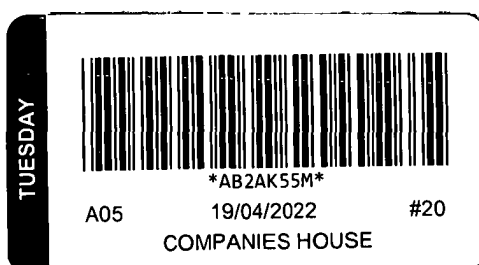

Sofa Brands International Limited

Annual Report &
Financial Statements
30 June 2021

Registered number 05456332



Sofa Brands International Limited

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Sofa Brands International Limited

Strategic report for the year ended 30 June 2021

The Directors present their strategic report on Company for the year ended 30 June 2021

Principal activity

The principal activity of the company is to act as a holding company.

Review of business and future developments

Sofa Brands International Limited was acquired by 1869 Limited on 29th January 2015. The full group consolidated financial statements are reported in 1869 Limited. As such, the company has exercised its rights under section 400 of the Companies Act 2006 not to prepare consolidated financial statements in Sofa Brands International Limited. These financial statements only reflect the trading costs and revenues of Sofa Brands International Limited.

Gross sales were £2.9 million [2020: £2.2m, 2019: £3.1m]. This is a £0.7m or 36.0% increase on the previous year, but a £0.2m or 5.4% reduction on the year ended 30 June 2019. Turnover all relates to royalties and management fees from the parent company's subsidiary brand companies.

Operating profit before interest and taxation was a loss of -£0.1m [2020: -£0.2m loss, 2019: +£1.0m profit]. This is a £0.1m or 42.3% increase on the previous year, but a £1.1m or 109% reduction on the year ended 30 June 2019. Operating profit as a percentage of gross sales was -3.1% loss [2020: -7.3% loss, 2019: +32.3% profit]. The reduction on pre-pandemic levels is due to increased administrative expenses at £2.7m for the year [2020: £2.3m, 2019: £2.2m]. This was due to higher staff costs, driven by investment in strengthening the central team.

The company 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 gross sales, overheads and pre-tax profit and these are referred to above.

The company's cash reserves together with the working capital facilities made available through its parent company are more than adequate to meet the requirements of the business during the year ahead.

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 full business and trading implications of Brexit continue to remain uncertain. Risks arising from the Brexit outcome continue to be a key focus area for management in the next financial year. Currency fluctuation, trading arrangements, consumer impact and employment issues that become apparent over time will be monitored by management and mitigation put in place where possible.

In 2020 and 2021, the global economy has been deeply hit by COVID-19. The closure of customers' retail stores and disruptions to the supply chain have significantly impacted business. To mitigate the financial impact, the Company has, wherever appropriate, accessed the UK governments financial support measures. The Company has responded promptly to changes in government advice and action has been taken to ensure we meet all appropriate rules and guidance to safeguard our employees.

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

Section 172 Statement

This statement by the Board of Directors describes how they have approached their responsibilities under S172(1) (a) to (f) of the Companies Act 2006 in the financial period ending 30 June 2021.

The directors promote the success of the company for the benefit of the shareholders whilst taking into account, amongst other matters, the items headed up below.

Consequences of any decision in the long term

The Board of Directors monitor and review strategic objectives, against long term growth plans. Regular reviews are held across key business areas including; financial performance, risks and opportunities, health & safety, human resources and operations. The company's performance and progress are reviewed regularly at board meetings.

Interests of the company's employees

Employees are the company's main asset. We aim to be a responsible employer in our approach to the pay and the benefits our employees receive. The health, safety and well-being of our employees is one of our primary considerations in the way we do business.

Sofa Brands International Limited

Strategic report for the year ended 30 June 2021 (*continued*)

Section 172 Statement (*continued*)

Customers

The company places a high value on its customer relationships. Forming strong relationships with our customers has enabled the business to grow where it is today. We maintain frequent communication with our customers to understand their needs and collaborate with them to design and deliver products that satisfy the consumer.

