29,235)

There have been no acquisitions or disposals in the year

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

Statement of group total recognised gains and losses
for the year ended 30 June 2010

	Note	Year to 30 June 2010 £'000	18 month period to 30 June 2009 £'000
Loss for the financial year	21/22	**(1,232)**	(29,235)
Actuarial loss recognised in the pension scheme	28	**(5,400)**	(9,500)
Movement on deferred tax relating to pension deficit	28	**1,512**	2,660
Exchange adjustment on translation of overseas subsidiary	23	**(44)**	210
Total recognised losses for the year since last annual report	22	**(5,164)**	(35,865)

Consolidated and company balance sheets
as at 30 June 2010

	Note	Consolidated 30 June 2010 £'000	Company 30 June 2010 £'000	Consolidated 30 June 2009 £'000	Company 30 June 2009 £'000
Fixed assets					
Intangible assets	12	25,035	277	26,704	295
Tangible assets	13	1,095	-	1,446	-
Investments	14	-	42,376	-	42,376
		26,130	42,653	28,150	42,671
Current assets					
Stocks	15	4,089	-	4,219	-
Debtors Amounts due within one year	16	6,036	3,625	6,183	691
Debtors Amounts due after one year	17	763	-	593	-
Cash at bank and in hand		6,771	768	2,903	425
		17,659	4,393	13,898	1,116
Creditors Amounts falling due within one year	18	(76,952)	(74,938)	(74,066)	(70,328)
Net current liabilities		(59,293)	(70,545)	(60,168)	(69,212)
Total assets less current liabilities		(33,163)	(27,892)	(32,018)	(26,541)
Creditors Amounts falling due after more than one year	19	-	(8,614)	-	(8,614)
Provision for liabilities	20	(2,597)	(239)	(3,186)	(239)
Net liabilities excluding pension liability		(35,760)	(36,745)	(35,204)	(35,394)
Pension liability	28	(26,064)	(36,200)	(21,456)	(29,800)
Net liabilities including pension liability		(61,824)	(72,945)	(56,660)	(65,194)
Capital and reserves					
Called up share capital	21	25,000	25,000	25,000	25,000
Profit and loss reserve	21	(86,824)	(97,945)	(81,660)	(90,194)
Total shareholders' deficit	22	(61,824)	(72,945)	(56,660)	(65,194)

The consolidated balance sheet of the group has changed significantly since the year end This is demonstrated in Note 32 which should be read in conjunction to the above
These financial statements on pages 6 to 31 were approved by the board of directors on 20 September 2010 and were signed on its behalf by

B Stitfall
Director

Consolidated cash flow statement
for the year ended 30 June 2010

	Note	Year to 30 June 2010 £'000	18 month period to 30 June 2009 £'000
Net cash inflow/(outflow) from operating activities	25	**4,404**	(299)
Return on investments and servicing of finance	25	**(2,624)**	(7,303)
Capital expenditure and financial investment	25	**(339)**	(279)
Cash inflow/(outflow) before financing		**1,441**	(7,881)
Financing			
Net cash inflow from debt and lease financing	25	**2,427**	7,663
Increase/(decrease) in cash in the year		**3,868**	(218)
Reconciliation of net cash flow to movement in net debt			
Increase/(decrease) in cash in the year		**3,868**	(218)
Net cash outflow from movement in debt and lease financing	25	**(2,427)**	(7,663)
Change in net debt arising from cash flows	26	**1,441**	(7,881)
Net debt at start of year	26	**(59,048)**	(51,007)
Amortisation of capitalised debt issuance costs	26	**-**	(160)
Net debt at end of year	26	**(57,607)**	(59,048)

Notes to the consolidated financial statements for the year ended 30 June 2010

1 **Principal accounting policies**

The group financial statements have been prepared under the provision of the Large and Medium-sized Companies and Groups (accounts and reports) Regulations 2008 (SI 2008/410) and applicable accounting standards A summary of the more important group accounting policies is set out below

Basis of accounting

The financial statements have been prepared on a going concern basis under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom and with Companies Act 2006

Going concern

The going concern basis for preparing the financial statements is considered appropriate whilst the group continues to receive support from its lenders (see Note 32 and the Directors' Report for further details of post balance sheet events)

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 undertaken to ensure that goodwill and intangible assets are not carried at above their recoverable amounts The reviews are based on a calculation of value in use over the remaining estimated economic life Value in use is based on Board approved cash flow forecasts discounted at an appropriate cost of capital for the group

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

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

1 Principal accounting policies *(continued)*

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 unless they represent material 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 of the group

