

Company Registration No. 00797762 (England and Wales)

THE LOFT SHOP LIMITED
AND SUBSIDIARY COMPANIES
DIRECTORS' REPORT AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

Carpenter Box LLP
Chartered Accountants
Grafton Lodge
15 Grafton Road
Worthing
West Sussex
BN11 1QR

THE LOFT SHOP LIMITED

DIRECTORS AND ADVISERS

| | |
|----------------------------|-------------------------------------------------------------------------------------------------------------------------|
| Directors | Mr P R Stedman Mr J Stedman Ms M J Kay |
| Secretary | Mr R Birchenough |
| Company number | 00797762 |
| Registered office | 50-51 Lineside Industrial Estate Eldon Way Littlehampton West Sussex BN17 7HE |
| Registered auditors | Carpenter Box LLP Grafton Lodge 15 Grafton Road Worthing West Sussex BN11 1QR |
| Bankers | National Westminster Bank plc Corporate and Commercial Banking PO Box 4719 Worthing West Sussex BN11 9JR |
| Solicitors | Clarke Willmott Burlington House Botley Grange Business Park Southampton Hampshire SO30 2DF |

**THE LOFT SHOP LIMITED
AND SUBSIDIARY COMPANIES**

CONTENTS

| | Page |
|--------------------------------------|-------------|
| Directors' report | 1 - 3 |
| Independent auditors' report | 4 - 5 |
| Consolidated profit and loss account | 6 |
| Balance sheets | 7 |
| Consolidated cash flow statement | 8 |
| Notes to the financial statements | 9 - 21 |

**THE LOFT SHOP LIMITED
AND SUBSIDIARY COMPANIES
DIRECTORS' REPORT**

FOR THE YEAR ENDED 31 DECEMBER 2008

The directors present their report and financial statements for the year ended 31 December 2008.

Principal activities and review of the business

The principal activity of the group continued to be that of the sale and marketing of building products.

The group's activities include a number of different product groups sold through different routes to market. The principle activity of The Loft Shop Limited continued to be that of the marketing, sale and distribution of building products.

During the year two Loft Shops were closed leaving a total at 23 including Stairplace.

Sales of products through the company's website which had been set up in 2005 grew substantially and continuing investment in this channel will develop growth still further.

The production of aluminium and stainless steel products in China was further developed during the year whilst the duplication of production tooling in the UK has covered any risk of delay or disruption from the Chinese plant.

Increasingly adverse market conditions in the building sector as the year progressed resulted in declining sales whilst pressure for competitive pricing affected gross margins. The declining value to the pound versus the euro (the group purchases a substantial volume of their goods in euros) towards the year end caused further pressure on margins.

The group reported a loss before taxation of £49,646 (2007 - profit £95,919).

The company continued to develop the supply of timber goods from Forest Stewardship Council (FSC) certified sources.

Results and dividends

The consolidated profit and loss account for the year is set out on page 6.

The directors do not recommend payment of an ordinary dividend.

Future developments

The Chinese production plant will be certified to ISO 9001:2000 and relevant products will be tested and certified to BS EN 1856:2003-1 allowing goods to be CE marked.

Directors

The following directors have held office since 1 January 2008:

Mr P R Stedman
Mr J Stedman
Ms M J Kay

**THE LOFT SHOP LIMITED
AND SUBSIDIARY COMPANIES
DIRECTORS' REPORT (CONTINUED)**

FOR THE YEAR ENDED 31 DECEMBER 2008

Financial instruments

Treasury operations and financial instruments

The group operates a centralised treasury function which is responsible for managing the liquidity, interest and foreign currency risks associated with the group's activities.

The group's principal financial instruments include derivative financial instruments, the purpose of which is to manage currency risks arising from the group's activities, and bank overdrafts, the main purpose of which is to raise finance for the group's operations. In addition, the group has various other financial assets and liabilities such as trade debtors and trade creditors arising directly from its operations. Derivative transactions which the group enters into principally comprise forward exchange contracts. In accordance with the group's treasury policy, derivative instruments are not entered into for speculative purposes.

Liquidity risk

The group manages its cash and borrowing requirements centrally in order to maximise interest income and minimise interest expense, whilst ensuring the group has sufficient liquid resources to meet the operating needs of the business.

Interest rate risk

The group is exposed to interest rate risk on its borrowings and cash flow interest rate risk on floating rate deposits and bank overdrafts. The group ensure interest payable is minimised and interest receivable is maximised.

Foreign currency risk

The group's principal foreign currency exposures arise from trading with overseas companies. Group policy permits but does not demand that these exposures may be hedged in order to fix the cost in sterling. This hedging activity involves the use of foreign exchange forward contracts.