Suppliers

We rely on our suppliers to provide materials and services that meet both our and our customers' high-quality standards. We balance the benefits of maintaining strong partnerships with key suppliers alongside the need to obtain value for money for our investors without compromising on quality and service.

Investors

The input of and continued access to capital and debt funding has been essential in facilitating the company's growth to date. The Investors rely on us to protect their investment and deliver sustainable, profitable growth.

All strategic decisions and the implications of them are discussed with the shareholders at the monthly board meetings and regular meetings are held with the bank in order to keep them apprised of our trading performance.

Communities and the environment

We have a number of initiatives aimed at reducing the adverse impact of our business on the environment and the communities in which we operate.

Maintaining a reputation for high standards of business conduct

As the Board of Directors, our intention is to behave responsibly and ensure that management operate the business in a responsible manner, operating within the high standards of business conduct and good governance expected for a business such as ours.

This report was approved by the board on 14 April 2022 and signed on its behalf.

DocuSigned by:

Duncan Miller

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D S Miller

Director

Sofa Brands International Limited

Directors' report for the year ended 30 June 2021

The directors present their report and the audited financial statements of the company for the year ended 30 June 2021. The principal activity of the company, review of the business and future developments are explained in the strategic report on page 1.

Results and dividends

The loss for the financial year amounted to £3,070 (2020 loss: £107,910).

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

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 Group and Company has 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.

In adopting the going concern basis, the directors have considered the risks, uncertainties, and impact of COVID-19 on business activities as set out below.

The directors have prepared a comprehensive forecasting model and by testing various scenarios, are satisfied that the Group has headroom in its existing committed facilities to respond to various realistic sensitivities.

In the event that the Group requires assistance to meet its financial obligations, then the parent, 1869 Limited, would be able to provide support to the Group. The Directors have received an unconditional letter of support from the parent, confirming it will provide financial support to the Group if needed, for a period of 12 months from approval of the 2021 financial statements, in order to allow the Group to continue to operate as a going concern. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

Management are confident in the level of sales based on the high opening orderbook and the experience gained in 2020 (where the management reacted quickly to reduce its cost base) gives it confidence to be able to react similarly in the future.

The Group continues to be monitored quarterly by their bank on EBITDA, leverage, cashflow cover and capital expenditure.

Financial risk management

The company'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 company has in place a risk management programme that seeks to limit any adverse effects on the financial performance of the company by monitoring such areas closely.

Given the size of the company, 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, and the 1869 Ltd group are implemented by the company's finance department.

Market prices

The company is exposed to market prices for certain purchased materials. The company has appropriate facilities to hedge its exposure arising from the purchase of raw materials denominated in foreign currencies.

Credit risk

The company 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.

Sofa Brands International Limited

Directors' report for the year ended 30 June 2021 (*continued*)

Liquidity risk

The company currently maintains short term debt finance that is designed to ensure the company has sufficient funds available for operations.

Directors of the company

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

I Oliver
M R Clarke
M W Burt
C N Kenyon-Brown
D S Miller

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.

Engagement with suppliers, customers and others

The company is fully committed to pursuing the best environmental practice and conducting its activities in a way that fully recognises its responsibilities to the environment. Policies to benefit the community include encouraging the use of local suppliers where possible and supporting local charities.

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, Ernst & Young LLP have indicated their willingness to continue in office. 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 14 April 2022 and signed on its behalf by

DocuSigned by:

1084D08CF90941F...
D S Miller
Director

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 company and of the profit or loss of the 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 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 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 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 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

DocuSigned by:

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E Taylor
Company Secretary

14 April 2022

1 Hampton Park West
Melksham
Wiltshire
SN12 6GU

Sofa Brands International Limited

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

Opinion

We have audited the financial statements of Sofa Brands International Limited for the year ended 30 June 2021 which comprise the Statement of total comprehensive income, the Balance Sheet, the Statement of changes in equity and the related notes 1 to 23, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 30 June 2021 and of its loss 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Sofa Brands International Limited

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

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement [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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Sofa Brands International Limited