Tangible fixed assets

Tangible fixed assets are stated at historical cost less accumulated depreciation

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

Short leasehold land & buildings	-	over term of 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

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 except where rates of exchange are fixed under contractual arrangements

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

The results of overseas subsidiaries are translated at the average rate of exchange during the period 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

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 period in which it is incurred

1 Principal accounting policies *(continued)*

Taxation

Provision is made for corporation tax at current rates on profits as adjusted for tax purposes

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

Pension costs

Pension costs for the year through to 30 June 2010 have been accounted for in accordance with FRS 17 'Retirement benefits'

The Scheme operated by Sofa Brands International Limited is a defined benefit scheme As such the assets within the Scheme are measured using mid 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 period is charged to the profit and loss account The expected return on the Scheme's assets and the increase during the period 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 a defined contribution scheme 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

Provisions

Provisions are recognised when the company has a present obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation

Sofa Brands International Limited

Notes to the consolidated financial statements for the year ended 30 June 2010 *(continued)*

2 Ultimate controlling party

The group is owned by a syndicate of banks of which no one bank holds a controlling share therefore, in the directors' opinion, there is no ultimate controlling party

3 Summary segmental analysis

The analysis of gross sales by geographical area is

	Year to 30 June 2010	18 month period to 30 June 2009
	£'000	£'000
United Kingdom	**62,323**	98,573
Rest of Europe	**2,894**	5,686
Other	**1,194**	1,570
Total gross sales	**66,411**	105,829
Less rebates & discounts	**(2,995)**	(4,291)
Turnover	**63,416**	101,538

External turnover 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 losses arise from one class of business being the manufacture and sale of furniture

4 Group operating profit/(loss)

This is stated after charging	**Year to 30 June 2010**	18 month period to 30 June 2009
	£'000	£'000
Depreciation of owned assets	**541**	1,139
Amortisation and impairment of goodwill	**1,569**	16,172
Amortisation of trademarks	**100**	150
Loss on disposal of tangible fixed assets	**136**	83
Hire of plant and machinery	**621**	968
Other operating lease rentals	**1,334**	1,607
Design and development costs	**1,579**	2,651

5 Services provided by the company's auditor and its associates

During the year the group (including its overseas subsidiaries) obtained the following services from the company's auditor and its associates

	Year to 30 June 2010	18 month period to 30 June 2009
	£'000	£'000
Fees payable to company auditor for the audit of parent company and consolidated accounts	**24,650**	27,750
Fees payable to the company's auditor for other services		
- The audit of company's subsidiaries pursuant to legislation	**71,000**	105,719
- Other services pursuant to legislation	**8,040**	18,043
- Tax services	**13,500**	19,000
	117,190	170,512

6 Exceptional items

	Year to 30 June 2010 £'000	18 month period to 30 June 2009 £'000
Administrative expenses	**1,662**	6,095
Loss on termination of operations	-	1,860
Provision for loss on termination of operations	-	2,095
Total loss on termination of operations	-	3,955

Administrative expenses

During the year professional fees of £1,740,000 related to the company's negotiations with its lenders and the PPF These were offset by the release of exceptional costs of £180,000 which were provided for in 2009 and related to the transfer of manufacturing to Lithuania (as detailed below) The remaining exceptional expenditure related to redundancy costs

During the 18 month period to 30 June 2009, £6,095,000 of exceptional costs were included within administrative expenses Of this amount £4,438,000 related to the transfer of manufacturing at Cameo Sofa Company in the UK to the Group's subsidiary in Lithuania, UAB Sofa Brands Additionally professional fees of £1,619,000 were incurred in relation to the financial and pension restructuring of the Group

Loss on termination of operations

During the period to 30 June 2009 a further loss of £1,860,000 arose on the final termination of all operations at Cameo Sofa Company which included £1,256,000 in respect of the write off of the remaining goodwill

The provision for further costs arising on the termination of all operations at Cameo Sofa Company related to property and other contracts through to their natural expiry

7 Employee information

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

	Year to 30 June 2010 Group £'000	Year to 30 June 2010 Company £'000	18 month period to 30 June 2009 Group £'000	18 month period to 30 June 2009 Company £'000
Wages and salaries	**16,820**	**1,147**	27,801	868
Social security costs	**1,860**	**84**	3,100	99
Other pension costs current service cost *(Note 28)*	-	-	400	66
Defined contribution pension cost	**178**	**5**	170	7
	18,858	**1,236**	31,471	1,040

