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# Sofa Brands International Limited

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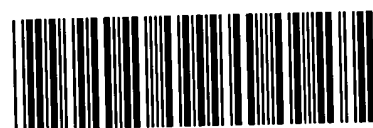
Annual Report &  
Financial Statements  
30 June 2016

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Registered number 05456332

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# **Sofa Brands International Limited**

## **Consolidated statement of changes in equity for the year ended 30 June 2016**

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# **Sofa Brands International Limited**

## **Strategic report for the year ended 30 June 2016**

The Directors present their strategic report on the group for the year ended 30 June 2016

### **Principal activities**

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**

Following the acquisition of Sofa Brands International Ltd by 1869 Ltd on 29<sup>th</sup> January 2015, it should be noted that in the previous financial year, incentive and share based payments were reported which related to the sale of the business. These costs have not recurred in this financial year

The Company and its subsidiaries have adopted FRS102 for the first time in their financial statements the details of which are disclosed in these financial statements and those of the subsidiaries.

In February 2016 the Company formed an additional subsidiary, The Lounge Co. (Furniture) Limited for which no trading occurred within this financial year but there have been pre-trading costs. Trading is expected to commence early in the next financial year. This company has been formed as a standalone consumer brand focusing on digital trade delivered through an Omni-channel retail platform.

The group's turnover for the year was £89.5m which was 1% down on the previous year. Sales for the most part were in line with last year however in the last quarter of the year sales slowed down, which coincided with the loss in consumer confidence leading up to the European British exit vote.

The gross margin of 36% was a significant improvement from the previous year (34%). This improvement was mostly due to reduced manufacturing costs but also an improvement in customer product mix.

Group operating profit before amortisation of goodwill and trademarks and exceptional items increased to £9.3m compared to £9.0m in the previous year. This is due to the gross margin improvement stated above. The reported exceptional costs of £0.9m are made up of £0.5m related to new project costs, £0.3m of restructuring costs and £0.1m of costs associated with occupying a new purpose built factory for Parker Knoll at Castlewood.


The group continues to use a range of well-established and appropriate key performance indicators (KPIs) to monitor the progress of the business from both a quantitative and qualitative perspective. The key KPIs for the business are turnover, gross margins and operating profit and these are referred to above.

### **Principal risks and uncertainties**

The directors consider the principal risks and uncertainties for the business relate primarily to the performance of the UK economy and competition in the upholstery market.

The directors will continually monitor the principal and other risks and uncertainties for the business.

This report was approved by the board on 27 October 2016 and signed on its behalf.



**J Neal**  
Director

# Sofa Brands International Limited

## Directors' report for the year ended 30 June 2016

The directors present their report and the audited consolidated financial statements for the year ended 30 June 2016. The principal activity of the Group, review of the business and future developments are explained in the strategic report on page 1.

### Results and dividends

The profit for the financial year amounted to £9.1 million (2015: £2.6 million).

The directors do not recommend the payment of a dividend in respect of the year.

### 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.

Given the size of the group, the directors have not delegated the responsibility of monitoring financial risk management to a subcommittee 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 hedge 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.

### 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:

D S Malvenan	(resigned 30 June 2016)
B Stitfall	
I Oliver	
M R Clarke	
M W Burt	
C N Kenyon-Brown	
C A McMahon	(appointed 21 January 2016)
J Neal	(appointed 8 September 2015)

The following directors have shareholdings in 1898 Limited:-

D S Malvenan	2,250 50p B shares
I Oliver	3,750 50p B shares
C N Kenyon-Brown	1,500 50p B shares
J Neal	1,500 10p C shares

# Sofa Brands International Limited

## Directors' report for the year ended 30 June 2016 (*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

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 auditors are 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 auditors are 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

This report was approved by the Board on 27 October 2016 and signed on its behalf by



E Jones  
**Company Secretary**

27 October 2016

1 Hampton Park West  
Melksham  
Wiltshire  
SN12 6GU

# Sofa Brands International Limited

## Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), comprising Financial Reporting Standard 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland (FRS 102) 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 company and of the profit or loss of the group and company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, comprising FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 102 used in the preparation of financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company 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 group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the group and company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board



E Jones  
**Company Secretary**

27 October 2016

1 Hampton Park West  
Melksham  
Wiltshire  
SN12 6GU

# ***Independent auditors' report to the members of Sofa Brands International Limited***

## **Report on the financial statements**

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### **Our opinion**

In our opinion, Sofa Brands International Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 30 June 2016 and of the group's profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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### **What we have audited**

The financial statements, included within the Annual Report & Financial Statements (the "Annual Report"), comprise:

- the consolidated and company balance sheets as at 30 June 2016;
- the consolidated profit and loss account and consolidated statement of comprehensive income for the year then ended;
- the consolidated cash flow statement for the year then ended;
- the consolidated statement of changes in equity and the company statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice), and applicable law.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

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### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

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### **Other matters on which we are required to report by exception**

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#### **Adequacy of accounting records and information and explanations received**

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

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#### **Directors' remuneration**

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

# ***Independent auditors' report to the members of Sofa Brands International Limited (continued)***

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## **Responsibilities for the financial statements and the audit**

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### **Our responsibilities and those of the directors**

As explained more fully in the Statement of Directors' Responsibilities set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & 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 Chapter 3 of Part 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.

