

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 2006

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 D Smith
	Mr J Stedman (Appointed 21 August 2007)
	Ms M J Kay (Appointed 21 August 2007)
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 4349 Worthing West Sussex BN11 3EQ
Solicitors	Clarke Willmott Stoneham Gate Stoneham Lane Southampton Hampshire SO50 9NW

THE LOFT SHOP LIMITED AND SUBSIDIARY COMPANIES CONTENTS

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THE LOFT SHOP LIMITED AND SUBSIDIARY COMPANIES

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2006

The directors present their report and financial statements for the year ended 31 December 2006.

Directors

The following directors have held office since 1 January 2006:

Mr P R Stedman

Mr D Smith

Mr D S Hunt

Mr J Stedman

Ms M J Kay

(Resigned 8 August 2007)

(Appointed 21 August 2007)

(Appointed 21 August 2007)

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 one Loft Shop was closed leaving the total at 24 including Stairplace in West Norwood.

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.

Substantial savings from reorganisation and an improvement in gross margins result in a profit before taxation of £112,144 (2005 - loss £230,465).

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 4.

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.

Risk exposures

The group has continued to monitor closely its cash position closely.

Currency risks with major foreign suppliers are covered by forward purchases of currencies at the most favourable rate against specific invoices and purchase orders.

Debtors risk is tightly controlled with all new accounts credit checked, primarily through Creditsafe.

**THE LOFT SHOP LIMITED
AND SUBSIDIARY COMPANIES
DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2006**

Auditors

Carpenter Box LLP were appointed auditors to the company after the year end and that appointment will be confirmed at the Annual General Meeting. A resolution proposing that they be re-appointed will be put to the Annual General Meeting.

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 auditor

(a) so far as the directors are aware, there is no relevant audit information of which the group's auditors are unaware, and

(b) they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any 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

25 October 2007

THE LOFT SHOP LIMITED AND SUBSIDIARY COMPANIES INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF THE LOFT SHOP LIMITED

We have audited the financial statements of The Loft Shop Limited for the year ended 31 December 2006 set out on pages 4 to 19. 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 the directors and auditors

As described in the Statement of Directors' Responsibilities on page 2 the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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, and whether in our opinion the information given in the directors' report is consistent with the financial statements. We also 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 company's and the group'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.

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 company's and the group's affairs as at 31 December 2006 and of the group's profit for the year then ended and 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.

Carpenter Box LLP
Chartered Accountants
Registered Auditor

28 October 2007

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 2006**

	Notes	2006 £	2005 £
Turnover	2	7,715,118	8,059,865
Cost of sales		(4,553,458)	(4,900,992)
Gross profit		3,161,660	3,158,873
Administrative expenses		(3,065,941)	(3,376,737)
Other operating income		16,425	-
Operating profit/(loss)	3	112,144	(217,864)
Interest payable and similar charges	4	-	(12,601)
Profit/(loss) on ordinary activities before taxation	3	112,144	(230,465)
Tax on profit/(loss) on ordinary activities	5	(7,328)	23,349
Profit/(loss) on ordinary activities after taxation		104,816	(207,116)

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 2006**

		Group		Company	
	Notes	2006	2005	2006	2005
		£	£	£	£
ASSETS					
Fixed assets					
Tangible assets	7	112,471	196,865	69,930	121,171
		<u>112,471</u>	<u>196,865</u>	<u>69,930</u>	<u>121,171</u>
Current assets					
Stocks	9	519,649	634,032	398,126	574,321
Debtors	10	2,570,540	2,157,220	2,604,563	2,221,194
Cash at bank and in hand		-	76,131	-	76,131
		<u>3,090,189</u>	<u>2,867,383</u>	<u>3,002,689</u>	<u>2,871,646</u>
		<u>3,202,660</u>	<u>3,064,248</u>	<u>3,072,619</u>	<u>2,992,817</u>
LIABILITIES					
Capital and reserves					
Called up share capital	15	325,000	325,000	325,000	325,000
Profit and loss account	16	(135,281)	(240,097)	(1,990,428)	(1,917,868)
	17	189,719	84,903	(1,665,428)	(1,592,868)
Creditors: amounts falling due within one year	11	2,725,342	2,680,930	4,499,113	4,335,935
Creditors: amounts falling due after more than one year	12	273,665	273,665	225,000	225,000
Provisions for liabilities	13	13,934	24,750	13,934	24,750
		<u>3,202,660</u>	<u>3,064,248</u>	<u>3,072,619</u>	<u>2,992,817</u>