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

	Year to 30 June 2010 Group Number	Year to 30 June 2010 Company Number	18 month period to 30 June 2009 Group Number	18 month period to 30 June 2009 Company Number
Management	**23**	**5**	25	6
Administration	**148**	**2**	173	2
Production, distribution and other	**677**	**-**	812	-
	848	**7**	1,010	8

8 Remuneration of directors

	Year to 30 June 2010 £'000	18 month period to 30 June 2009 £'000
Aggregate directors' emoluments	**857**	628

There are no retirement benefits accruing to any of the directors at 30 June under the group's defined benefit pension scheme

Highest paid director	Year to 30 June 2010 £'000	18 month period to 30 June 2009 £'000
Total amount of emoluments	**424**	339
Defined benefit pension scheme		
Accrued pension at year end	**9**	9

9 Interest payable and similar charges

	Year to 30 June 2010 £'000	18 month period to 30 June 2009 £'000
Interest payable on bank loans and overdrafts	**(2,212)**	(6,877)
Amortisation of capitalised debt issuance costs	**-**	(160)
Total interest and similar charges payable	**(2,212)**	(7,037)

10 Parent company (loss)/profit for the year

As permitted by section 408 of the Companies Act 2006, the parent company's profit and loss account has not been included in these financial statements

The parent company's loss for the year is £2,351,177 (18 month period ended 30 June 2009 – loss of £18,729,551)

11 Taxation on loss on ordinary activities

(a) Analysis of tax credit in the year	Year to 30 June 2010 £'000	18 month period to 30 June 2009 £'000
Current tax		
UK corporation tax on loss for the year	**378**	-
Total current tax *(Note 11(b))*	**378**	-
Deferred tax		
Origination and reversal of timing differences	**(246)**	(189)
Pension cost relief in excess of pension costs charge	**(280)**	-
Tax credit on loss on ordinary activities	**(148)**	(189)

11 Taxation on loss on ordinary activities *(continued)*

Tax on recognised gains and losses not included in the profit and loss account (Note 21)

	Year to 30 June 2010 £'000	18 month period to 30 June 2009 £'000
UK corporation tax at 28%		
Other deferred tax movement relating to pension scheme	**(1,512)**	(2,660)
	(1,512)	(2,660)

The tax assessed for the year is different from the standard rate of corporation tax in the UK (28%) for the year The differences are explained below

(b) Factors affecting tax charge for the year	**Year to 30 June 2010 £'000**	18 month period to 30 June 2009 £'000
Loss on ordinary activities before taxation	**(1,380)**	(29,424)
Loss multiplied by standard rate of corporation tax in the UK of 28% *(2009 28 33%)*	**(386)**	(8,337)
Effects of		
Accelerated capital allowances	**(65)**	(123)
Permanent differences	**507**	4,398
Other timing differences	**124**	2,023
Utilisation of losses	**(78)**	-
Tax on marginal rates	**(4)**	-
Losses on cessation	-	1,961
Movement in respect of assets becoming non-qualifying	-	78
Pension cost relief in excess of pension costs charge	**280**	-
Total current tax charge for the year *(Note 11(a))*	**378**	-

12 Intangible assets

Group	**Goodwill £'000**	**Trademarks £'000**	**Total £'000**
Cost			
At 1 July 2009 and 30 June 2010	79,743	2,000	81,743
Accumulated amortisation			
At 1 July 2009	54,639	400	55,039
Charge for the year	1,569	100	1,669
At 30 June 2010	**56,208**	**500**	**56,708**
Net carrying amount at 30 June 2010	**23,535**	**1,500**	**25,035**
Net carrying amount 30 June 2009	25,104	1,600	26,704

The goodwill above arose on the acquisition of share capital of certain subsidiaries together with other trade and assets on 1 July 2005

A review of the carrying value of the goodwill was undertaken at 30 June 2009 as a result of group restructuring A calculation of the carrying value based on value in use and using a cost of capital of 17 5% led to the decision by the directors to impair the value of goodwill by £13 78m

12 Intangible assets *(continued)*

Company

The company has trademarks with a net carrying amount of £276,639 at 30 June 2010 *(2009 £295,082)* Amortisation in the period was £18,443

13 Tangible assets

Group	Short leasehold land & buildings £'000	Plant & machinery £'000	Fixtures, fittings, office & computer equipment £'000	Total £'000
Cost				
At 1 July 2009	1,518	2,105	626	4,249
Additions	68	118	159	345
Disposals	(900)	(233)	(34)	(1,167)
Exchange adjustments	(17)	(28)	(5)	(50)
At 30 June 2010	**669**	**1,962**	**746**	**3,377**
Accumulated depreciation				
At 1 July 2009	1,084	1,271	448	2,803
Charge for year	207	240	94	541
Disposals	(824)	(175)	(26)	(1,025)
Exchange adjustments	(15)	(18)	(4)	(37)
At 30 June 2010	**452**	**1,318**	**512**	**2,282**
Net book value				
At 30 June 2010	**217**	**644**	**234**	**1,095**
At 30 June 2009	434	834	178	1,446