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### **What an audit of financial statements involves**

We conducted our audit in accordance with ISAs (UK & Ireland). 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 the 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



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

31<sup>st</sup> October 2016



# Sofa Brands International Limited

## Consolidated profit and loss account

for the year ended 30 June 2016

		2016	2015 (Restated Note 28)
		£'000	£'000
	Note		
Gross sales	5	89,513	90,537
Less: rebates and discounts	5	(5,355)	(5,367)
Turnover	5	84,158	85,170
Cost of sales		(53,942)	(56,031)
Gross profit		30,216	29,139
Distribution costs		(2,573)	(2,836)
Administration expenses		(20,959)	(22,275)
Operating profit before amortisation of goodwill and trademarks and exceptional items		9,307	9,005
Share based payments		-	(678)
Transaction linked incentive payments		-	(2,019)
Exceptional items	7	(914)	(604)
Amortisation of goodwill and trademarks	11	(1,709)	(1,676)
Group operating profit and profit on ordinary activities before interest	6	6,684	4,028
Net interest receivable /(payable)	9	2,028	(481)
Profit on ordinary activities before taxation		8,712	3,547
Tax on profit on ordinary activities	10	409	(991)
Profit for the financial year		9,121	2,556

The company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the Company income statement. The profit for the Company for the year was £5,336,229 (2015: £7,850,868)

# Sofa Brands International Limited

## Consolidated statement of comprehensive income for the year ended 30 June 2016

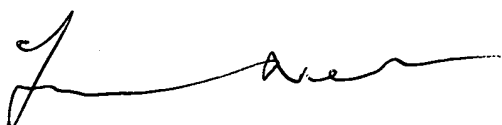
	2016 £'000	2015 (Restated Note 28) £'000
Profit for the financial year	9,121	2,556
Other comprehensive income/(expense):		
Currency translation differences	423	(250)
Total comprehensive income for the year	<u>9,544</u>	<u>2,306</u>

# Sofa Brands International Limited

## Consolidated and company balance sheets as at 30 June 2016

		Group 30 June 2016	Company 30 June 2016	Group 30 June 2015 (Restated Note 28)	Company 30 June 2015 (Restated Note 28)
		£'000	£'000	£'000	£'000
	<i>Note</i>				
<b>Fixed assets</b>					
Intangible assets	11	19,239	926	20,518	985
Tangible assets	12	3,089	4	1,395	4
Subsidiary undertakings	13	-	35,990	-	35,990
		<b>22,328</b>	<b>36,920</b>	<b>21,913</b>	<b>36,979</b>
<b>Current assets</b>					
Inventories	14	6,027	-	5,687	-
Debtors	15	12,496	7,340	11,408	4,559
Cash at bank and in hand		7,082	1,547	2,501	633
		<b>25,605</b>	<b>8,887</b>	<b>19,596</b>	<b>5,192</b>
<b>Creditors: Amounts falling due within one year</b>	16	<b>(16,888)</b>	<b>(13,461)</b>	<b>(17,370)</b>	<b>(12,238)</b>
<b>Net current assets/(liabilities)</b>		<b>8,717</b>	<b>(4,574)</b>	<b>2,226</b>	<b>(7,046)</b>
<b>Total assets less current liabilities</b>		<b>31,045</b>	<b>32,346</b>	<b>24,139</b>	<b>29,933</b>
<b>Creditors: Amounts falling due after more than one year</b>	17	<b>(399)</b>	<b>-</b>	<b>(2,903)</b>	<b>(2,903)</b>
Provisions for other liabilities	19	(791)	-	(925)	(20)
<b>Net assets</b>		<b>29,855</b>	<b>32,346</b>	<b>20,311</b>	<b>27,010</b>
<b>Capital and reserves</b>					
Called up share capital	20	1,063	1,063	1,063	1,063
Retained earnings		28,792	31,283	19,248	25,947
<b>Total equity</b>		<b>29,855</b>	<b>32,346</b>	<b>20,311</b>	<b>27,010</b>

These financial statements on pages 7 to 30 were approved by the board of directors on 27 October 2016 and were signed on its behalf by:



**J Neal**  
**Director**

**Sofa Brands International Limited**  
**Registered number: 5456332**

# Sofa Brands International Limited

## Consolidated statement of changes in equity for the year ended 30 June 2016

	Called up share capital £'000	Retained earnings £'000	Total equity £'000
Balance as at 1 July 2014 (Restated Note 28)	1,063	16,942	18,005
Profit for the year	-	2,556	2,556
Other comprehensive expense for the year	-	(250)	(250)
Total comprehensive income for the year	-	2,306	2,306
Balance at 30 June 2015 (Restated Note 28)	1,063	19,248	20,311
Balance at 1 July 2015 (Restated Note 28)	1,063	19,248	20,311
Profit for the year	-	9,121	9,121
Other comprehensive income for the year	-	423	423
Total comprehensive income for the year	-	9,544	9,544
Balance at 30 June 2016	1,063	28,792	29,855

## Company statement of changes in equity for the year ended 30 June 2016

	Called up share capital £	Retained earnings £	Total equity £
Balance as at 1 July 2014 (Restated Note 28)	1,063	18,096	19,159
Total comprehensive income for the year	-	7,851	7,851
Balance at 30 June 2015 (Restated Note 28)	1,063	25,947	27,010
Balance at 1 July 2015 (as restated Note 28)	1,063	25,947	27,010
Total comprehensive income for the year	-	5,336	5,336
Balance at 30 June 2016	1,063	31,283	32,346

# Sofa Brands International Limited

## Consolidated cash flow statement

for the year ended 30 June 2016

		30 June 2016 £'000	30 June 2015 £'000
	<i>Note</i>		
<b>Net cash inflow from operating activities</b>	22	<b>7,847</b>	<b>3,198</b>
Taxation paid		(41)	(989)
<b>Net cash inflow generated from operating activities</b>		<b>7,806</b>	<b>2,209</b>
<b>Cash flow from investing activities</b>			
Purchase of intangible assets		(1,080)	(2,299)
Purchase of tangible assets		(2,135)	(407)
Interest received		6	12
<b>Net cash used in investing activities</b>		<b>(3,209)</b>	<b>(2,694)</b>
<b>Cash flow from financing activities</b>			
Interest paid		(16)	(135)
Term loan repayments		-	(3,000)
Loan notes repaid		-	(1,000)
<b>Net cash used in financing activities</b>		<b>(16)</b>	<b>(4,135)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>4,581</b>	<b>(4,620)</b>
Cash and cash equivalents at the beginning of the year		2,501	7,121
<b>Cash and cash equivalent at the end of the year</b>		<b>7,082</b>	<b>2,501</b>
<b>Cash and cash equivalents consist of:</b>			
Cash at bank and in hand		7,082	2,501

# Sofa Brands International Limited

## Notes to the consolidated financial statements for the year ended 30 June 2016

### 1 General Information

Sofa Brands International Limited and its subsidiaries design, manufactures and sell furniture.