Credit risk

Investments of cash surpluses, borrowings and derivative instruments are made through banks and companies which must fulfil credit rating criteria approved by the Board.

All customers who wish to trade on credit terms are subject to credit verification procedures, primarily through Creditsafe. Trade debtors are monitored on an ongoing basis and provision is made for doubtful debts where necessary.

Auditors

In accordance with the company's articles, a resolution proposing that Carpenter Box LLP be reappointed as auditors of the company will be put at a General Meeting.

**THE LOFT SHOP LIMITED
AND SUBSIDIARY COMPANIES
DIRECTORS' REPORT (CONTINUED)**

FOR THE YEAR ENDED 31 DECEMBER 2008

Statement of directors' responsibilities

The directors are responsible for preparing the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of disclosure to auditors

So far as the directors are aware, there is no relevant audit information of which the group's auditors are unaware. Additionally, the directors have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the group's auditors are aware of that information.

By order of the board

.....
Mr R Birchenough
Secretary
.....

**THE LOFT SHOP LIMITED
AND SUBSIDIARY COMPANIES
INDEPENDENT AUDITORS' REPORT**

TO THE SHAREHOLDERS OF THE LOFT SHOP LIMITED

We have audited the group and parent company financial statements (the "financial statements") of The Loft Shop Limited for the year ended 31 December 2008 which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheet, the Consolidated Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors' 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.

Respective responsibilities of directors and auditors

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**THE LOFT SHOP LIMITED
AND SUBSIDIARY COMPANIES
INDEPENDENT AUDITORS' REPORT (CONTINUED)
TO THE SHAREHOLDERS OF THE LOFT SHOP LIMITED**

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and parent company's affairs as at 31 December 2008 and of the group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Emphasis of matter - Going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures made in note 1.1 to the financial statements concerning the group's ability to continue as a going concern. The group has a profit and loss deficit and has sustained losses in 2008 and 2009 and is looking to restructure its finances. These conditions, along with the other matters explained in note 1.1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the group was unable to continue as a going concern.

Carpenter Box LLP

.....

**Chartered Accountants
Registered Auditor**

Grafton Lodge
15 Grafton Road
Worthing
West Sussex
BN11 1QR

**THE LOFT SHOP LIMITED
AND SUBSIDIARY COMPANIES
CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2008**

| | Notes | 2008 £ | 2007 £ |
|-------------------------------------------------------------|----------|------------------|------------------|
| Turnover | 2 | 6,964,919 | 7,313,924 |
| Cost of sales | | (4,456,474) | (4,358,595) |
| Gross profit | | 2,508,445 | 2,955,329 |
| Administrative expenses | | (2,556,182) | (2,865,349) |
| Other operating income | | 3,909 | 9,373 |
| Operating (loss)/profit | 3 | (43,828) | 99,353 |
| Other interest receivable and similar income | | 971 | 2,843 |
| Interest payable and similar charges | 4 | (6,789) | (6,277) |
| (Loss)/profit on ordinary activities before taxation | 3 | (49,646) | 95,919 |
| Tax on (loss)/profit on ordinary activities | 5 | - | - |
| (Loss)/profit on ordinary activities after taxation | | (49,646) | 95,919 |

The profit and loss account has been prepared on the basis that all operations are continuing operations.

There are no recognised gains and losses other than those passing through the profit and loss account.

THE LOFT SHOP LIMITED
AND SUBSIDIARY COMPANIES
BALANCE SHEETS

AS AT 31 DECEMBER 2008

| | Notes | Group 2008 £ | 2007 £ | Company 2008 £ | 2007 £ |
|----------------------------------------------------------------|-------|--------------------|------------------|----------------------|------------------|
| ASSETS | | | | | |
| Fixed assets | | | | | |
| Tangible assets | 7 | 109,137 | 178,681 | 109,137 | 178,681 |
| | | <u>109,137</u> | <u>178,681</u> | <u>109,137</u> | <u>178,681</u> |
| Current assets | | | | | |
| Stocks | 9 | 608,780 | 629,181 | 424,780 | 487,100 |
| Debtors | 10 | 2,904,119 | 2,614,418 | 2,820,584 | 2,541,828 |
| Cash at bank and in hand | | - | 10,345 | - | 10,345 |
| | | <u>3,512,899</u> | <u>3,253,944</u> | <u>3,245,364</u> | <u>3,039,273</u> |
| | | <u>3,622,036</u> | <u>3,432,625</u> | <u>3,354,501</u> | <u>3,217,954</u> |
| LIABILITIES | | | | | |
| Capital and reserves | | | | | |
| Called up share capital | 15 | 325,000 | 325,000 | 325,000 | 325,000 |
| Profit and loss account | 16 | (89,008) | (39,362) | (2,065,396) | (1,959,197) |
| | 17 | 235,992 | 285,638 | (1,740,396) | (1,634,197) |
| Creditors: amounts falling due within one year | 11 | 3,093,253 | 2,836,422 | 4,850,771 | 4,590,251 |
| Creditors: amounts falling due after more than one year | 12 | 286,255 | 298,855 | 237,590 | 250,190 |
| Provisions for liabilities | 13 | 6,536 | 11,710 | 6,536 | 11,710 |
| | | <u>3,622,036</u> | <u>3,432,625</u> | <u>3,354,501</u> | <u>3,217,954</u> |