There are no assets held under finance lease at 30 June 2010 or 30 June 2009

Company

The company has fixtures, fittings & office equipment with a net book value of £nil at 30 June 2010 *(2009 £nil)*

14 Investments

	Group 30 June 2010 £'000	**Company 30 June 2010 £'000**	Group 30 June 2009 £'000	Company 30 June 2009 £'000
Shares in group undertakings				
At 1 July 2009	-	**42,376**	-	52,376
Provision for impairment	-	-	-	(10,000)
At 30 June 2009	-	**42,376**	-	42,376

Investments by the parent in group undertakings are stated at cost less provisions for impairment See note 29 for a list of the principal undertakings In 2009 the directors decided to fully write down the investment in Cameo Sofa Company Limited following its closure

15 Stocks

	Group 30 June 2010 £'000	Company 30 June 2010 £'000	Group 30 June 2009 £'000	Company 30 June 2009 £'000
Raw materials	**2,594**	-	2,731	-
Work in progress	**911**	-	924	-
Finished goods and goods held for resale	**584**	-	564	-
	4,089	-	4,219	-

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

16 Debtors Amounts due within one year

	Group 30 June 2010 £'000	Company 30 June 2010 £'000	Group 30 June 2009 £'000	Company 30 June 2009 £'000
Trade debtors	**5,013**	-	5,304	-
Other debtors	**119**	**20**	157	30
Prepayments	**904**	**20**	722	2
Corporation tax – group relief receivable	-	**773**	-	133
Amounts owed by group undertakings	-	**2,812**	-	526
	6,036	**3,625**	6,183	691

Amounts owed by group companies are unsecured, interest-free and have no fixed date of repayment

17 Debtors Amounts due after one year

	Group 30 June 2010 £'000	Company 30 June 2010 £'000	Group 30 June 2009 £'000	Company 30 June 2009 £'000
Other debtors	-	-	76	-
Deferred tax (see below)	**763**	-	517	-
	763	-	593	-

The deferred taxation balance can be analysed as follows

	Group 30 June 2010 £'000	Group 30 June 2009 £'000
Accelerated capital allowances	**263**	121
Short term timing differences	**187**	131
Losses	**310**	263
Pension provision	**3**	2
Deferred tax asset	**763**	517
Deferred tax asset on net pension liability	**10,136**	8,344
	10,899	8,861

The deferred tax asset on net pension liability of £10,136,000 *(2009 £8,344,000)* has been deducted in arriving at the net pension deficit on the balance sheet *(see Note 28)*

17 Debtors Amounts due after one year *(continued)*

The movement in deferred tax can be analysed as follows

	Group 30 June 2010 £'000	Group 30 June 2009 £'000
At start of year	**8,861**	6,012
Charged to the profit and loss *(Note 11(a))*	**526**	189
Amount credited to statement of total recognised gains and losses	**1,512**	2,660
Provision at end of year including deferred tax on pension liability	**10,899**	8,861

The group has a deferred tax asset of £5,728,125 *(2009 £5,591,531)* which has not been recognised on consolidation due to the uncertainty surrounding its recoverability

Company

The company has a deferred tax asset of £15,091,371 *(2009 £13,162,766)* which has not been recognised due to the uncertainty surrounding its recoverability The amount includes £10,136,000*(2009 £8,344,000)* relating to the net pension liability which has been recognised on a group basis

18 Creditors Amounts due within one year

	Group 30 June 2010 £'000	**Company 30 June 2010 £'000**	Group 30 June 2009 £'000	Company 30 June 2009 £'000
Senior credit facility	**64,378**	**64,378**	61,951	61,951
Bank overdraft	**-**	**7,169**	-	6,096
	64,378	**71,547**	61,951	68,047
Trade creditors	**5,194**	**279**	5,770	170
Other taxation and social security	**1,827**	**225**	1,765	59
Corporation tax	**378**	**-**	-	-
Amounts owed to group undertakings	**-**	**509**	-	552
Accruals and deferred income	**5,175**	**2,378**	4,580	1,500
	76,952	**74,938**	74,066	70,328

Amounts due to group companies are unsecured, interest-free and have no fixed date of repayment

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 and (iv) a standby facility of £5 million