The company is a private company limited by shares and is incorporated and domiciled in England. The address of its registered office is 1 Hampton Park West, Melksham, Wiltshire, SN12 6GU.

### 2 Statement of compliance

The Group and individual financial statements of Sofa Brands International Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

### 3 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated and separate financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The company has adopted FRS 102 in these financial statements. Details of the transition to FRS 102 are disclosed in Note 28.

#### ***Basis of preparation***

These consolidated and separate financial statements have been prepared on a going concern basis under the historical cost convention as modified for the revaluation of certain financial assets and liabilities measured at fair value through profit and loss.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group and Company accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

The company has taken advantage of the exemption in section 408 of the Companies act from disclosing its individual profit and loss account.

The group's accounting reference date is 30 June. It is the company's policy to prepare financial statements for the accounting year to either the Sunday before or after this date. The accounting year covers 53 weeks from 29 June 2015 to 3 July 2016. The comparative data covers 52 weeks to 28 June 2015.

#### ***Going concern***

After making appropriate enquiries, the directors have, at the time of approving the financial statements, formed a judgement that there is a reasonable expectation that the company and group have adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

#### ***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.

#### ***Exemptions for qualifying entities under FRS 102***

The company is a qualifying entity and has adopted the following disclosure exemptions under FRS 102:

- Financial instruments disclosures; and
- Key management personnel compensation.

#### ***Intangible assets***

Computer software, website and other development costs are stated at cost less accumulated amortisation and accumulated impairment losses. Software and website development are amortised over their estimated useful lives, of between 3 and 5 years, on a straight line basis.

# Sofa Brands International Limited

## Notes to the consolidated financial statements for the year ended 30 June 2016

### 3 Summary of significant accounting policies (continued)

#### *Intangible assets (continued)*

Where factors, such as technological advancement or changes in market price, indicate that residual value or useful lives have changed, the residual value, useful life or amortisation rate are amended prospectively to reflect the new circumstances.

Development costs relating to projects have been capitalised if it is probable that future economic benefits that are attributable to the asset will flow to the entity and the cost or value of the asset can be measured reliably. The costs are not amortised until the project is complete. Once complete the assets are amortised over their estimated useful lives, of between 3 and 5 years, on a straight line basis.

The assets are reviewed for impairment if the above factors indicate that the carrying amount may be impaired.

#### *Turnover and gross sales*

Turnover represents gross sales, less rebates and discounts and excludes value added tax. Gross sales represent the invoiced value of goods supplied by the company and are 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.

#### *Inventories*

Inventories are valued on a first in, first out ("FIFO") basis and are stated 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.

#### *Tangible assets*

Tangible fixed assets are stated at historical cost less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price, costs directly attributable to bringing the asset to its working condition for its intended use, dismantling and restoration costs.

Depreciation on assets is calculated, using the straight line method, to allocate the cost to their residual values over their estimated useful lives, as follows:

Short leasehold property	Over the term of the lease
Plant and machinery	10% to 20% per annum
Fixtures and fittings	10% to 33⅓% per annum
Office & Computer equipment	20% to 33⅓ % per annum

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting period.

Subsequent costs, including major inspections, are included in the assets carrying amount or recognised as a separate asset, as appropriate, only when it is probable that economic benefits associated with the item will flow to the company and the cost can be measured reliably.

The carrying amount of any replaced component is derecognised. Major components are treated as a separate asset, where they have significantly different patterns of consumption of economic benefits and are depreciated separately over its useful life.

Repairs, maintenance and minor inspection costs are expensed as incurred.

Assets in the course of construction are stated at cost. These assets are not depreciated until they are available to use.

Tangible assets are derecognised on disposal or when no future economics are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in the income statement and included in "Other operating (losses)/gains".

# Sofa Brands International Limited

## Notes to the consolidated financial statements for the year ended 30 June 2016 (*continued*)

### 3 Summary of significant accounting policies (*continued*)

#### ***Exceptional items***

The Group classifies certain one-off charges or credits that have a material impact on the company's financial results as "exceptional items". These are disclosed separately to provide further understanding of the financial performance of the company.

#### ***Foreign currencies***

The Group financial statements are presented in pound sterling (which is the group's functional currency) and rounded to thousands.

The Company's financial statements are presented in pound sterling and rounded to thousands.

Transactions denominated in foreign currencies are translated into sterling and recorded at the rate of exchange ruling at the date of the transaction or, at an average rate where this rate approximates the actual rate at the date of the transaction.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction.

Foreign exchange gains and losses resulting from the settlements of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

The trading results of Group undertakings are translated into sterling at the average exchange rates for the year. The assets and liabilities of overseas undertakings, are translated at the exchange rates ruling at the year end. Exchange adjustments arising from the retranslation of opening net investments and from the translation of the profits or losses at average rates are recognised in "Other comprehensive income".

#### ***Operating leased assets***

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payment under operating leases are charged to the income statement on a straight line basis over the period of the lease.

Incentives received to enter into an operating lease are credited to the income statement, to reduce the lease expense, on a straight line basis over the period of the lease.

#### ***Cash and cash equivalents***

Cash and cash equivalents includes cash in hand, deposits on call with banks and bank overdrafts. Bank overdrafts, when applicable, are shown within borrowings in current liabilities.

#### ***Financial instruments***

Basic financial assets, including trade and other receivables, cash and bank balances, are recognised at transaction price.

Basic financial liabilities, including trade and other payables, bank loans and loan notes, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest. Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. The fee is capitalised as a pre-payment and amortised over the period of the facility to which it relates.

Trade payables are recognised at transaction price.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or finance income as appropriate. Fair values are determined by reference to the market value which is supplied by the counter party.



# Sofa Brands International Limited

## Notes to the consolidated financial statements for the year ended 30 June 2016 (*continued*)

### 3 Summary of significant accounting policies (*continued*)

#### ***Taxation***

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

#### **(i) Current tax**

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted substantively enacted by the period end.

#### **(ii) Deferred tax**

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they're recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date except that unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

#### ***Employee benefits***

The company provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements and defined contribution pension plans.

Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is rendered.

