MFI Furniture Group Plc

RESULTS FOR THE 24 WEEKS TO 10 JUNE 2006

Financial highlights

- Revenue down 11.8% to £597.1m
  - Howden Joinery up 5.5% to £272.9m;
  - Retail down 25.1% to £311.8m.
- Howden Joinery operating profit before exceptional items £50.9m (2005: £51.5m), despite the absence of the June promotion this year and the acceleration of the depot opening programme.
- Retail operating loss before exceptional items* £14.2m (2005: £0.3m loss).
- Supply operating loss before exceptional items £25.0m (2005: £17.4m loss).
- Loss before tax and exceptional items from continuing operations £5.7m (2005: £19.5m profit).
- Loss before tax after exceptional items from continuing operations £45.0m (2005: £57.0m profit).
- The Group had net cash of £92.9m at 10 June 2006, compared with net borrowings of £55.5m at the end of 2005.

Strategic and operational highlights

- Discussions about the possible disposal of Retail are progressing.
- New commercial, operational and financial systems are giving greater visibility about the Group's performance and future opportunities.
- Stockton and Scunthorpe factory and three regional delivery centre closures announced in February implemented.
- Retail ceased trading in 13 stores, and 7 stores relocated.

Chief Executive Matthew Ingle said**:**

"Our first task was to stabilise the Group, which we achieved, and we now have greater visibility of the three businesses.

In a rapidly changing market place, Retail remains challenged, but we are committed to finding a way forward, even if it remains a long road ahead.

Supply is changing to align itself with the market. Howdens continues to perform well and we are accelerating our expansion programme.

Overall, we have been working hard and made progress, but we have much more to do."

* Details of exceptional items are given in Note 3 of the financial statements.

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SUMMARY OF GROUP RESULTS

The information presented below relates to the 24 weeks to 10 June 2006 and 11 June 2005, unless otherwise stated.

	H1 2006 £m	H1 2005 £m restated
Continuing operations (before exceptional items unless stated):		
Revenue	**597.1**	676.7
Gross profit	**308.3**	340.7
Operating (loss)/profit	**(1.5)**	24.5
(Loss)/profit before tax	**(5.7)**	19.5
- including exceptional items	**(45.0)**	57.0
Earnings per share		
- basic including exceptional items	**(8.2)p**	6.8p
Profit/(loss) after tax from discontinued operations		
- excluding exceptional items	**(7.4)**	(2.2)
- including exceptional items	**48.2**	(2.2)
Earnings per share from continuing and discontinued operations		
- basic including exceptional items	**(0.1)p**	6.5p
Net cash/(debt) at end of period	**92.9**	(9.8)
Interim dividend per share	**-**	2.0p

Note 1 These results are the first that MFI has published under International Financial Reporting Standards (IFRS). As a result, figures for 2005 have been restated, details of which are given in an appendix, for both the first half and full year. The most significant changes relate to lease incentives, stepped rents, employee benefits, the timing and recognition of dividends, and long leasehold revaluations. The impact on the Income Statement of this restatement is to reduce the profit after tax for the first half of 2005 by £4.4m. None of the IFRS adjustments relate to cash.

Note 2 The first part of the Income Statement under IFRS relates to continuing operations. For discontinued operations, only profit after tax is reported.

Note 3 The following table shows the segmental analysis of turnover and operating profit. This is based on the new commercial and legal structure of the Group, in which Howden Joinery, Retail, Supply and Corporate are separate entities. Currently, goods are being supplied to Howden Joinery and Retail by Supply on a standard cost basis.

	Turnover		Operating profit/ (loss)	
All £m	H1 2006	H1 2005 restated	H1 2006	H1 2005 restated
Retail	311.8	416.2	(14.2)	(0.3)
Howden Joinery	272.9	258.7	50.9	51.5
Supply	9.3	0.6	(25.0)	(17.4)
Corporate	-	-	(11.6)	(8.3)
Other	3.1	1.2	(1.6)	(1.0)
Total	597.1	676.7	(1.5)	24.5

GROUP DEVELOPMENTS

Group structure

In the first half of 2006, we made considerable progress in clarifying our commercial and legal structure, and making our financial reporting more transparent. This has greatly improved our understanding and control over the business.