Approved by the Board and authorised for issue on

.....
Mr P R Stedman
Director

THE LOFT SHOP LIMITED
AND SUBSIDIARY COMPANIES
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008

| | Note | £ | 2008 £ | £ | 2007 £ |
|-----------------------------------------------------------------------------|---------------|----------|-----------|----------|-----------|
| Net cash outflow from operating activities | 23 | | (111,872) | | (69,161) |
| Returns on investments and servicing of finance | | | | | |
| Interest received | | 971 | | 2,843 | |
| Interest paid | | (6,789) | | (6,277) | |
| Net cash outflow for returns on investments and servicing of finance | | | (5,818) | | (3,434) |
| Taxation | | | (2,550) | | 13,495 |
| Capital expenditure | | | | | |
| Payments to acquire tangible assets | | (4,462) | | (32,200) | |
| Receipts from sales of tangible assets | | - | | 7,800 | |
| Net cash outflow for capital expenditure | | | (4,462) | | (24,400) |
| Net cash outflow before management of liquid resources and financing | | | (124,702) | | (83,500) |
| Financing | | | | | |
| Capital element of hire purchase contracts | | (10,501) | | (2,099) | |
| Net cash outflow from financing | | | (10,501) | | (2,099) |
| Decrease in cash in the year | 24, 25 | | (135,203) | | (85,599) |

**THE LOFT SHOP LIMITED
AND SUBSIDIARY COMPANIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008**

1 Accounting policies

1.1 Accounting convention

The financial statements are prepared under the historical cost convention.

The financial statements have been prepared on the going concern basis which assumes the continued support of the group's bankers. Despite incurring losses in 2008 and 2009 the group has remained within the limits of the overdraft facility.

The group profit and loss forecasts for 2009/2010 which incorporate sales price reviews together with cost reductions and the development of new products show that the directors believe the group will return to profitability in the foreseeable future. The group has prepared cashflow forecasts for 2009/2010 which demonstrate that additional finance is required in order for the group to continue as a going concern. This restructuring of the group's debt has not been agreed by the group's bankers and will not be concluded until late 2009. Should the refinancing not be agreed the group may not be able to continue trading.

However, the directors believe the debt restructuring will be agreed. On this basis, the directors consider it appropriate to prepare the financial statements on the going concern basis. The financial statements do not include any adjustments that would result from a withdrawal of the overdraft facility and the not agreement of the debt restructuring by the company's bankers.

1.2 Compliance with accounting standards

The financial statements are prepared in accordance with applicable United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), which have been applied consistently.

1.3 Basis of consolidation

The consolidated profit and loss account and balance sheet include the financial statements of the company and its subsidiary undertakings made up to 31 December 2008. The results of subsidiaries sold or acquired are included in the profit and loss account up to, or from the date control passes. Intra-group sales and profits are eliminated fully on consolidation.

1.4 Turnover

Turnover represents amounts receivable for goods net of VAT and trade discounts and is recognised on despatch.

1.5 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

| | |
|----------------------------------|----------------------------------------|
| Plant and machinery | 10.00 - 33.33% per annum straight line |
| Fixtures, fittings and equipment | 10.00 - 33.33% per annum straight line |
| Motor vehicles | 20.00 - 33.33% per annum straight line |

**THE LOFT SHOP LIMITED
AND SUBSIDIARY COMPANIES**
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2008

1 Accounting policies

(continued)

1.6 Leasing and hire purchase commitments

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible assets and depreciated over the shorter of the lease term and their useful lives. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the profit and loss account so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

1.7 Investments

Fixed asset investments are stated at cost less provision for diminution in value.

1.8 Stock

Stock is valued at the lower of cost and net realisable value.