The company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. Once the contributions have been paid the company has no further payment obligations. The contributions are recognised as an expense when they are due. Amounts not paid are shown in accruals in the statement of financial position. The assets of the plan are held separately from the company in independently administered funds.

The company operates an annual bonus plan for employees. An expense is recognised in the income statement when the company has a legal or constructive obligation to make payments under the plan as a result of past events and a reliable estimate of the obligation can be made.

#### ***Provisions***

Provisions are recognised when the company has a present legal or constructive 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.

#### ***Goodwill***

On acquisition of a business, fair values are attributed to the separately identifiable assets, liabilities and contingent liabilities unless the fair value cannot be measured reliably, in which case the fair value is incorporated into goodwill.

Goodwill recognised represents the excess of the fair value and directly attributable costs of the purchase consideration over the fair value of the group's interests in identifiable assets, liabilities and contingent liabilities acquired.

Goodwill is amortised over its estimated useful life of twenty years. Goodwill is assessed for impairment when there are indicators of impairment and any impairment is charged to the income statement. Reversals of impairment are recognised when the reasons for the impairment no longer apply.

# Sofa Brands International Limited

## Notes to the consolidated financial statements for the year ended 30 June 2016 (continued)

### 3 Summary of significant accounting policies (continued)

#### *Related party transactions*

The Group discloses transactions with related parties which are not wholly owned within the same Group.

#### *Investments – Company*

Investment in a subsidiary company is held at cost less accumulated impairment losses.

### 4 Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### *Key accounting estimates and assumptions*

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

#### *Provisions and accrued expenses*

Provision is made for dilapidations, contingencies and warranties. These provisions require management's best estimate of the costs that will be incurred based on legislative and contractual requirements.

#### *Impairment of intangible assets and goodwill*

The Group considers whether intangible assets and goodwill are impaired. Where an indication of impairment is identified the estimation of recoverable value requires estimation of the recoverable value of the cash generating units (CGUs). This requires estimation of the future cash flows from the CGUs and also a selection of appropriate discount rates in order to calculate the net present values of those cash flows.

#### *Deferred tax asset*

A deferred tax asset is recognised if, in the management's opinion, it is probable that it will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

#### *Development costs capitalised*

Development costs relating to projects have been capitalised if, in the management's opinion it is probable that future economic benefits that are attributable to the asset will flow to the entity and the cost or value of the asset can be measured reliably

#### *Impairment of inventory*

Provision is made for redundant and discontinued inventory lines in order to write down their value to amounts that management expect to be realised on sale.

### 5 Turnover

The analysis of gross sales by geographical area is:

	2016 £'000	2015 £'000
United Kingdom	86,092	86,354
Rest of Europe	2,558	3,197
Other	863	986
Total gross sales	89,513	90,537
Less: rebates & discounts	(5,355)	(5,367)
Turnover	84,158	85,170

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

# Sofa Brands International Limited

## Notes to the consolidated financial statements for the year ended 30 June 2016 (continued)

### 6 Operating profit

	2016 £'000 Group	2016 £'000 Company	2015 £'000 Group	2015 £'000 Company
Operating profit is stated after charging/(crediting):				
Wages and salaries	21,598	760	23,722	1,443
Social security costs	2,466	87	2,733	191
Other pension costs	322	23	441	29
<b>Staff costs</b>	<b>24,386</b>	<b>870</b>	<b>26,896</b>	<b>1,663</b>
<b>Group</b>				
Depreciation of tangible assets	519		484	
Amortisation of intangible assets	2,427		2,068	
Impairment of inventory	18		(177)	
Inventory recognised as an expense	42,225		46,130	
Operating lease charges	1,918		1,757	
Foreign exchange losses/(gains)	(111)		594	
Share based payments	-		678	
Transaction linked incentive payments	-		2,019	
			<b>2016 £'000</b>	<b>2015 £'000</b>
Fees payable to company auditors for the audit of parent company and consolidated financial statements			18	15
Fees payable to the company's auditors for other services:				
- The audit of company's subsidiaries			72	70
- Taxation advisory services			2	50
- Taxation compliance services			15	15
			<b>107</b>	<b>150</b>
<b>7 Exceptional items</b>			<b>2016 £'000</b>	<b>2015 £'000</b>
Exceptional items			914	604

In 2015/16 the group had exceptional costs of £914k. £283k of the costs were for restructuring, £513k related to new project costs and £118k related to the lease of a new purpose built property for one of the manufacturing subsidiaries.

In 2014/15 the group had exceptional costs of £604k. On 29 January 2015 the company was acquired by 1869 Limited and £232k of the exceptional costs related to this acquisition. Of the remaining costs, £185k was due to restructuring, £63k related to the lease of a new purpose built property for one of the manufacturing subsidiaries and £124k related to new project costs.

# Sofa Brands International Limited

## Notes to the consolidated financial statements for the year ended 30 June 2016 (continued)

### 8 Employee information

#### Employees

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

	2016		2015	
	Group Number	Company Number	Group Number	Company Number
Management	27	5	22	5
Administration	194	2	179	4
Operations	829	-	851	-
	<u>1,050</u>	<u>7</u>	<u>1,052</u>	<u>9</u>

#### Directors

The directors' emoluments were as follows:

	2016 £'000	2015 £'000
Aggregate emoluments	1,086	2,299
Share based payments cash settled	-	4,086
Company contributions to defined contribution pension scheme	35	30
Compensation for loss of office	100	58

During the year retirement benefits were accruing to 6 directors (2015: 3) in respect of defined contribution pension schemes.