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud


Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant are the Companies Act 2006, the Income Tax Act 2007, VAT legislation and employment legislation.
- We understood how the company is complying with those frameworks by performing inquiries with management and performing journal entry testing to ensure that there are no unusual legal or penalty expenses incurred during the year. In addition, the company utilises a code of conduct which has a central communication line through which regulations, both domestically and globally, are followed and enforced. These are formalised in the form of a Code of Conduct and central communications team, who will send regular updates throughout the business. We also evaluated the company's overall entity level controls, through discussions, inspections and observations, in the areas of control environment, monitoring, risk assessment and communications, and noted no significant issues
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by inquiring with management and performing a walkthrough of the financial statement close process. We have not identified any fraud risk associated with the financial statements.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiries with management, performing tests of details such as checking for unusual legal or penalty expenses, and performing journal entry testing to identify unusual transactions.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:

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Paul Mapleston (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Bristol
Date: April 14, 2022

Sofa Brands International Limited

Statement of total comprehensive income for the year ended 30 June 2021

		2021	2020
		£	As restated £
	<i>Note</i>		
Turnover	5	2,931,600	2,155,208
Gross profit		2,931,600	2,155,208
Administration expenses		(2,686,630)	(2,292,283)
Other operating income	6	1,901	26,237
Operating profit/ (loss) before interest	6	246,871	(110,838)
Net interest (payable)/receivable	8	(337,027)	(45,536)
Loss before taxation		(90,156)	(156,374)
Tax on loss	9	87,086	48,464
Total comprehensive expense for the financial year		(3,070)	(107,910)

Sofa Brands International Limited

Balance sheet as at 30 June 2021

	Note	30 June 2021		30 June 2020	
		£	£	£	£
Fixed assets					
Intangible assets	10		741,735		922,596
Tangible assets	11		20,250		2,535
Investments	12		35,990,161		35,990,161
			<u>36,752,146</u>		<u>36,915,292</u>
Current assets					
Debtors: Amounts falling due within one year	13	3,817,307		3,910,146	
Debtors: Amounts falling due after one year	13	12,650,241		12,850,126	
Cash at bank and in hand		<u>2,632,213</u>		<u>1,758,766</u>	
		19,099,761		18,519,038	
Current liabilities					
Creditors: Amounts falling due within one year	14	<u>(6,276,709)</u>		<u>(5,856,062)</u>	
Net current assets			12,823,052		12,662,976
Net assets			49,575,198		49,578,268
Capital and reserves					
Called up share capital	16		1,063,040		1,063,040
Retained earnings			<u>48,512,158</u>		<u>48,515,228</u>
Total equity			49,575,198		49,578,268

The notes on pages 12 to 23 are an integral part of these financial statements.

The financial statements on pages 9 to 23 were approved by the board of directors on 14 April 2022 and were signed on its behalf by:

DocuSigned by:

Duncan Miller

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D S Miller
Director

Sofa Brands International Limited
Registered number: 05456332

Sofa Brands International Limited

Statement of changes in equity for the year ended 30 June 2021

	Called up share capital £	Retained earnings £	Total equity £
Balance as at 1 July 2019	1,063,040	48,623,138	49,686,178
Total comprehensive (expense) for the year	-	(107,910)	(107,910)
Balance at 30 June 2020	1,063,040	48,515,228	49,578,268
Balance at 1 July 2020	1,063,040	48,515,228	49,578,268
Total comprehensive expense) for the year	-	(3,070)	(3,070)
Balance at 30 June 2021	1,063,040	48,512,158	49,575,198

Sofa Brands International Limited

Notes to the financial statements for the year ended 30 June 2021

1 General Information

Sofa Brands International Limited is a holding company..

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, United Kingdom.

The company financial statements are presented in Sterling, which is also the company's functional currency, and all values are rounded to the nearest pound (£).

2 Statement of compliance

The 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 financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

These 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'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 2020 to 4 July 2021. The comparative data covers 52 weeks to 28 June 2020.

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 Group and Company has 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.

In adopting the going concern basis, the directors have considered the risks, uncertainties, and impact of COVID-19 on business activities as set out below.

The directors have prepared a comprehensive forecasting model and by testing various scenarios, are satisfied that the Group has headroom in its existing committed facilities to respond to various realistic sensitivities.