1.9 Pensions

The group operates a defined contribution scheme for the benefit of its employees. Contributions payable are charged to the profit and loss account in the year they are payable.

1.10 Deferred taxation

Deferred taxation is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. The deferred tax balance has not been discounted.

1.11 Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to profit and loss account.

2 Turnover

The total turnover of the group for the year has been derived from its principal activity.

Segmental analysis by geographical area

The analysis by geographical area of the group's turnover is set out as below:

| | 2008 | 2007 |
|-----------------------------|------------------|------------------|
| | £ | £ |
| Geographical segment | | |
| United Kingdom | 6,964,919 | 7,059,895 |
| European Community | - | 252,570 |
| Rest of the World | - | 1,459 |
| | <u>6,964,919</u> | <u>7,313,924</u> |

THE LOFT SHOP LIMITED
AND SUBSIDIARY COMPANIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2008

| | | | |
|----------|-----------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
| 3 | Operating loss | 2008 | 2007 |
| | | £ | £ |
| | Operating loss is stated after charging: | | |
| | Depreciation of tangible assets | 74,006 | 77,305 |
| | Loss on foreign exchange transactions | 851 | 6,102 |
| | Operating lease rentals | | |
| | - Plant and machinery | 991 | 1,372 |
| | - Other assets | 499,990 | 545,728 |
| | and after crediting: | | |
| | Profit on disposal of tangible assets | - | (5,405) |
| | | <u> </u> | <u> </u> |
| | Auditors' remuneration | | |
| | Fees payable to the group's auditor for the audit of the group's annual accounts (company £9,500; 2007: £9,500) | 9,500 | 9,500 |
| | | <u> </u> | <u> </u> |
| | | 9,500 | 9,500 |
| | | <u> </u> | <u> </u> |
| 4 | Interest payable | 2008 | 2007 |
| | | £ | £ |
| | On bank loans and overdrafts | 1,886 | 5,031 |
| | Hire purchase interest | - | 311 |
| | Other interest | 4,903 | 935 |
| | | <u> </u> | <u> </u> |
| | | 6,789 | 6,277 |
| | | <u> </u> | <u> </u> |

THE LOFT SHOP LIMITED
AND SUBSIDIARY COMPANIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2008

| 5 Taxation | 2008 | 2007 |
|----------------------------------------------------------------------------------------------------------------------------------|----------|----------|
| Current tax charge | - | - |
| Factors affecting the tax charge for the year | | |
| (Loss)/profit on ordinary activities before taxation | (49,646) | 95,919 |
| (Loss)/profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 20.75% (2007 - 20.00%) | (10,302) | 19,184 |
| Effects of: | | |
| Non deductible expenses | - | 2,474 |
| Depreciation and profit on disposal | 15,356 | 14,380 |
| Capital allowances | - | (651) |
| Group and brought forward loss relief | (5,054) | (35,387) |
| | 10,302 | (19,184) |
| Current tax charge | - | - |

On the basis of these financial statements no provision has been made for corporation tax.

6 (Loss)/profit for the financial year

As permitted by section 230 of the Companies Act 1985, the holding company's profit and loss account has not been included in these financial statements. The (loss)/profit for the financial year is made up as follows:

| | 2008 | 2007 |
|--------------------------------------------------------|-----------|--------|
| | £ | £ |
| Holding company's (loss)/profit for the financial year | (106,199) | 31,231 |

THE LOFT SHOP LIMITED**AND SUBSIDIARY COMPANIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)****FOR THE YEAR ENDED 31 DECEMBER 2008****7 Tangible fixed assets****Group and company**

| | Plant and machinery | Fixtures, fittings and equipment | Motor vehicles | Plant and machinery |
|-----------------------|------------------------|----------------------------------------|-------------------|------------------------|
| | £ | £ | £ | £ |
| Cost | | | | |
| At 1 January 2008 | 232,738 | 755,885 | 56,656 | 1,045,279 |
| Additions | - | 4,462 | - | 4,462 |
| At 31 December 2008 | 232,738 | 760,347 | 56,656 | 1,049,741 |
| Depreciation | | | | |
| At 1 January 2008 | 198,338 | 636,281 | 31,979 | 866,598 |
| Charge for the year | 12,390 | 50,506 | 11,110 | 74,006 |
| At 31 December 2008 | 210,728 | 686,787 | 43,089 | 940,604 |
| Net book value | | | | |
| At 31 December 2008 | 22,010 | 73,560 | 13,567 | 109,137 |
| At 31 December 2007 | 34,400 | 119,604 | 24,677 | 178,681 |