Howden Joinery

By the end of July, 20 new depots will have been opened this year and nine existing depots extended. This acceleration of the new depot programme is continuing and it is anticipated that around a further 20 depots will be opened in the remainder of this year. With the trend in the market away from 'DIY' to 'done for you' and extending the geographic coverage of the business, scope for 500 depots in the UK and possibly more is foreseen, and it is expected that around 60 depots per annum could be opened in subsequent years.

Supply

As mentioned at our Preliminary Results on 28 February, we are our reshaping our Supply business, making it more aligned to the market. Factories at Scunthorpe and Stockton were closed in May. As a result, the proportion of goods purchased externally by Supply has increased from 50 per cent to over 65 per cent. This has improved product availability, reduced costs, improved payment terms and strengthened our relationship with key suppliers.

The closure of the sofa manufacturing facility at Llantrisant in south Wales has been announced.

Retail

Our Retail business performed in line with our expectations during the first half of 2006. Nevertheless, we have to report a loss in Retail of £14m, as well as a loss of £25m in Supply and a level of central costs which is still too high.

It is against this background that we are evaluating several detailed proposals for our Retail business, all of which would involve the Group continuing to supply the business for a transitional period and the Group providing material financial support to the purchaser. In addition, the Group would retain its pension obligations to Retail employees and former employees in respect of past service. We will update the market when appropriate.

Meanwhile, we continue to work hard to find a way forward for Retail, if it is to remain within the Group. Some of the initiatives we announced in February, along with others, have delivered encouraging results.

- Since the start of the year, Retail has ceased trading in 13 locations, relocated 7 stores, and 3 regional home delivery centres have closed.

- The kitchen product range has been reduced from over 60 styles to just over 40, with further reductions planned. This rationalisation has contributed to the improvement in delivery success. In addition, the process of new product introduction has been improved, with new ranges being tested in a small number of stores before they are rolled out nationwide. This has enabled us to identify those ranges with higher sales and profit potential.

- In response to the issue of in-store customer service, a new way in which customers are approached and engaged has been piloted in a small number of stores. This has now been extended to 20 stores.

- Having fallen to less than 2,000 days in 2005, staff training has been increased, focusing on customer service, product and technical knowledge. So far in 2006, over 5,000 training days have taken place and a total of 17,000 days is expected for the year as a whole.

- The proportion of kitchens sold fitted has increased by a third this year, supported by advertising and staff training.

- Following a review of area and store managers, approximately 25 per cent of staff in these jobs have been replaced.

However, we identified the need for significant reductions in property and delivery costs. Progress on the areas of work investigating these has been less encouraging, as follows.

- An external review of the store portfolio to determine how it can be reshaped, cost effectively, to meet the desired size and location for the business has been completed. The review has shown that the reshaping is complex and cannot be achieved quickly, if it is to be cost effective. In the immediate future, 11 stores are expected to be relocated by the end of 2006. Along with the closures so far this year, this should mean that the total area of the store portfolio will be reduced by around 10% during the course of the year.

- The local delivery centre pilot has provided insight that should help improve delivery of customers' purchases. For example, improvements in delivery success and problem resolution can be achieved if there is local involvement of Retail staff and call centres are aligned to store operations. However, the financial benefits of implementing a local delivery centre model need further trialling.

GROUP RESULTS

As indicated in the statement made at the 2006 AGM on 19 May, the Group's results for the first half of 2006 reflect significantly reduced sales by Retail.

Revenue fell by 11.8% to £597.1m (2005: £676.7m).

Excluding exceptional items, gross margin increased by 120 basis points to 51.6%, but this did not offset the impact of lower revenue. Selling and distribution costs, and administrative expenses fell by £7.1m. The net result was a loss before tax and exceptional items from continuing operations of £5.7m (2005: £19.5m profit).

Exceptional items for continuing businesses totalled £39.3m. These included:
- £3.6m cost of redundancies in Retail and Group HQ;
- £12.3m professional fees;
- £6.4m profit on disposal of Retail property;
- Factory closure costs of £29.7m.

Profit after tax from discontinued operations was £48.2m. This comprised:
- £7.4m loss from operations;
- £55.6m profit on disposal of Hygena Cuisines and costs of the proposed closure of Llantrisant factory

Basic loss per share from continuing operations, including exceptional items, was 8.2p (2005: 6.8p earnings).

Basic loss per share from continuing and discontinued operations, including exceptional items, was 0.1p (2005: 6.5p earnings).