In the event that the Group requires assistance to meet its financial obligations, then the parent, 1869 Limited, would be able to provide support to the Group. The Directors have received an unconditional letter of support from the parent, confirming it will provide financial support to the Group if needed, for a period of 12 months from approval of the 2021 financial statements, in order to allow the Group to continue to operate as a going concern. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

Management are confident in the level of sales based on the high opening orderbook and the experience gained in 2020 (where the management reacted quickly to reduce its cost base) gives it confidence to be able to react similarly in the future.

The Group continues to be monitored quarterly by their bank on Ebitda, leverage, cashflow cover and capital expenditure.

Sofa Brands International Limited

Notes to the financial statements for the year ended 30 June 2021 (*continued*)

3 Summary of significant accounting policies (*continued*)

Exemptions for qualifying entities under FRS 102

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

- The requirement to present a statement of cash flows and related notes;
- Financial instruments disclosures; and
- Key management personnel compensation.

This information is included in the consolidated financial statements of 1869 Limited as at 30 June 2021.

The company is exempt from disclosing related party transactions with other group companies as consolidated accounts of 1869 Limited are publicly available.

Consolidated financial statements

The company is a wholly owned subsidiary of 1869 Limited. It is included in the consolidated financial statements of 1869 Limited which are publicly available. Therefore the company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements.

These financial statements are the company's separate financial statements.

Intangible assets

Computer software and website 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.

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.

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

Turnover

Turnover represents the recharge of head office activities and excludes value added tax.

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:

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.

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".

Government grants

Government grants are recognised when it is reasonable to expect that the grants will be received and that all related conditions will be met, usually on submission of a valid claim for payment. Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate and presented in the profit and loss account as "other operating income".

Sofa Brands International Limited

Notes to the financial statements for the year ended 30 June 2021 (*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

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.

Operating leased assets

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments 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 including transaction costs.

Basic financial liabilities, including trade and other payables, bank loans and loan notes, are initially recognised at transaction price including transaction costs, 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.

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.

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 or 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 are recognised in financial statements.

Sofa Brands International Limited

Notes to the financial statements for the year ended 30 June 2021 (*continued*)

3 Summary of significant accounting policies (*continued*)

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.

Investments

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.

Impairment of intangible assets and goodwill

The Group considers whether intangible assets 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.

5 Turnover

All turnover and profits arise in the UK and are management fees and income from royalties.

Sofa Brands International Limited

Notes to the financial statements for the year ended 30 June 2021 (continued)

6 Operating profit

	2021 £	2020 £
Operating profit is stated after charging/(crediting):		
Wages and salaries	1,081,978	821,386
Social security costs	130,317	100,453
Other pension costs	61,639	38,546
Staff costs	1,273,934	960,385
Depreciation of tangible assets (charged to admin expenses)	4,132	4,862
Amortisation of intangible assets (charged to admin expenses)	170,058	230,424
Impairment of intangible assets (charged to admin expense)	-	99,900
Operating lease charges	45,525	43,073
Foreign exchange (gains)/losses	(224,487)	(109,037)
Audit fees payable of the company's auditor	15,000	15,000

Government grants

Grants amounting to £1,901 (2020: £26,237) were received from the government as part of the Coronavirus Job retention scheme. All conditions in relation to the scheme have been met.

In accordance with SI 2008/489 the company has not disclosed the fees payable to the company's auditor for "Other services" as this information is included in the consolidated financial statements of 1869 Limited.

7 Employee information

Employees

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

	2021 Number	2020 Number
Management	4	4
Administration	11	6
	15	10

Directors

The directors' emoluments were as follows:

	2021 £	2020 £
Aggregate emoluments	418,108	401,755
Company contributions to defined contribution pension scheme	-	5,384

During the year no retirement benefits were accruing to directors (2020: 1) in respect of defined contribution pension schemes.