Included above are assets held under finance leases or hire purchase contracts as follows:

| | Plant and machinery | Fixtures, fittings and equipment | Motor vehicles | Plant and machinery |
|-----------------------------------------|------------------------|----------------------------------------|-------------------|------------------------|
| | £ | £ | £ | £ |
| Net book values | | | | |
| At 31 December 2008 | - | - | - | - |
| At 31 December 2007 | - | 37,790 | - | 37,790 |
| Depreciation charge for the year | | | | |
| 31 December 2008 | - | - | - | - |
| 31 December 2007 | - | - | - | - |

**THE LOFT SHOP LIMITED
AND SUBSIDIARY COMPANIES
NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS (CONTINUED)**

FOR THE YEAR ENDED 31 DECEMBER 2008

8 Fixed asset investments

Group and company

| | Shares in group undertakings £ | Shares in group undertakings £ |
|-------------------------------------------|-----------------------------------------|-----------------------------------------|
| Cost | | |
| At 1 January 2008 & at 31 December 2008 | | 4 |
| Provisions for diminution in value | | |
| At 1 January 2008 & at 31 December 2008 | | 4 |

In the opinion of the directors, the aggregate value of the group and company's investment in subsidiary undertakings is not less than the amount included in the balance sheet.

Holdings of more than 20%

The company holds more than 20% of the share capital of the following companies:

| Company | Country of registration or incorporation | Shares held | |
|--------------------------------|---------------------------------------------|-------------|-----|
| | | Class | % |
| Subsidiary undertakings | | | |
| Chimney Cows Limited | England & Wales | Ordinary | 100 |
| Preceda Shingles Limited | England & Wales | Ordinary | 100 |
| Stairplace Limited | England & Wales | Ordinary | 100 |
| RW Products Limited | England & Wales | Ordinary | 100 |
| The Loft Centre Limited | England & Wales | Ordinary | 50 |

The principal activity of these undertakings for the last relevant financial year was as follows:

| | | Capital and reserves 2008 £ | Profit/(loss) for the year 2008 £ |
|--------------------------|-------------------------------------------------------------|--------------------------------------|--------------------------------------------|
| | Principal activity | | |
| Chimney Cows Limited | Sales and marketing of chimney cows and associated products | 1,928,719 | 25,246 |
| Preceda Shingles Limited | Sales and marketing of shingles and associated products | 33,833 | 1,203 |
| Stairplace Limited | Sales and marketing of stairs and associated products | (205,276) | 1,748 |
| RW Products Limited | Sales and marketing of windows and associated products | 99,668 | 28,356 |

THE LOFT SHOP LIMITED**AND SUBSIDIARY COMPANIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 31 DECEMBER 2008****8 Fixed asset investments (continued)**

| | | | |
|-------------------------|---------|---|---|
| The Loft Centre Limited | Dormant | 2 | - |
|-------------------------|---------|---|---|

9 Stocks

| | Group 2008 £ | 2007 £ | Company 2008 £ | 2007 £ |
|-------------------------------------|--------------------|-----------|----------------------|-----------|
| Finished goods and goods for resale | 608,780 | 629,181 | 424,780 | 487,100 |

10 Debtors

| | Group 2008 £ | 2007 £ | Company 2008 £ | 2007 £ |
|------------------------------------|--------------------|-----------|----------------------|-----------|
| Trade debtors | 440,452 | 416,831 | 188,450 | 191,890 |
| Amounts owed by group undertakings | 2,209,237 | 1,988,794 | 2,385,428 | 2,173,669 |
| Corporation tax | 5,076 | 2,526 | 5,076 | 2,526 |
| Called up share capital not paid | 3 | 1 | - | - |
| Other debtors | 27,440 | 32,523 | 19,719 | - |
| Prepayments and accrued income | 221,911 | 173,743 | 221,911 | 173,743 |
| | 2,904,119 | 2,614,418 | 2,820,584 | 2,541,828 |

Amounts falling due after more than one year and included in the debtors above are:

| | 2008 £ | 2007 £ | 2008 £ | 2007 £ |
|------------------------------------|-----------|-----------|-----------|-----------|
| Amounts owed by group undertakings | - | - | 176,191 | 184,875 |
| | - | - | 176,191 | 184,875 |