The entire Term B facility was repaid in 2005 and 2006 £0 5 million of the Term Loans was repaid on 30 June 2007

18 Creditors Amounts due within one year *(continued)*

Credit Agreement (continued)

The Group's facilities were extended such that they were available until 17 September 2010 As part of this agreement interest accruing on the sterling Term A loan was rolled up and capitalised on the balance sheet

The revolving loan facility was 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 ceased to be available on 17 September 2010 The interest accruing on the sterling Revolving loan was rolled up and capitalised on the balance sheet

The standby facility is an additional revolving loan facility of £5 million initially available until 31 March 2006 This was subsequently reduced to £2 85 million in January 2007 to reflect the group's requirements and expired on 17 September 2010 Interest on this facility was rolled up and capitalised on the balance sheet and a proportion repaid on 17 September 2010

Interest on all advances under the various facilities (other than the standby facility) is payable at the rate per annum equal to LIBOR, plus applicable mandatory liquid asset costs plus 3% margin Interest on advances under the standby facility has a 4% margin

As stated in Note 32 and the Directors' Report on page 2, new facilities were provided to the company and its subsidiaries on 17 September 2010

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 Creditors Amounts due after more than one year

	Group 30 June 2010 £'000	**Company 30 June 2010 £'000**	Group 30 June 2009 £'000	Company 30 June 2009 £'000
Due to subsidiary undertakings	**-**	**8,614**	-	8,614

20 Provisions for liabilities

Group	Closure	Other	Fair value provisions	Total
	£'000	£'000	£'000	£'000
At 1 July 2009	1,806	1,141	239	3,186
(Credited)/charged to the profit and loss account	(159)	207	-	48
Utilised during the year	(549)	(88)	-	(637)
At 30 June 2010	**1,098**	**1,260**	**239**	**2,597**

Company	Fair value provisions £'000
At 1 July 2009 and 30 June 2010	239

Closure provision

The closure provision represents the expected future costs of Cameo Sofa Company Limited following its closure in 2009 The amount is primarily due to onerous contracts The utilisation of the provision is expected over the next two years

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

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 Fair value provisions were made on a provisional basis as at 31 December 2005 and were reassessed during the "hindsight" period which ended on 31 December 2006 There is still uncertainty as to when these provisions are likely to be utilised

No provisions have been discounted

21 Called up share capital & reserves

	30 June 2010 £	30 June 2009 £
Authorised		
27,778,000 ordinary shares of £1 each	**27,778,000**	27,778,000
Allotted and fully paid		
25,000,000 ordinary shares of £1 each	**25,000,000**	25,000,000

21 Called up share capital & reserves *(continued)*

Reserves

The movement in reserves during the year is as follows

Group	**Profit and loss Reserve £'000**
At 1 July 2009	(81,660)
Movements in year	
Loss for the financial year	(1,232)
Movement in deferred tax relating to pension deficit	1,512
Actuarial loss	(5,400)
Exchange rate reserve movements	(44)
At 30 June 2010	**(86,824)**

Company	**Profit and loss Reserve £'000**
At 1 July 2009	(90,194)
Loss for the financial year *(see Note 10)*	(2,351)
Actuarial loss	(5,400)
At 30 June 2010	**(97,945)**

22 Reconciliation of movements in total shareholders' deficit

	Group 30 June 2010 £'000	**Company 30 June 2010 £'000**	Group 30 June 2009 £'000	Company 30 June 2009 £'000
Loss for the financial year	(1,232)	(2,351)	(29,235)	(18,729)
Exchange adjustment on re-translation of subsidiary	(44)	-	210	-
Actuarial loss on pension scheme	(5,400)	(5,400)	(9,500)	(9,500)
Movement on deferred tax relating to pension deficit	1,512	-	2,660	-
Net change in shareholders' deficit	(5,164)	(7,751)	(35,865)	(28,229)
Opening total shareholders' deficit	(56,660)	(65,194)	(20,795)	(36,965)
Closing total shareholders' deficit	**(61,824)**	**(72,945)**	(56,660)	(65,194)

23 Reconciliation of exchange differences recognised through the Statement of Total Recognised Gains and Losses

	Group 30 June 2010 £'000	Group 30 June 2009 £'000
Opening balance of cumulative exchange differences	349	139
Exchange adjustments on overseas subsidiaries	(44)	210
Closing balance of cumulative exchange differences	**305**	349

Sofa Brands International Limited

Notes to the consolidated financial statements for the year ended 30 June 2010 *(continued)*

24 Commitments under operating leases

At 30 June 2010 the group and company had annual commitments in respect of the year ending 30 June 2011 under non-cancellable operating leases as below