Approved by the Board and authorised for issue on 25 October 2007

Mr P R Stedman
Director

**THE LOFT SHOP LIMITED
AND SUBSIDIARY COMPANIES
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006**

	2006		2005	
	£	£	£	£
Net cash (outflow)/inflow from operating activities		(65,560)		168,678
Returns on investments and servicing of finance				
Interest paid	-		(11,312)	
Net cash outflow for returns on investments and servicing of finance		-		(11,312)
Taxation		-		(28,349)
Capital expenditure				
Payments to acquire tangible assets	(15,468)		(46,452)	
Net cash outflow for capital expenditure		(15,468)		(46,452)
Net cash (outflow)/inflow before management of liquid resources and financing		(81,028)		82,565
Decrease in cash in the year		(81,028)		82,565

**THE LOFT SHOP LIMITED
AND SUBSIDIARY COMPANIES**
NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006

1	Reconciliation of operating profit/(loss) to net cash (outflow)/inflow from operating activities	2006	2005
		£	£
	Operating profit/(loss)	112,144	(217,864)
	Depreciation of tangible assets	99,862	69,482
	Decrease in stocks	114,383	481,516
	Increase in debtors	(413,320)	(128,176)
	Increase in creditors within one year	19,619	(61,030)
	Impairment write down on fixed assets	12,568	-
	(Decrease)/increase in provisions	(10,816)	24,750
	Net cash (outflow)/inflow from operating activities	(65,560)	168,678

2	Analysis of net debt	1 January 2006	Cash flow	Other non-cash changes	31 December 2006
		£	£	£	£
	Net cash:				
	Cash at bank and in hand	76,131	(76,131)	-	-
	Bank overdrafts	(6,566)	(4,897)	-	(11,463)
		<u>69,565</u>	<u>(81,028)</u>	<u>-</u>	<u>(11,463)</u>
	Debts falling due after one year	(273,665)	-	-	(273,665)
	Net debt	<u>(204,100)</u>	<u>(81,028)</u>	<u>-</u>	<u>(285,128)</u>

3	Reconciliation of net cash flow to movement in net debt	2006	2005
		£	£
	(Decrease)/increase in cash in the year	(81,028)	82,565
	Cash (inflow)/outflow from (increase)/decrease in debt	-	200,866
	Movement in net debt in the year	(81,028)	283,431
	Opening net debt	(204,100)	(487,531)
	Closing net debt	(285,128)	(204,100)

**THE LOFT SHOP LIMITED
AND SUBSIDIARY COMPANIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006**

1 Accounting policies

1.1 Accounting convention

The financial statements are prepared under the historical cost convention.

1.2 Changes in comparatives

The comparative figures for debtors and creditors have been reclassified to ensure consistent preparation. The restated amounts do not constitute a prior year adjustment and have not changed the net position of the group.

1.3 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.

1.4 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 2006. 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.

1.5 Turnover

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

1.6 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, tools and equipment	10.00 - 33.33% per annum straight line
Motor vehicles	20.00 - 33.33% per annum straight line

1.7 Leasing and hire purchase commitments

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible assets and depreciated over their useful lives (hire purchase) or the shorter of the lease term and their useful lives (finance lease). 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.

1.8 Investments

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

1.9 Stock

Stock is valued at the lower of cost, including attributable overheads, and net realisable value, on a first in first out basis.

**THE LOFT SHOP LIMITED
AND SUBSIDIARY COMPANIES**
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2006

1 Accounting policies

(continued)

1.10 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.

1.11 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.