THE LOFT SHOP LIMITED**AND SUBSIDIARY COMPANIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 31 DECEMBER 2008****11 Creditors : amounts falling due within one year**

| | Group | | Company | |
|-----------------------------------------------------------------|------------------|------------------|------------------|------------------|
| | 2008 | 2007 | 2008 | 2007 |
| | £ | £ | £ | £ |
| Bank loans and overdrafts | 232,265 | 107,407 | 232,265 | 107,407 |
| Net obligations under finance lease and hire purchase contracts | 12,600 | 10,501 | 12,600 | 10,501 |
| Trade creditors | 1,111,665 | 974,914 | 969,883 | 952,354 |
| Amounts owed to group undertakings | 1,323,366 | 1,323,366 | 3,222,666 | 3,099,755 |
| Taxes and social security costs | 220,820 | 282,254 | 220,820 | 282,254 |
| Accruals and deferred income | 192,537 | 137,980 | 192,537 | 137,980 |
| | <u>3,093,253</u> | <u>2,836,422</u> | <u>4,850,771</u> | <u>4,590,251</u> |

The company and group's bank borrowings are secured by an unscheduled mortgage debenture. There is also a composite guarantee with the ultimate parent company, The Loft Shop Group Limited, for all of the group's bank borrowings.

12 Creditors : amounts falling due after more than one year

| | Group | | Company | |
|-------------------------------------------------------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2008 | 2007 | 2008 | 2007 |
| | £ | £ | £ | £ |
| Net obligations under finance leases and hire purchase agreements | 12,590 | 25,190 | 12,590 | 25,190 |
| Amounts due to group undertakings | 273,665 | 273,665 | 225,000 | 225,000 |
| | <u>286,255</u> | <u>298,855</u> | <u>237,590</u> | <u>250,190</u> |
| Net obligations under finance leases and hire purchase contracts | | | | |
| Repayable within one year | 12,600 | 10,501 | 12,600 | 10,501 |
| Repayable between one and five years | 12,590 | 25,190 | 12,590 | 25,190 |
| | <u>25,190</u> | <u>35,691</u> | <u>25,190</u> | <u>35,691</u> |
| Included in liabilities falling due within one year | <u>(12,600)</u> | <u>(10,501)</u> | <u>(12,600)</u> | <u>(10,501)</u> |
| | <u>12,590</u> | <u>25,190</u> | <u>12,590</u> | <u>25,190</u> |

THE LOFT SHOP LIMITED**AND SUBSIDIARY COMPANIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 31 DECEMBER 2008****13 Provisions for liabilities****Group**

| | Other £ |
|-------------------------------------------------|--------------------|
| Balance at 1 January 2008 & at 31 December 2008 | 11,710 |
| Profit and loss account | (5,174) |
| | <u>6,536</u> |
| Balance at 31 December 2008 | <u>6,536</u> |

Company

| | |
|-------------------------------------------------|--------------|
| Balance at 1 January 2008 & at 31 December 2008 | 11,710 |
| Profit and loss account | (5,174) |
| | <u>6,536</u> |
| Balance at 31 December 2008 | <u>6,536</u> |

Other provisions represent dilapidations provisions being the directors' best estimate of costs to meet the group and company's obligations in regard to dilapidations and alterations of leased premises. This estimate is made with reference to actual costs incurred when leases have expired in prior periods, the general condition of leased premises and the length of the remaining leases.

14 Pension and other post-retirement benefit commitments**Defined contribution**

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund.

| | 2008 £ | 2007 £ |
|-------------------------------------------------|-------------------|-------------------|
| Contributions payable by the group for the year | 7,680 | 19,370 |
| | <u>7,680</u> | <u>19,370</u> |

15 Share capital

| | 2008 £ | 2007 £ |
|-------------------------------------------|-------------------|-------------------|
| Authorised | | |
| 325,000 Ordinary Shares of £1 each | 325,000 | 325,000 |
| | <u>325,000</u> | <u>325,000</u> |
| Allotted, called up and fully paid | | |
| 325,000 Ordinary Shares of £1 each | 325,000 | 325,000 |
| | <u>325,000</u> | <u>325,000</u> |

THE LOFT SHOP LIMITED
AND SUBSIDIARY COMPANIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2008

16 Statement of movements on profit and loss account
Group

| | Profit and loss account £ |
|-----------------------------|------------------------------------------|
| Balance at 1 January 2008 | (39,362) |
| Loss for the year | (49,646) |
| Balance at 31 December 2008 | <u>(89,008)</u> |

Company

| | Profit and loss account £ |
|-----------------------------|------------------------------------------|
| Balance at 1 January 2008 | (1,959,197) |
| Loss for the year | (106,199) |
| Balance at 31 December 2008 | <u>(2,065,396)</u> |