	2016 £'000	2015 £'000
<b>Highest paid director:</b>		
Total amount of emoluments	292	769
Share based payments cash settled	-	1,459
Company contributions to defined contribution pension scheme	<u>12</u>	<u>12</u>

### 9 Net interest expense

	2016 £'000	2015 £'000
<b>Interest receivable and similar income</b>		
Bank interest received	<u>6</u>	<u>10</u>
Total interest income on financial assets not measured at fair value through profit or loss	6	10
Gains on derivative financial instruments	<u>2,035</u>	<u>-</u>
<b>Total interest receivable and similar income</b>	<u>2,041</u>	<u>10</u>
<b>Interest payable and similar charges</b>		
Interest expense on bank loans and overdraft	(13)	(96)
Interest on loan notes	<u>-</u>	<u>(27)</u>
Total interest expense on financial liabilities not measured at fair value through profit or loss	(13)	(123)
Losses on derivative financial instruments	<u>-</u>	<u>(368)</u>
<b>Total interest payable and similar charges</b>	<u>(13)</u>	<u>(491)</u>
<b>Net interest</b>		
Interest receivable and similar income	2,041	10
Interest payable and similar charges	<u>(13)</u>	<u>(491)</u>
<b>Net interest income/(expense)</b>	<u>2,028</u>	<u>(481)</u>

# Sofa Brands International Limited

## Notes to the consolidated financial statements for the year ended 30 June 2016 (*continued*)

### 10 Tax on profit on ordinary activities a) Tax on expense included in profit or loss

	2016 £'000	2015 £'000
Current tax		
- UK corporation tax on profit for the year	1,201	786
- Foreign corporation tax on profits for the year	100	67
- Adjustment in respect of prior years	(17)	(33)
Total current tax	1,284	820
Deferred tax		
- Origination and reversal of timing differences	(1,938)	148
- Impact of changes in tax rate	204	(6)
- Adjustments in respect of prior years	41	29
Total deferred tax	(1,693)	171
<b>Tax on profit on ordinary activities</b>	<b>(409)</b>	<b>991</b>

### b) Reconciliation of tax charge

The tax assessed for the year is different from the standard rate of corporation tax in the UK of 20% (2015: 20.75%) for the year. The differences are explained below:

	2016 £'000	2015 £'000
Profit on ordinary activities before tax	8,712	3,547
Profit multiplied by standard rate of corporation tax in the UK of 20% (2015: 20.75%)	1,742	736
Effects of:		
- Permanent differences	313	390
- Deferred tax on losses not previously recognised	(1,975)	-
- Overseas tax credit	-	(125)
- Effects of other tax rates	204	(6)
- Utilisation of losses	(717)	-
- Adjustments in respect of previous periods	24	(4)
<b>Tax charge for the year</b>	<b>(409)</b>	<b>991</b>

### c) Tax rate changes

The tax rate in the current year is lower than the prior year due to changes in the UK corporation tax rate (UKCT) which decreased from 21% to 20% from 1 April 2015.

The July 2015 budget announced changes to the UKCT rate which will reduce the main rate of tax 19% from April 2017 and 18% from April 2020. In addition the March 2016 budget statement announced a further change to the UKCT rate which will now reduce the main rate of corporation tax to 17% from 2020.

As the change has not been substantively enacted at the balance sheet date, its effects are not included in these financial statements and relevant deferred tax balances continue to be measured at 18%.

# Sofa Brands International Limited

## Notes to the consolidated financial statements for the year ended 30 June 2016 (continued)

### 11 Intangible assets

Group	Goodwill £'000	Trademarks £'000	Development Costs £'000	Software & Websites £'000	Total £'000
<b>Cost</b>					
At 1 July 2015	79,743	2,807	-	3,565	86,115
Additions	-	-	749	331	1,080
Disposals	-	-	-	(52)	(52)
Exchange adjustment	-	-	-	109	109
<b>At 1 July 2015 and 30 June 2016</b>	<b>79,743</b>	<b>2,807</b>	<b>749</b>	<b>3,953</b>	<b>87,252</b>
<b>Accumulated amortisation</b>					
At 1 July 2015	64,053	1,007	-	537	65,597
Charge for the year	1,569	140	-	718	2,427
Disposals	-	-	-	(52)	(52)
Exchange adjustment	-	-	-	41	41
<b>At 30 June 2016</b>	<b>65,622</b>	<b>1,147</b>	<b>-</b>	<b>1,244</b>	<b>68,013</b>
<b>Net carrying amount at 30 June 2016</b>	<b>14,121</b>	<b>1,660</b>	<b>749</b>	<b>2,709</b>	<b>19,239</b>
Net carrying amount 30 June 2015	15,690	1,800	-	3,028	20,518

Company	Trademarks £'000	Software & Websites £'000	Total £'000
<b>Cost</b>			
<b>At 1 July 2015 and 30 June 2016</b>	<b>1,176</b>	<b>26</b>	<b>1,202</b>
<b>Accumulated amortisation</b>			
At 1 July 2015	191	26	217
Charge for the year	59	-	59
<b>At 30 June 2016</b>	<b>250</b>	<b>26</b>	<b>276</b>
<b>Net carrying amount at 30 June 2016</b>	<b>926</b>	<b>-</b>	<b>926</b>
Net carrying amount 30 June 2015	985	-	985

# Sofa Brands International Limited

## Notes to the consolidated financial statements for the year ended 30 June 2016 (continued)

### 12 Tangible assets

Group	Short leasehold land & buildings	Plant & machinery	Fixtures, fittings, office & computer equipment	Total
	£'000	£'000	£'000	£'000
<b>Cost</b>				
At 1 July 2015	722	2,826	1,634	5,182
Additions	828	592	715	2,135
Disposals	-	(7)	(167)	(174)
Exchange adjustments	81	206	32	319
<b>At 30 June 2016</b>	<b>1,631</b>	<b>3,617</b>	<b>2,214</b>	<b>7,462</b>
<b>Accumulated depreciation</b>				
At 1 July 2015	603	1,966	1,218	3,787
Charge for year	66	178	275	519
Disposals	-	(7)	(167)	(174)
Exchange adjustments	77	142	22	241
<b>At 30 June 2016</b>	<b>746</b>	<b>2,279</b>	<b>1,348</b>	<b>4,373</b>
<b>Net book value</b>				
<b>At 30 June 2016</b>	<b>885</b>	<b>1,338</b>	<b>866</b>	<b>3,089</b>
At 30 June 2015	119	860	416	1,395

There are no assets held under finance lease at 30 June 2016 or 30 June 2015.