	2021 £	2020 £
Highest paid director:		
Total amount of emoluments	225,001	222,631

Sofa Brands International Limited

Notes to the financial statements for the year ended 30 June 2021 (continued)

8 Net interest expense

	2021 £	2020 £
Interest receivable and similar income		
Other interest received	-	842
Total interest income on financial assets not measured at fair value through profit or loss	-	842
Gains on derivative financial instruments	-	-
Total interest receivable and similar income	-	842
Interest payable and similar charges		
Interest expense on bank loans and overdraft	(34,587)	(30,891)
Interest payable on other loans	(10,067)	-
Total interest expense on financial liabilities not measured at fair value through profit or loss	(44,654)	(30,891)
Loss on derivative financial instruments	(292,373)	(15,487)
Total interest payable and similar charges	(337,027)	(46,378)
Net interest		
Interest receivable and similar income	-	842
Interest payable and similar charges	(337,027)	(46,378)
Net interest (expense)/income	(337,027)	(45,536)

9 Tax on loss on ordinary activities

a) Tax on expense included in profit or loss

	2021 £	2020 £
Deferred tax		
- Origination and reversal of timing differences	(16,258)	(29,174)
- Impact of changes in tax rate	(72,618)	(19,612)
- Adjustments in respect of prior years	1,790	322
Total deferred tax credit	(87,086)	(48,464)
Tax on loss on ordinary activities	(87,086)	(48,464)

Sofa Brands International Limited

Notes to the financial statements for the year ended 30 June 2021 (continued)

9 Tax on profit on ordinary activities (continued)

b) Reconciliation of tax credit

The tax assessed for the year is different from the standard rate of corporation tax in the UK of 19% (2020: 19%) for the year. The differences are explained below:

	2021 £	2020 £
Loss on ordinary activities before tax	(90,155)	(156,374)
Loss multiplied by standard rate of corporation tax in the UK of 19% (2020: 19%)	(17,129)	(29,711)
Effects of:		
- Expenses not deductible for tax purposes	871	537
- Tax rate changes	(72,618)	(19,612)
- Adjustments in respect of previous periods	1,790	322
Tax credit for the year	(87,086)	(48,464)

c) Tax rate changes

The provision for deferred tax is calculated based on the tax rates enacted or substantially enacted at the balance sheet date. The 2021 Finance Bill announced that the corporation tax rate for the years starting 1 April 2020 and 2021 would remain at 19%.

The UK Budget 2021 announcements on 3 March 2021 included measures to support economic recovery as a result of the ongoing COVID-19 pandemic. These included an increase to the UK's main corporation tax rate to 25%, which is due to be effective from 1 April 2023. These changes were substantively enacted at the balance sheet date and hence have been reflected in the measurement of deferred tax balances at the period end.

10 Intangible assets

	Trademarks £	Software & Websites £	Total £
Cost			
At 1 July 2020	1,197,364	666,679	1,864,043
Additions	-	10,637	10,637
Disposals	(21,440)	-	(21,440)
At 30 June 2021	1,175,924	677,316	1,853,240
Accumulated amortisation			
At 1 July 2020	485,138	456,309	941,447
Charge for the year	58,796	111,262	170,058
At 30 June 2021	543,934	567,571	1,111,505
Net carrying amount at 30 June 2021	631,990	109,745	741,735
Net carrying amount at 30 June 2020	712,226	210,370	922,596

Sofa Brands International Limited

Notes to the financial statements for the year ended 30 June 2021 (*continued*)

11 Tangible assets

	Fixtures, fittings, office & computer equipment £
Cost	
At 1 July 2020	12,708
Additions	21,847
At 30 June 2021	34,555
Accumulated depreciation	
At 1 July 2020	10,173
Charge for year	4,132
At 30 June 2021	14,305
Net book value	
At 30 June 2021	20,250
At 30 June 2020	2,535

12 Investments

Company	2021 £	2020 £
Shares in group undertakings		
At 1 July & 30 June	35,990,161	35,990,161

Investments by the parent in group undertakings are stated at cost less provisions for impairment. See note 20 for a list of the undertakings.