17 Reconciliation of movements in shareholders' funds
Group

| | 2008 £ | 2007 £ |
|--------------------------------------|-------------------|-------------------|
| (Loss)/Profit for the financial year | (49,646) | 95,919 |
| Opening shareholders' funds | 285,638 | 189,719 |
| Closing shareholders' funds | <u>235,992</u> | <u>285,638</u> |

| | 2008 £ | 2007 £ |
|--------------------------------------|--------------------|--------------------|
| (Loss)/Profit for the financial year | (106,199) | 31,231 |
| Opening shareholders' funds | (1,634,197) | (1,665,428) |
| Closing shareholders' funds | <u>(1,740,396)</u> | <u>(1,634,197)</u> |

THE LOFT SHOP LIMITED**AND SUBSIDIARY COMPANIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****FOR THE YEAR ENDED 31 DECEMBER 2008****18 Financial commitments**

At 31 December 2008 the group and company had annual commitments under non-cancellable operating leases as follows:

| | Land and buildings | | Other | |
|----------------------------|--------------------|----------------|----------|---------------|
| | 2008 | 2007 | 2008 | 2007 |
| | £ | £ | £ | £ |
| Expiry date: | | | | |
| Within one year | - | 76,500 | - | 3,414 |
| Between two and five years | - | 146,050 | - | 46,781 |
| In over five years | - | 161,750 | - | - |
| | <u>-</u> | <u>384,300</u> | <u>-</u> | <u>50,195</u> |

19 Directors' emoluments

| | 2008 | 2007 |
|---------------------------------------------------------|----------|----------------|
| | £ | £ |
| Emoluments for qualifying services | - | 266,666 |
| Company pension contributions to money purchase schemes | - | 1,551 |
| | <u>-</u> | <u>268,217</u> |

The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 1 (2007- 1).

Directors' emoluments exclude benefits in kind valued at £xx,xxx (2007 - £31,443).

THE LOFT SHOP LIMITED

AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2008

20 Employees

Number of employees

The average monthly number of employees (including directors) during the year was:

| | 2008 Number | 2007 Number |
|----------------|------------------------|------------------------|
| Warehouse | 5 | 5 |
| Sales | 35 | 35 |
| Fitting | 2 | 2 |
| Administration | 14 | 15 |
| | <u>56</u> | <u>57</u> |

Employment costs

| | 2008 £ | 2007 £ |
|-----------------------|-------------------|-------------------|
| Wages and salaries | 1,439,809 | 1,573,241 |
| Social security costs | 160,867 | 170,997 |
| Other pension costs | 7,680 | 19,370 |
| | <u>1,608,356</u> | <u>1,763,608</u> |

21 Control

In the directors' opinion the immediate and ultimate parent company is The Loft Shop Group Limited, a company registered in England and Wales. The ultimate controlling party is Mr P R Stedman.

The Loft Shop Group Limited prepares group financial statements and copies can be obtained from the registered office.

22 Related party transactions

Group and company

The company has taken advantage of the exemption in Financial Reporting Standard Number 8 'Related Party Disclosures' from the requirement to disclose transactions with group companies on the grounds that consolidated financial statements are prepared by the ultimate parent company.

THE LOFT SHOP LIMITED
AND SUBSIDIARY COMPANIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2008

| 23 Reconciliation of operating (loss)/profit to net cash outflow from operating activities | 2008 | 2007 |
|---------------------------------------------------------------------------------------------------|------------------|-----------------|
| | £ | £ |
| Operating (loss)/profit | (43,828) | 99,353 |
| Depreciation of tangible assets | 74,006 | 77,305 |
| Profit on disposal of tangible assets | - | (5,405) |
| Decrease/(increase) in stocks | 20,401 | (109,532) |
| Increase in debtors | (287,151) | (64,701) |
| Increase in creditors within one year | 129,874 | 11,963 |
| Group asset transfers | - | (75,920) |
| Other reserve movement | (5,174) | (2,224) |
| Net cash outflow from operating activities | (111,872) | (69,161) |

| 24 Analysis of net debt | 1 January 2008 | Cash flow | Other non-cash changes | 31 December 2008 |
|----------------------------------|-----------------------|------------------|-------------------------------|-------------------------|
| | £ | £ | £ | £ |
| Net cash: | | | | |
| Cash at bank and in hand | 10,345 | (10,345) | - | - |
| Bank overdrafts | (107,407) | (124,858) | - | (232,265) |
| | (97,062) | (135,203) | - | (232,265) |
| Finance leases | (35,691) | 10,501 | - | (25,190) |
| Debts falling due after one year | (273,665) | - | - | (273,665) |
| | (309,356) | 10,501 | - | (298,855) |
| Net debt | (406,418) | (124,702) | - | (531,120) |

| 25 Reconciliation of net cash flow to movement in net debt | 2008 | 2007 |
|-------------------------------------------------------------------|------------------|------------------|
| | £ | £ |
| Decrease in cash in the year | (135,203) | (85,599) |
| Cash outflow/(inflow) from decrease/(increase) in debt | 10,501 | (35,691) |
| Movement in net debt in the year | (124,702) | (121,290) |
| Opening net debt | (406,418) | (285,128) |
| Closing net debt | (531,120) | (406,418) |