Company	Fixtures, fittings, office & computer equipment £'000
<b>Cost</b>	
At 1 July 2015	10
Additions	3
<b>At 30 June 2016</b>	<b>13</b>
<b>Accumulated depreciation</b>	
At 1 July 2015	6
Charge for year	3
<b>At 30 June 2016</b>	<b>9</b>
<b>Net book value</b>	
<b>At 30 June 2016</b>	<b>4</b>
At 30 June 2015	4

# Sofa Brands International Limited

## Notes to the consolidated financial statements for the year ended 30 June 2016 (*continued*)

### 13 Subsidiary undertakings

Company	2016 £'000	2015 £'000
<i>Shares in group undertakings</i>		
At 1 July & 30 June	35,990	35,990

Investments by the parent in group undertakings are stated at cost less provisions for impairment. See note 25 for a list of the undertakings.

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

### 14 Inventories

	Group 30 June 2016 £'000	Company 30 June 2016 £'000	Group 30 June 2015 £'000	Company 30 June 2015 £'000
Raw materials	4,847	-	4,356	-
Work in progress	743	-	821	-
Finished goods	437	-	510	-
	6,027	-	5,687	-

There is no significant difference between the replacement cost of inventories and their carrying amounts.

Inventories are stated after provision for impairment of £1,299,632 (2015: £1,281,267).

### 15 Debtors

	Group 30 June 2016 £'000	Company 30 June 2016 £'000	Group 30 June 2015 £'000	Company 30 June 2015 £'000
<i>Amounts falling due within one year:</i>				
Trade debtors	8,210	-	9,967	-
Amounts owed by group undertakings	-	3,578	-	3,119
Other receivables	6	-	60	-
Corporation tax	-	406	554	1,118
Corporation tax – group relief receivable	-	-	-	23
Derivative financial instruments	1,293	1,293	-	-
Deferred tax	790	870	171	240
Prepayments and accrued income	1,016	12	617	20
<i>Amounts falling due after one year:</i>				
Amounts owed by parent company	103	103	39	39
Deferred tax	1,078	1,078	-	-
	12,496	7,340	11,408	4,559

Amounts due by group companies are unsecured and interest-free.



# Sofa Brands International Limited

## Notes to the consolidated financial statements for the year ended 30 June 2016 (continued)

### 15 Debtors (continued)

#### Deferred tax

	Group £'000	Company £'000
At 1 July 2015	171	240
Deferred tax credit/(charge) in profit and loss account for the year	1,693	1,708
Exchange movement	4	-
<b>At 30 June 2016</b>	<b>1,868</b>	<b>1,948</b>

	Group 30 June 2016 £'000	Company 30 June 2016 £'000	Group 30 June 2015 £'000	Company 30 June 2015 £'000
Accelerated capital allowances	180	(3)	197	(3)
Short term timing differences	(102)	-	(132)	(1)
Non-trading timing differences	229	229	(161)	(161)
Losses	(2,174)	(2,174)	(75)	(75)
Deferred tax provision/(asset)	(1,868)	(1,948)	(171)	(240)

In 2015 the group and the company has a deferred tax asset of £2,692,330 which was not recognised on consolidation due to the uncertainty surrounding its recoverability.

### 16 Creditors: Amounts falling due within one year

	Group 30 June 2016 £'000	Company 30 June 2016 £'000	Group 30 June 2015 £'000	Company 30 June 2015 £'000
Bank overdraft (note 18)	-	9,793	-	8,486
Trade creditors	7,553	190	6,859	105
Corporation tax	651	-	-	-
Other taxation and social security	1,902	465	3,075	288
Derivative financial instruments	-	-	742	742
Amounts owed to group undertakings	2,772	2,734	2,530	2,317
Accruals	4,010	279	4,164	300
	<b>16,888</b>	<b>13,461</b>	<b>17,370</b>	<b>12,238</b>

### 17 Creditors: Amounts falling due after more than one year

	Group 30 June 2016 £'000	Company 30 June 2016 £'000	Group 30 June 2015 £'000	Company 30 June 2015 £'000
<b>Amounts falling due between one and five years</b>				
Amounts owed to group undertakings	-	-	2,903	2,903
Accruals	399	-	-	-
<b>Total creditors falling due after more than one year</b>	<b>399</b>	<b>-</b>	<b>2,903</b>	<b>2,903</b>

Amounts owed to group undertakings are unsecured, interest-free and have no fixed date of repayment.

# Sofa Brands International Limited

## Notes to the consolidated financial statements for the year ended 30 June 2016 (continued)

### 18 Loans and other borrowings

	Group 30 June 2016 £'000	Company 30 June 2016 £'000	Group 30 June 2015 £'000	Company 30 June 2015 £'000
Bank overdraft	-	9,793	-	8,486
	-	9,793	-	8,486

#### Bank facilities

The 1869 Group entered into a credit agreement with Yorkshire Bank on 9 June 2015.

Yorkshire Bank has made available a £5 million cross currency overdraft on a group pooled facility.

Security is by way of fixed and floating charges over the assets of the 1869 Group.

### 19 Provisions for liabilities

Group	Commercial £'000	Property £'000	Total £'000
At 1 July 2015	389	536	925
Additions dealt with in income statement	7	21	28
Amounts utilised	(111)	(30)	(141)
Unused amounts reversed to the income statement	(2)	(19)	(21)
<b>At 30 June 2016</b>	<b>283</b>	<b>508</b>	<b>791</b>

Company	Property £'000
At 1 July 2015	20
Amounts utilised	(11)
Unused amounts reversed to the income statement	(9)
<b>At 1 July 2015 and 30 June 2016</b>	<b>-</b>

#### Commercial

Provision has been made to reflect the directors' best current estimate of certain liabilities arising from contractual and other arrangements. It is not possible to estimate with any certainty when this provision will be utilised due to its nature.

#### Property

Provision has been made to reflect the directors' best current estimates of repairs and other costs required to satisfy the terms of property lease agreements. The timing of the utilisation of the provision will be in line with the lease agreement as stated in Note 21.

None of the above provisions have been discounted.