	Group 30 June 2010 £'000	Company 30 June 2010 £'000	Group 30 June 2009 £'000	Company 30 June 2009 £'000
Land and buildings				
Within 1 year	-	-	142	-
Within 2-5 years	771	26	690	-
After 5 years	633	-	394	-
	1,404	26	1,226	-
Other				
Within 1 year	54	5	65	4
With 2-5 years	465	-	513	13
After 5 years	-	-	-	-
	519	5	578	17
Total operating lease commitments	1,923	31	1,804	17

25 Cash flow from operating activities

Continuing operations	30 June 2010 £'000	30 June 2009 £'000
Reconciliation of operating profit/(loss) to operating cash flows		
Operating profit/(loss)	2,427	(13,755)
Depreciation	541	1,103
Loss/(profit) on disposal of assets	136	(6)
Amortisation and impairment of goodwill and trademarks	1,669	16,191
Other non cash changes	(31)	88
Decrease in stocks	130	805
(Increase)/decrease in debtors	(941)	1,458
Increase/(decrease) in creditors and provisions	1,199	(1,369)
Difference between pension charge and contributions	(600)	(400)
Net cash inflow from continuing operations	4,530	4,115

Discontinued operations	30 June 2010 £'000	30 June 2009 £'000
Reconciliation of operating loss to operating cash flows		
Operating loss	-	(4,282)
Exceptional items relating to operational activities	-	(3,955)
Depreciation	-	36
Loss on disposal of assets	-	89
Amortisation and impairment of goodwill and trademarks	-	1,387
Decrease in stocks	-	687
Decrease in debtors	1,164	1,326
(Decrease)/increase in creditors and provisions	(1,290)	298
Net cash outflow from discontinued operations	(126)	(4,414)

Total net cash inflow/(outflow) from operating activities	4,404	(299)

Operating cash flows in 2009 included an outflow of £6 86 million relating to the exceptional items detailed in Note 6

Notes to the consolidated financial statements for the year ended 30 June 2010 *(continued)*

25 Cash flow from operating activities *(continued)*

	30 June 2010 £'000	30 June 2009 £'000
Analysis of cash flows for headings in the cash flow statement		
Return on investments and servicing of finance		
Interest received	5	5
Interest paid	(2,629)	(7,308)
Return on investments and servicing of finance	**(2,624)**	(7,303)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(345)	(297)
Sale of tangible fixed assets	6	18
Capital expenditure and financial investment	**(339)**	(279)
Financing		
Increase in borrowings	2,427	7,663

26 Reconciliation of movement in net debt

	At 1 July 2009 £'000	Cash flow £'000	Other non cash changes £'000	At 30 June 2010 £'000
Cash balances and deposits	2,903	3,868	-	**6,771**
Net cash	2,903	3,868	-	**6,771**
Debt due within one year	(61,951)	(2,427)	-	**(64,378)**
	(61,951)	(2,427)	-	**(64,378)**
Net debt	(59,048)	1,441	-	**(57,607)**

27 Capital commitments

The group and company had no capital commitments at 30 June 2010 and 30 June 2009

Sofa Brands International Limited

Notes to the consolidated financial statements for the year ended 30 June 2010 *(continued)*

28 Pensions

The group operates a funded defined benefit Scheme named the Christie Tyler plc Retirement Benefits Scheme (the "Scheme") The Scheme funds are administered by trustees and are independent of Sofa Brands International Limited

In June 2008 the Scheme was closed to new members and future accrual

As stated in Note 32 and the Directors' Report on page 2, the Scheme entered a PPF (Pension Protection Fund) assessment period on 1 September 2010

On 1 July 2008 the Sofa Brands International Group Personal Pension Plan was created It is a defined contribution scheme

FRS 17 Retirement Benefits

The FRS 17 calculations have been carried out by an independent qualified actuary and relate to the Christie Tyler plc Retirement Benefit Scheme

This disclosure relates to a 12 month period of 1 July 2009 to 30 June 2010 The comparative figures from the previous disclosure for the period ending 30 June 2009 relate to an 18 month period

The amounts recognised in the balance sheet are as follows

	Group 30 June 2010 £'000	**Company 30 June 2010 £'000**	Group 30 June 2009 £'000	Company 30 June 2009 £'000
Fair value of scheme assets	**40,200**	**40,200**	38,000	38,000
Present value of funded obligations	**(76,400)**	**(76,400)**	(67,800)	(67,800)
Deficit	**(36,200)**	**(36,200)**	(29,800)	(29,800)
Related deferred tax asset	**10,136**	**-**	8,344	-
Net liability	**(26,064)**	**(36,200)**	(21,456)	(29,800)