THE LOFT SHOP LIMITED
AND SUBSIDIARY COMPANIES
DETAILED TRADING AND PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2008

| | | 2008 | | 2007 |
|-----------------------------------------------------|-----------|-------------|-----------|-------------|
| | £ | £ | £ | £ |
| Turnover | | | | |
| Sales | | 6,964,919 | | 7,313,924 |
| Cost of sales | | | | |
| Purchases | 3,756,062 | | 3,646,348 | |
| Third party fitting costs | 64,398 | | 102,141 | |
| Discounts | 62,764 | | 69,496 | |
| Wages and salaries - commissions | 163,042 | | 171,107 | |
| Repairs to loose tools | 16,362 | | 17,599 | |
| Carriage out | 393,846 | | 351,904 | |
| | | (4,456,474) | | (4,358,595) |
| Gross profit | 36.02% | 2,508,445 | 40.41% | 2,955,329 |
| Administrative expenses | | (2,556,182) | | (2,865,349) |
| | | (47,737) | | 89,980 |
| Other operating income | | | | |
| Rent receivable | 3,909 | | 9,373 | |
| | | 3,909 | | 9,373 |
| Operating (loss)/profit | | (43,828) | | 99,353 |
| Other interest receivable and similar income | | | | |
| Bank interest received | 81 | | 2,419 | |
| Other interest received | 890 | | 424 | |
| | | 971 | | 2,843 |
| Interest payable | | | | |
| Bank interest paid | 1,886 | | 5,031 | |
| Hire purchase interest paid | - | | 311 | |
| Other interest paid | 4,903 | | 935 | |
| | | (6,789) | | (6,277) |
| (Loss)/profit before taxation | 0.71% | (49,646) | 1.31% | 95,919 |

THE LOFT SHOP LIMITED
AND SUBSIDIARY COMPANIES
SCHEDULE OF ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED 31 DECEMBER 2008

| | 2008 | 2007 |
|--------------------------------------------------|------------------|------------------|
| | £ | £ |
| Administrative expenses | | |
| Wages and salaries | 1,276,767 | 1,135,468 |
| Directors' remuneration | - | 266,666 |
| Employer's N.I. contributions | 160,867 | 170,997 |
| Directors' pension costs | - | 1,551 |
| Staff pension costs | 7,680 | 17,819 |
| Staff training and recruitment | 771 | 15,617 |
| Staff welfare | 13,264 | 18,134 |
| Rent | 499,990 | 545,728 |
| Rates and service charges | 182,453 | 181,656 |
| Management charges | (410,000) | (425,000) |
| Insurance | 67,912 | 86,305 |
| Light and heat | 59,841 | 56,660 |
| Cleaning | 9,162 | 17,055 |
| Repairs and maintenance | 57,670 | 54,392 |
| Printing and stationery | 42,354 | 63,886 |
| Advertising | 125,732 | 179,299 |
| Telecommunications | 54,954 | 54,181 |
| Computer running costs | 25,541 | 23,181 |
| Equipment leasing | 991 | 1,372 |
| Motor running expenses | 138,286 | 126,969 |
| Travelling expenses | 25,176 | 42,566 |
| Entertaining | 967 | 2,768 |
| Legal and professional fees | 40,715 | 42,623 |
| Accountancy | 8,500 | 14,866 |
| Audit fees | 9,500 | 9,500 |
| Bank and credit card charges | 65,581 | 64,324 |
| Bad and doubtful debts | 11,086 | 7,031 |
| Loss on foreign currency | 851 | 6,102 |
| Sundry expenses | 2,533 | 2,790 |
| Charitable donations | 410 | 1,327 |
| Subscriptions | 2,622 | 7,616 |
| Depreciation on plant and machinery | 12,390 | 15,864 |
| Depreciation on fixtures, fittings and equipment | 50,506 | 47,895 |
| Depreciation on motor vehicles | 11,110 | 13,546 |
| Profits on disposal fixed assets | - | (5,405) |
| | <u>2,556,182</u> | <u>2,865,349</u> |