# Sofa Brands International Limited

## Notes to the consolidated financial statements for the year ended 30 June 2016 (*continued*)

### 20 Called up share capital

	<b>Group &amp; Company</b>	
	<b>30 June 2016</b>	<b>30 June 2015</b>
	<b>£</b>	<b>£</b>
<b><i>Allotted and fully paid</i></b>		
71,223,640 (2015: 71,223,640) ordinary 'A' shares of 1p (2015: 1p) each	<b>712,236</b>	712,236
35,080,301 (2015: 35,080,301) ordinary 'B' shares of 1p (2015: 1p) each	<b>350,803</b>	350,803
1 (2015: 1) ordinary share of £1 each	<b>1</b>	1
	<b>1,063,040</b>	1,063,040

The A shareholders and Ordinary shareholders have the same voting rights, rights to dividends and same rights on winding up.

The B shareholders have the same rights to dividends and rights on winding up as the A shareholders but have no voting rights.

### 21 Capital and other commitments

The Group had capital commitments of £35,952 at 30 June 2016 (2015: £Nil).

At 30 June 2016 the company had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

	<b>30 June 2016</b>	<b>30 June 2015</b>
	<b>£'000</b>	<b>£'000</b>
On leases which expire:		
Not later than one year	<b>2,088</b>	1,339
Later than one year and not later than five years	<b>6,163</b>	1,992
Later than five years	<b>9,795</b>	-
	<b>18,046</b>	3,331

#### Company

The company had no capital or other commitments at 30 June 2016 (2015: £nil).

### 22 Notes to the cash flow statement

	<b>30 June 2016</b>	<b>30 June 2015</b>
	<b>£'000</b>	<b>£'000</b>
<b>Profit for the financial year</b>	<b>9,121</b>	2,556
Adjustments for:		
Tax on profit on ordinary activities	<b>(409)</b>	991
Net interest expense	<b>(2,028)</b>	481
<b>Operating profit</b>	<b>6,684</b>	4,028
Depreciation of tangible assets	<b>519</b>	484
Amortisation of intangible assets	<b>2,427</b>	2,068
Other non cash changes	<b>273</b>	(130)
Decrease in stocks	<b>(340)</b>	(109)
Decrease/(increase) in debtors	<b>783</b>	(2,620)
Decrease in creditors and provisions	<b>(2,499)</b>	(523)
<b>Cash outflow from operating activities</b>	<b>7,847</b>	3,198

# Sofa Brands International Limited

## Notes to the consolidated financial statements for the year ended 30 June 2016 (continued)

### 23 Post-employment benefits

Eligible employees are members of the Sofa Brands International Group Personal Pension Plan which is a defined contribution scheme.

The contributions made to the scheme during the year were £329,965 (2015: £440,903). At the end of the year contributions outstanding were £23,778 (2015: £25,064).

### 24 Controlling party

The immediate parent undertaking is 1869 Limited, a company incorporated in the United Kingdom and registered in England and Wales. 1869 Limited is the parent undertaking of the smallest and largest group to consolidate these financial statements. Copies of the consolidated financial statements of 1869 Limited can be obtained from the Company Secretary at 1 Hampton Park West, Melksham, Wiltshire SN12 6GU.

The ultimate parent undertaking is Tyrolese (789) Limited.

The ultimate controlling party is Templeco 672 Limited.

### 25 Subsidiary undertakings

The following represent the subsidiary undertakings of Sofa Brands International Limited. Percentages indicate ownership by Sofa Brands International Limited of the undertakings' ordinary share capital, 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
Parker Knoll Upholstery Limited	England & Wales	Upholstery manufacturer	100
Duresta Upholstery Limited	England & Wales	Upholstery manufacturer	100
G Plan Upholstery Limited	England & Wales	Upholstery manufacturer	100
The Lounge Co. (Furniture) Limited	England & Wales	Furniture retailer	100
UAB Sofa Brands	Lithuania	Upholstery components manufacturer	100
G Plan Limited	England & Wales	Dormant	100
Parker Knoll Cabinets Limited	England & Wales	Dormant	100
Parker Knoll Limited	England & Wales	Dormant	100
The Contemporary Furniture Company Limited	England & Wales	Dormant	100
Derwent Upholstery Limited	England & Wales	Dormant	100

### 26 Related party transactions

Advantage has been taken of the exemption not to disclose transactions that are within the 1869 Limited group. A copy of the accounts of 1869 Limited can be obtained from the Company Secretary at 1 Hampton Park West, Melksham, Wiltshire SN12 6GU.

1898 Limited owns 100% of the share capital in 1869 Limited, SBI's parent company. During the year SBI paid professional fees of £64,239 (2015: £39,241) on behalf of 1898 Limited. At the year end the amount owed to SBI by 1898 Limited was £103,480 (2015: £39,241).

# Sofa Brands International Limited

## Notes to the consolidated financial statements for the year ended 30 June 2016 (continued)

### 27 Contingent liabilities

The company has in place a cross guarantee and debenture which effectively means that there is a fixed and floating charge over all of its assets in relation to the bank borrowings and loan notes of 1869 Limited, its parent company. The bank borrowings of the 1869 Limited Group at 30 June 2016 were £18,333,332 and the loan notes were £51,788,599.

### 28 Transition to FRS 102

This is the first year that the Group and company has presented its results under FRS 102. The last financial statements under the UK GAAP were for the year ended 30 June 2015. The date of transition to FRS 102 was 1 July 2014. Set out below are the changes in accounting policies which reconcile the profit for the financial year ended 30 June 2015 and the total equity as at 1 July 2014 and 30 June 2015 between UK GAAP as previously reported and FRS 102.