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

Sofa Brands International Limited

Notes to the financial statements for the year ended 30 June 2021 (*continued*)

13 Debtors

	30 June 2021 £	30 June 2020 £
Amounts falling due within one year:		
Trade debtors	3,504	11,380
Amounts owed by group undertakings	3,757,047	3,114,855
Corporation tax	10,000	138,000
Derivative financial instruments	-	189,252
Deferred tax (see below)	-	215,493
Prepayments and accrued income	46,756	221,246
Other debtors	-	19,920
Amounts falling due after one year:		
Deferred tax (see below)	302,579	-
Amounts owed by parent company	12,347,662	12,850,126
	16,467,548	16,760,272

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

Deferred tax

	2021 £	2020 £
At 1 July 2020	215,493	167,029
Deferred tax credit in the income statement for the year	88,876	48,786
Adjustment in respect of prior years	(1,790)	(322)
At 30 June 2021	302,579	215,493

	30 June 2021 £	30 June 2020 £
Fixed asset timing differences	(17,888)	(13,607)
Non-trading timing differences	28,059	(34,865)
Losses	292,408	263,965
Deferred tax asset	302,579	215,493

The company has a deferred tax asset of £983,663 (2020: £747,584) which has not been recognised due to the uncertainty surrounding its recoverability.

Sofa Brands International Limited

Notes to the financial statements for the year ended 30 June 2021 (*continued*)

14 Creditors: Amounts falling due within one year

	30 June 2021 £	30 June 2020 £
Bank overdraft (<i>note 15</i>)	5,482,086	3,946,958
Trade creditors	247,312	179,870
Other taxation and social security	216,901	185,060
Amounts owed to group undertakings	23,690	1,362,128
Financial derivatives	103,121	-
Accruals	203,599	182,046
	6,276,709	5,856,062

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

15 Loans and other borrowings

	30 June 2021 £	30 June 2020 £
Bank overdraft	5,482,086	3,946,958

Bank facilities

The 1869 Group extended its credit agreement with Yorkshire Bank on 7 September 2020..

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.

16 Called up share capital

	30 June 2021 £	30 June 2020 £
<i>Allotted and fully paid</i>		
71,223,640 (2020: 71,223,640) ordinary 'A' shares of 1p (2020: 1p) each	712,236	712,236
35,080,301 (2020: 35,080,301) ordinary 'B' shares of 1p (2020: 1p) each	350,803	350,803
1 (2020: 1) ordinary share of £1 each	1	1
	1,063,040	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.

Sofa Brands International Limited

Notes to the financial statements for the year ended 30 June 2021 (continued)

17 Capital and other commitments

The company had no capital commitments at 30 June 2021 (2019: £Nil).

At 30 June 2021 the company had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

	30 June 2021 £	30 June 2020 £
On leases which expire:		
Not later than one year	45,222	51,359
Later than one year and not later than five years	41,467	44,254
	86,689	95,613

18 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 £61,639 (2020: £39,067). At the end of the year contributions outstanding were £9,114 (2020: £5,755).

19 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.

20 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.

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
Collins and Hayes Furniture 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

* The above companies have a registered address of 1 Hampton Park West, Melksham, Wiltshire, SN12 6GU.

** The above company has a registered address of Naujoji G. 132, LT-62175, Alytus, Lithuania.

Sofa Brands International Limited

Notes to the financial statements for the year ended 30 June 2021 (*continued*)

21 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. Balances with Group Company's at the year end can be found in notes 12, 13 and 14.

The key management of the business are also the directors and remuneration is disclosed in note 6.

1898 Limited owns 100% of the share capital in 1869 Limited, SBI's parent company. During the year SBI paid professional fees of £12,935 (2020: £50,675) on behalf of 1898 Limited. At the year end the amount owed to SBI by 1898 Limited was £238,793 (2020: £225,858).

22 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 2021 were £11,000,000 (2020: £12,083,332) and the loan notes were £82,966,461 (2020: £69,311,332).

23 Prior period misstatement

The consolidated profit and loss account for the period to 30 June 2020 has been restated to show amounts received under the Coronavirus Job Retention Scheme as "Other operating income" in accordance with FRS 102.

The impact of the adjustment has been to increase administrative costs by £26k and increase other operating income by £26k. There is no impact on net loss and balance sheet.