1.12 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:

	2006 £	2005 £
Geographical segment		
United Kingdom	7,531,764	7,979,266
European Community	183,354	80,599
	<u>7,715,118</u>	<u>8,059,865</u>

3 Operating profit/(loss)

	2006 £	2005 £
Operating profit/(loss) is stated after charging:		
Depreciation of tangible assets	99,862	69,482
Loss on foreign exchange transactions	-	3,007
Operating lease rentals		
- Plant and machinery	773	2,777
- Other assets	534,607	552,657
Auditors' remuneration (company £9,000; 2005: £10,000)	9,000	10,000
and after crediting:		
Rents receivable	<u>16,425</u>	<u>-</u>

**THE LOFT SHOP LIMITED
AND SUBSIDIARY COMPANIES**
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2006

4	Interest payable	2006	2005
		£	£
	On bank loans and overdrafts	-	11,312
	Hire purchase interest	-	1,289
		<u>-</u>	<u>12,601</u>

5	Taxation	2006	2005
		£	£
	Domestic current year tax		
	U.K. corporation tax	7,328	(23,349)
	Current tax charge	<u>7,328</u>	<u>(23,349)</u>

Factors affecting the tax charge for the year

Profit/(loss) on ordinary activities before taxation	112,144	(230,465)
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Profit/(loss) on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 19.00% (2005 - 19.00%)	21,307	(43,788)
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Effects of:

Non deductible expenses	1,475	-
Depreciation add back	18,974	-
Capital allowances	(9,220)	-
Group loss relief	(25,208)	20,439
	<u>(13,979)</u>	<u>20,439</u>

Current tax charge	<u>7,328</u>	<u>(23,349)</u>
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6 Loss 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 for the financial year is made up as follows:

	2006	2005
	£	£
Holding company's loss for the financial year	<u>(72,560)</u>	<u>(360,937)</u>

**THE LOFT SHOP LIMITED
AND SUBSIDIARY COMPANIES**
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2006

7 Tangible fixed assets
Group

	Plant and machinery	Fixtures, fittings, tools and equipment	Motor vehicles	Total
	£	£	£	£
Cost				
At 1 January 2006	109,044	459,886	3,500	572,430
Additions	8,170	7,298	-	15,468
At 31 December 2006	117,214	467,184	3,500	587,898
Depreciation				
At 1 January 2006	79,243	296,122	200	375,565
Impairment write down	-	12,568	-	12,568
Charge for the year	29,977	56,442	875	87,294
At 31 December 2006	109,220	365,132	1,075	475,427
Net book value				
At 31 December 2006	7,994	102,052	2,425	112,471
At 31 December 2005	29,801	163,764	3,300	196,865

**THE LOFT SHOP LIMITED
AND SUBSIDIARY COMPANIES**
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2006

Tangible fixed assets (continued)
Company

	Fixtures, fittings, tools and equipment £	Motor vehicles £	Total £
Cost			
At 1 January 2006	400,833	3,500	404,333
Additions	7,298	-	7,298
	<hr/>	<hr/>	<hr/>
At 31 December 2006	408,131	3,500	411,631
	<hr/>	<hr/>	<hr/>
Depreciation			
At 1 January 2006	282,962	200	283,162
Impairment write down	12,568	-	12,568
Charge for the year	45,096	875	45,971
	<hr/>	<hr/>	<hr/>
At 31 December 2006	340,626	1,075	341,701
	<hr/>	<hr/>	<hr/>
Net book value			
At 31 December 2006	67,505	2,425	69,930
	<hr/>	<hr/>	<hr/>
At 31 December 2005	117,871	3,300	121,171
	<hr/>	<hr/>	<hr/>

**THE LOFT SHOP LIMITED
AND SUBSIDIARY COMPANIES**
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2006

8 Fixed asset investments

Group and company

	Shares in group undertakings £
Cost	
At 1 January 2006 & at 31 December 2006	4
Provisions for diminution in value	
At 1 January 2006 & at 31 December 2006	4
Net book value	
At 31 December 2006	-

In the opinion of the directors, the aggregate value of the 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 2006 £	Profit/(loss) for the year 2006 £
	Principal activity		
Chimney Cows Limited	Sales and marketing of chimney cows and associated products	1,889,721	184,580
Preceda Shingles Limited	Sales and marketing of shingles and associated products	46,478	(23,373)
Stairplace Limited	Sales and marketing of stairs and associated products	(223,205)	(31,152)
RW Products Limited	Sales and marketing of windows and associated products	22,708	47,321
The Loft Centre Limited	Dormant	2	-