The amounts recognised in the profit and loss account are as follows

	30 June 2010 £'000	30 June 2009 £'000
Current service cost*	**-**	400
Expected return on scheme assets	**(2,600)**	(6,000)
Interest cost	**4,200**	6,400
Total	**1,600**	800
Actual return on scheme assets	**5,000**	10,400

*Pensions accrual ceased with effect from 30 June 2008, at that time all active members became deferred The current service cost is included within administrative expenses

28 Pensions *(continued)*

Reconciliation of present value of scheme liabilities

	30 June 2010 £'000	30 June 2009 £'000
Opening defined benefit obligation	**67,800**	75,400
Current service cost	**-**	400
Interest cost	**4,200**	6,400
Contributions by scheme participants	**-**	200
Actuarial gains	**7,800**	(6,900)
Benefits paid	**(3,400)**	(7,700)
Closing defined benefit obligation	**76,400**	67,800

Had the same mortality assumption been adopted, but incorporating a 1% underpin to future improvements, then the liability figure would have been £78,055,000 This would have resulted in a deficit as at 30 June 2010 of £37,903,000

Reconciliation of fair value of scheme assets

	30 June 2010 £'000	30 June 2009 £'000
Opening fair value of scheme assets	**38,000**	55,100
Expected return	**2,600**	6,000
Actuarial losses	**2,400**	(16,400)
Contributions by scheme participants	**-**	200
Benefits paid	**(3,400)**	(7,700)
Contributions by employer	**600**	800
Closing fair value of scheme assets	**40,200**	38,000

The Group is currently contributing £41,667 per month to repair the Scheme deficit

The major categories of scheme assets as a percentage of total scheme assets are as follows

	30 June 2010	30 June 2009
Target Return Fund	**97%**	97%
Cash	**3%**	3%

The principal actuarial assumptions at the balance sheet date

	30 June 2010	30 June 2009
Discount rate	**5 5% p a**	6 4% p a
Expected return on scheme assets	**7 0% p.a.**	7 2% p a
Future salary increases	**n/a**	n/a
Future pension increases	**2 8% p a**	3 2% p a
Inflation assumption	**3 0% p a**	3 2% p a
Mortality		
Life expectancy of male aged 65 now	**83 3**	83 5
Life expectancy of male aged 65 in 20 years	**84 7**	83 5
Life expectancy of female aged 65 now	**87 1**	86 4
Life expectancy of female aged 65 in 20 years	**88 2**	86 4

Notes to the consolidated financial statements for the year ended 30 June 2010 *(continued)*

28 Pensions *(continued)*

Amounts for current and previous four periods are as follows

	30 June 2010	30 June 2009	31 Dec 2007	31 Dec 2006	31 Dec 2005 ***
	£'000	£'000	£'000	£'000	£'000
Defined benefit obligation	**(76,400)**	(67,800)	(75,400)	(76,600)	(69,100)
Scheme assets	**40,200**	38,000	55,100	57,600	56,000
Deficit	**(36,200)**	(29,800)	(20,300)	(19,000)	(13,100)
Experience adjustments on scheme assets**	**2,400**	(16,400)	(6,100)	1,600	2,200
Experience adjustments on scheme liabilities*	-	-	(600)	(2,500)	-
Total amount recognised in the statement of total recognised gains and losses	**(5,400)**	(9,500)	(2,600)	(6,600)	(300)

* Where positive numbers represent the increase to the liabilities
** Where positive numbers represent increases to the assets
*** The 2005 asset and obligation amounts include the 2005 market value of AVCs

The Scheme had 1,643 members at the last formal valuation dated 30 June 2006

Actuarial gains and losses

The cumulative amount of actuarial losses recognised in the statement of recognised gains and losses is £24 4 million

Defined contribution scheme

The contributions made to the scheme during the year were £178,445 (2009 £170,119) At the end of the year, contributions of £13,659 (2009 £19,583), representing the unpaid contributions for June 2010, were outstanding

29 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	Non trading	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 30 June 2010 *(continued)*

30 Related party transactions

Advantage has been taken of the exemption in FRS 8 not to disclose transactions that are part of the Sofa Brands International Limited group

The subscribers to Sofa Brands International Limited comprise a syndicate of bankers who also provide the facilities to the group as set out in Note 18

During the year the group were charged interest and other charges by the syndicate of £2,212,108 (*2009 £6,878,304*) and received interest of £4,755 (*2009 £4,740)*