#### Group

Profit for the financial year		2015	
		£'000	£'000
<b>UK GAAP – As previously reported</b>			<b>2,795</b>
Derivative financial instruments	<b>A</b>	(368)	
Holiday pay accrual	<b>B</b>	16	
Foreign currency valuation	<b>C</b>	46	
<b>Total adjustment to profit before tax for the financial year</b>			<b>(306)</b>
Deferred tax impact of adjustments			
- Derivative financial instruments		74	
- Holiday pay accrual		(3)	
- Foreign currency valuation		(4)	
<b>Total adjustment to tax expense</b>			<b>67</b>
<b>Total adjustment to profit for the financial year</b>			<b>(239)</b>
<b>FRS 102</b>			<b>2,556</b>
Total equity		30 June 2015	1 July 2014
		£'000	£'000
<b>UK GAAP – As previously reported</b>		21,032	18,487
Derivative financial instruments	<b>A</b>	(742)	(374)
Holiday pay accrual	<b>B</b>	(195)	(211)
Foreign currency valuation	<b>C</b>	32	(14)
Deferred tax impact of adjustments	<b>D</b>		
- Derivative financial instruments		148	74
- Holiday pay accrual		39	42
- Foreign currency valuation		(3)	1
<b>FRS 102</b>		<b>20,311</b>	<b>18,005</b>

# Sofa Brands International Limited

## Notes to the consolidated financial statements for the year ended 30 June 2016 (continued)

### 28 Transition to FRS 102 (continued)

#### Company

Profit for the financial year	2015	
	£'000	£'000
<b>UK GAAP – As previously reported</b>		<b>8,165</b>
Derivative financial instruments	<b>A</b> (368)	
Holiday pay accrual	<b>B</b> 7	
Foreign currency valuation	<b>C</b> (32)	
<b>Total adjustment to profit before tax for the financial year</b>		<b>(393)</b>
Deferred tax impact of adjustments		
- Derivative financial instruments	74	
- Holiday pay accrual	(1)	
- Foreign currency valuation	6	
<b>Total adjustment to tax expense</b>		<b>79</b>
<b>Total adjustment to profit for the financial year</b>		<b>(314)</b>
<b>FRS 102</b>		<b>7,851</b>

Total equity	2015	
	30 June 2015	1 July 2014
	£'000	£'000
<b>UK GAAP – As previously reported</b>	<b>27,654</b>	<b>19,488</b>
Derivative financial instruments	<b>A</b> (742)	(374)
Holiday pay accrual	<b>B</b> (3)	(10)
Foreign currency valuation	<b>C</b> (60)	(28)
Deferred tax impact of adjustments	<b>D</b>	
- Derivative financial instruments	148	75
- Holiday pay accrual	1	2
- Foreign currency valuation	12	6
<b>FRS 102</b>	<b>27,010</b>	<b>19,159</b>

# Sofa Brands International Limited

## Notes to the consolidated financial statements for the year ended 30 June 2016 (*continued*)

### 28 Transition to FRS 102 (*continued*)

#### GROUP

##### A – Derivative financial instruments

FRS 102 requires derivative financial instruments to be recognised at fair value. Previously under UK GAAP the Group did not recognise these instruments in the financial statements. This has resulted in the Group recognising a loss on transition of £373,725 at 30 June 2014. At 30 June 2015 £741,976 (2015: £373,725) has been recognised as a current liability and £368,251 was recognised in the profit and loss account.

##### B – Holiday pay accrual

FRS 102 requires short term employee benefits to be charged to the profit and loss account as the employee service is received. This has resulted in the Group recognising a liability for holiday pay on its monthly paid employees of £211,466 on transition to FRS 102. Previously holiday pay accruals were only recognised for the weekly paid employees. Holiday pay for monthly paid employees were charged to the profit and loss account as they were paid. In the year to 30 June 2015 an additional charge of £16,556 was recognised in the profit and loss account and the liability at 30 June 2015 was £194,910.

##### C – Foreign currency translation

FRS 102 requires the Group to translate foreign currency monetary items outstanding at the balance sheet date using the closing rate. This has resulted in the Group recognising a loss of £13,855 on transition to FRS 102. Previously the translation of monetary items at the balance sheet date had been calculated using a contracted rate. In the year to 30 June 2015 an additional credit of £45,829 was recognised in the profit and loss account.

##### D – Deferred taxation

The impact on deferred tax as a result of the adjustments above was to increase the deferred tax asset at 1 July 2014 by £118,000, decrease the profit and loss account charge in the period to 30 June 2015 by £67,000 and increase the deferred tax provision at 30 June 2015 by £185,000.

##### E – Other adjustments arising on the transition to FRS 102

In addition to the transition adjustments identified above which affect profit for the financial year the following adjustments have arisen which have had no effect on net equity or profit and loss account but which have affected the presentation of these items on the balance sheet. The main items are:

Computer software and website development, with a net book value of £3,027,637 at 1 July 2014, has been reclassified from tangible to intangible assets under FRS 102. This has no effect on the Group's net assets nor on the profit for the year, except that the previous depreciation charge is now described as amortisation.

#### COMPANY

##### A – Derivative financial instruments

FRS 102 requires derivative financial instruments to be recognised at fair value. Previously under UK GAAP the company did not recognise these instruments in the financial statements. This has resulted in the Group recognising a loss on transition of £373,725 at 30 June 2014. At 30 June 2015 £741,976 (2015: £373,725) has been recognised as a current liability and £368,251 was recognised in the profit and loss account.

##### B – Holiday pay accrual

FRS 102 requires short term employee benefits to be charged to the profit and loss account as the employee service is received. This has resulted in the company recognising a liability for holiday pay on its monthly paid employees of £10,120 on transition to FRS 102. Previously holiday pay accruals were only recognised for the weekly paid employees. Holiday pay for monthly paid employees were charged to the profit and loss account as they were paid. In the year to 30 June 2015 an additional credit of £7,191 was recognised in the profit and loss account and the liability at 30 June 2015 was £2,929.

##### C – Foreign currency translation

FRS 102 requires the company to translate foreign currency monetary items outstanding at the balance sheet date using the closing rate. This has resulted in the company recognising a loss of £27,871 on transition to FRS 102. Previously the translation of monetary items at the balance sheet date had been calculated using a contracted rate. In the year to 30 June 2015 an additional charge of £32,290 was recognised in the profit and loss account.

# Sofa Brands International Limited

## Notes to the consolidated financial statements for the year ended 30 June 2016 (*continued*)

### 28 Transition to FRS 102 (*continued*)

#### D – Deferred taxation

The impact on deferred tax as a result of the adjustments above was to increase the deferred tax asset at 1 July 2014 by £82,000, decrease the profit and loss account charge in the period to 30 June 2015 by £79,000 and increase the deferred tax asset at 30 June 2015 by £161,000.