**THE LOFT SHOP LIMITED
AND SUBSIDIARY COMPANIES**
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2006

9 Stocks

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Finished goods and goods for resale	519,649	634,032	398,126	574,321

10 Debtors

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Trade debtors	472,946	327,612	266,160	130,034
Amounts owed by group undertakings	1,849,539	1,646,715	2,113,697	1,931,616
Corporation tax	23,349	23,349	-	-
Other debtors	22,602	32,754	22,602	32,754
Prepayments and accrued income	202,104	126,790	202,104	126,790
	2,570,540	2,157,220	2,604,563	2,221,194

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

	2006	2005	2006	2005
	£	£	£	£
Amounts owed by group undertakings	-	-	264,157	284,901

**THE LOFT SHOP LIMITED
AND SUBSIDIARY COMPANIES**
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2006

11 Creditors : amounts falling due within one year

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Bank loans and overdrafts	11,463	6,566	11,463	6,566
Trade creditors	986,651	921,017	977,827	868,526
Amounts owed to group undertakings	1,323,366	1,323,367	3,113,289	3,035,195
Corporation tax	7,328	-	-	-
Taxes and social security costs	298,725	326,396	298,725	326,396
Other creditors	740	4,332	740	-
Accruals and deferred income	97,069	99,252	97,069	99,252
	<u>2,725,342</u>	<u>2,680,930</u>	<u>4,499,113</u>	<u>4,335,935</u>

The company and group's bank borrowings are secured by an unscheduled mortgage debenture.

12 Creditors : amounts falling due after more than one year

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Amounts due to group undertakings	<u>273,665</u>	<u>273,665</u>	<u>225,000</u>	<u>225,000</u>

13 Provisions for liabilities and charges

Group		Other
		£
Balance at 1 January 2006 & at 31 December 2006		24,750
Profit and loss account		(10,816)
Balance at 31 December 2006		<u>13,934</u>
Company		
Balance at 1 January 2006 & at 31 December 2006		24,750
Profit and loss account		(10,816)
Balance at 31 December 2006		<u>13,934</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.

**THE LOFT SHOP LIMITED
AND SUBSIDIARY COMPANIES**
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2006

14 Pension costs

Defined contribution

	2006 £	2005 £
Contributions payable by the group for the year	17,104	42,910

15 Share capital

Authorised

325,000 Ordinary Shares of £1 each

	2006 £	2005 £
325,000 Ordinary Shares of £1 each	325,000	325,000

Allotted, called up and fully paid

325,000 Ordinary Shares of £1 each

	2006 £	2005 £
325,000 Ordinary Shares of £1 each	325,000	325,000

**16 Statement of movements on profit and loss account
Group**

	Profit and loss account £
Balance at 1 January 2006	(240,097)
Profit for the year	104,816
Balance at 31 December 2006	(135,281)

Company

	Profit and loss account £
Balance at 1 January 2006	(1,917,868)
Loss for the year	(72,560)
Balance at 31 December 2006	(1,990,428)

**THE LOFT SHOP LIMITED
AND SUBSIDIARY COMPANIES**
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2006

17 Reconciliation of movements in shareholders' funds	2006	2005
Group	£	£
Profit/(Loss) for the financial year	104,816	(207,116)
Opening shareholders' funds	84,903	292,019
	<u>189,719</u>	<u>84,903</u>
Closing shareholders' funds	<u>189,719</u>	<u>84,903</u>
	2006	2005
Company	£	£
Loss for the financial year	(72,560)	(360,937)
Opening shareholders' funds	(1,592,868)	(1,231,931)
	<u>(1,665,428)</u>	<u>(1,592,868)</u>
Closing shareholders' funds	<u>(1,665,428)</u>	<u>(1,592,868)</u>

18 Financial commitments

At 31 December 2006 the group had annual commitments under non-cancellable operating leases as follows:

	Land and buildings		Other	
	2006	2005	2006	2005
	£	£	£	£
Expiry date:				
Within one year	29,250	45,000	16,313	10,000
Between two and five years	268,550	270,000	20,716	33,000
In over five years	111,000	120,000	-	-
	<u>408,800</u>	<u>435,000</u>	<u>37,029</u>	<u>43,000</u>

At 31 December 2006 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings		Other	
	2006	2005	2006	2005
	£	£	£	£
Expiry date:				
Within one year	29,250	45,000	16,313	10,000
Between two and five years	268,550	270,000	20,716	33,000
In over five years	111,000	120,000	-	-
	<u>408,800</u>	<u>435,000</u>	<u>37,029</u>	<u>43,000</u>

**THE LOFT SHOP LIMITED
AND SUBSIDIARY COMPANIES**
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2006

19 Directors' emoluments	2006	2005
	£	£
Emoluments for qualifying services	278,531	299,000
Company pension contributions to money purchase schemes	2,813	-
	<u>281,344</u>	<u>299,000</u>

Directors' emoluments exclude benefits in kind valued at £32,206.

The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 1 (2005 - Nil).

Emoluments disclosed above include the following amounts paid to the highest paid director:

Emoluments for qualifying services	<u>222,267</u>	<u>203,000</u>
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20 Employees

Number of employees

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

	2006	2005
	Number	Number
Warehouse	5	7
Sales	37	36
Fitting	2	6
Administration	13	15
	<u>57</u>	<u>64</u>

Employment costs

	2006	2005
	£	£
Wages and salaries	1,504,355	1,469,370
Social security costs	164,616	185,771
Other pension costs	17,104	42,910
	<u>1,686,075</u>	<u>1,698,051</u>

**THE LOFT SHOP LIMITED
AND SUBSIDIARY COMPANIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2006**

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 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 the Financial Reporting Standard 8 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**
DETAILED TRADING AND PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2006

		2006		2005
	£	£	£	£
Turnover				
Sales		7,715,118		8,059,865
Cost of sales				
Purchases	3,889,219		4,860,066	
Third party fitting costs	78,849		-	
Discounts received	47,503		40,926	
Wages and salaries - commissions	170,947		-	
Repairs to loose tools	13,252		-	
Carriage out	353,688		-	
		(4,553,458)		(4,900,992)
Gross profit	40.98%	3,161,660	39.19%	3,158,873
		(3,065,941)		(3,376,737)
		95,719		(217,864)
Other operating income				
Operating profit/(loss)		112,144		(217,864)
Interest payable				
Profit/(loss) before taxation		112,144		(230,465)

**THE LOFT SHOP LIMITED
AND SUBSIDIARY COMPANIES
SCHEDULE OF ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED 31 DECEMBER 2006**

	2006 £	2005 £
Administrative expenses		
Wages and salaries	1,054,877	1,170,370
Directors' remuneration	278,531	299,000
Employer's N.I. contributions	164,616	185,771
Directors' pension costs	2,813	-
Staff pension costs	14,291	42,910
Staff training	9,191	14,720
Staff Welfare	24,317	26,137
Rent	534,607	552,657
Rates	175,042	183,328
Insurance	71,885	72,331
Light and heat	57,795	25,772
Cleaning	14,640	13,446
Printing and stationery	59,357	67,662
Advertising	156,826	119,827
Exhibition costs	40,118	67,784
Telecommunications	50,361	54,158
Computer running costs	18,903	41,520
Hire of equipment	209	-
Equipment leasing	773	2,777
Motor running expenses	89,939	135,542
Travelling expenses	36,815	59,497
Entertaining	2,843	-
Legal and professional fees	26,088	38,029
Accountancy	9,000	10,000
Audit fees	9,000	10,000
Bank charges	46,802	63,599
Bad and doubtful debts	11,791	8,702
Loss on foreign currency	-	3,007
Establishment costs	-	34,890
Sundry expenses	881	406
Subscriptions	3,768	3,413
Depreciation on plant and machinery	29,977	10,014
Depreciation on fixtures, fittings, tools and equipment	69,010	59,268
Depreciation on motor vehicles	875	200
	<u>3,065,941</u>	<u>3,376,737</u>