At the year end there was an interest accrual of £344,195 *(2009 £761,450*)

31 Derivative financial instruments

At 30 June 2010 the company had entered into two foreign currency contracts as follows -

- A window forward plus contract for €1 million The fair value of this instrument which is not recognised in the financial statements was a liability of £41,421
- A forward contract for €1 million The fair value of this instrument which is not recognised in the financial statements was a liability of £32,231

There were no derivative financial instruments at 30 June 2009

32 Post balance sheet events

Since the end of the year the Company has concluded negotiations which have been running since early 2008 The parties to these negotiations in addition to the Company were the Company's lenders (a syndicate of banks), the Trustees of the Christie Tyler Retirement Benefits Scheme and the Pension Protection Fund (the "PPF")

The outcome of these negotiations has meant that two key events have had a significant impact on the Consolidated Balance Sheet as illustrated in the pro forma balance sheet shown overleaf This shows an increase in total shareholders' funds by £71 million resulting in positive shareholders' funds carried forward of £9 million after allowing for interest and commissions accrued from 30 June 2010 to 17 September 2010

Sofa Brands International Limited

Notes to the consolidated financial statements for the year ended 30 June 2010 *(continued)*

32 Post balance sheet events *(continued)*

	Audited Consolidated 30 June 2010	Pension	Refinancing	**Unaudited Pro forma Consolidated 30 June 2010**
	£'000	£'000	£'000	**£'000**
Fixed assets				
Intangible assets	25,035	-	-	**25,035**
Tangible assets	1,095	-	-	**1,095**
	26,130	-	-	**26,130**
Current assets				
Stocks	4,089	-	-	**4,089**
Debtors amounts due within one year	6,036	-	-	**6,036**
Debtors amounts due after one year	763	-	-	**763**
Cash at bank and in hand	6,771	(224)	(506)	**6,041**
	17,659	(224)	(506)	**16,929**
Creditors· amounts falling due within one year	(76,952)	140	60,103	**(16,709)**
Net current (liabilities)/assets	(59,293)	(84)	59,597	**220**
Total assets less current liabilities	(33,163)	(84)	59,597	**26,350**
Creditors. amounts falling due after more than one year	-	(1,055)	(13,490)	**(14,545)**
Provision for liabilities	(2,597)	-	-	**(2,597)**
Net (liabilities)/assets excluding pension liability	(35,760)	(1,139)	46,107	**9,208**
Pension liability	(26,064)	26,064	-	-
Net (liabilities)/assets including pension liability	(61,824)	24,925	46,107	**9,208**
Capital and reserves				
Called up share capital	25,000	35,080	46,224	**106,304**
Share premium	-	-	1,071	**1,071**
Profit and loss reserve	(86,824)	(10,155)	(1,188)	**(98,167)**
Total shareholders' (deficit)/funds	(61,824)	24,925	46,107	**9,208**

- On 1st September 2010 the defined benefit pension scheme entered a PPF assessment period, thus removing the pension liability (which at 30 June 2010 was valued at £26 million) from the Balance Sheet of the Company and from the Consolidated Balance Sheet in exchange for the PPF receiving cash, loan notes and equity

  The pension deficit of £26 million (£35 million gross of deferred tax) has effectively been compromised in exchange for the PPF receiving cash, a loan note plus accrued interest and shares in Sofa Brands International Limited

- On 17th September the subscribers to Sofa Brands International Limited, comprising a syndicate of bankers providing facilities to the group, entered into a Restated Credit Agreement providing credit facilities to the group for a two year period

  On the same date a Debt Restructuring Agreement became effective whereby the bank syndicate agreed to convert £47 2 million of Term Debt and rolled up interest into share capital and share premium At the same time, the shareholding of the banks in Sofa Brands International Limited was thereby reduced from 100% to 67%

32 Post balance sheet events *(continued)*

Restated Credit Agreement

Under the Restated Credit Agreement, dated 17th September 2010, facilities totalling £21 839 million have been made available to Sofa Brands International Limited

These facilities comprise -
- A Term loan of £12 679 million,
- A multi-currency revolving loan facility of £4 175 million,
- A standby credit facility of £2 85 million, and
- Other optional ancillary facilities of £2 135 million

The revolving loan facility is available in pounds sterling or certain foreign currencies and as part of the revolving facility, as well as by way of overdraft on normal banking terms

The standby credit facility is an additional revolving loan facility available should the multi-currency facility be exhausted

Optional ancillary facilities comprise facilities for foreign exchange currency contracts, bank guarantees and letters of credit and are available for appropriate use when required

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 4% margin