Net cash flows from operating activities were £75.6m. The sale of Hygena Cuisines generated net proceeds of £74.6m. Net capital expenditure was £0.6m (2005: £10.6m net receipts). Payments to acquire fixed assets totalled £13.2m (2005: £20.1m), while the sale of fixed assets generated £12.6m (2005: £30.7m). A payment of £21.8m was received in relation to settlement of a VAT dispute. In the first half of 2006, there was a cash inflow of £148.4m (2005: £52.4m). At 10 June 2006, the Group had net cash of £92.9m, compared with net borrowings of £9.8m a year earlier and £55.5m at the end of 2005.

DIVIDEND

No interim dividend will be paid.

OPERATIONAL REVIEW

This operational review is based on the new commercial and legal structure of the Group, in which Howden Joinery, Retail, Supply and Corporate are separate entities. Currently, goods are being supplied to Howden Joinery and Retail by Supply on a standard cost basis.

Howden Joinery

	H1 2006 £m	H1 2005 Restated £m
Revenue	**272.9**	258.7
Operating profit before exceptional items	**50.9**	51.5

Howden Joinery continues to perform well. Revenue increased by 5.5% to £272.9m, same depot revenue rising by 2.2%, and gross margin rose by 140 basis points. The increase in revenue would have been higher had it not been for the positive impact of the period six promotion on sales in 2005. Indeed, by the end of period seven this year, revenue had grown by 7%. Excluding the impact of higher sales this year on costs, operating costs rose by £11.9m, primarily because of employee costs increasing by £5.6m, reflecting higher staff numbers, distribution and delivery costs increasing by £2.2m and rent and rates rising by £2.2m. The net result was that operating profit before exceptional items of £50.9m was virtually unchanged (2005: £51.5m).

Retail

	H1 2006 £m	H1 2005 Restated £m
Revenue	**311.8**	416.2
Operating loss before exceptional items	**(14.2)**	(0.3)

Continuation of the weaker market conditions seen in the second half of last year and our deliberate strategy of exiting unprofitable products meant that orders were 17.5% lower than in 2005, 14.1% down on a same store basis. As indicated at our AGM, the fall in revenue was greater than the decrease in orders. Reflecting the unusual profile of deliveries in 2005, revenue in 2006 fell 25.1% to £311.8m, and was 21.7% lower on a same store basis. Gross margin was 430 basis points higher than in 2005, reflecting the strategy of exiting unprofitable products, the new product introduction process, less aggressive promotions and lower costs associated with delivery failure.

Excluding the impact of lower sales, operating costs fell by a further £6.3m. Within these, rent and rates increased by £4.6m but depreciation fell by £8m.

The net result was that operating loss before exceptional items increased to £14.2m (2005: £0.3m loss).

Supply

The operating loss of Supply increased to £25.0m (2005: £17.4m loss), primarily as a result of lower volumes of goods supplied to Retail.

Corporate

The Corporate operating loss rose to £11.6m (2005: £8.3m), primarily because of a charge related to share options awarded in respect of the 2006 Foundation Plan.

Consolidated income statement

		24 weeks to 10 June 2006			24 weeks to 11 June 2005			52 weeks to 24 December 2005		
		Before exceptional items	**Exceptional items**	**Total**	Before exceptional items	Exceptional items	Total	Before exceptional items	Exceptional items	Total
		Unaudited	**Unaudited**	**Unaudited**	Unaudited	Unaudited	Unaudited	Audited	Audited	Audited
	Notes	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m	£m
Continuing operations:										
Revenue		**597.1**	**-**	**597.1**	676.7	-	676.7	1,382.4	-	1,382.4
Cost of sales		**(288.8)**	**-**	**(288.8)**	(335.6)	(0.4)	(336.0)	(685.9)	(34.4)	(720.3)
Gross profit		**308.3**	**-**	**308.3**	341.1	(0.4)	340.7	696.5	(34.4)	662.1
Other operating income		**-**	**6.4**	**6.4**	-	7.2	7.2	-	17.4	17.4
Selling & distribution costs		**(276.3)**	**(2.5)**	**(278.8)**	(281.6)	(5.0)	(286.6)	(609.7)	(58.0)	(667.7)
Administrative expenses		**(33.9)**	**(43.2)**	**(77.1)**	(35.0)	35.7	0.7	(74.2)	(21.2)	(95.4)
Share of joint ventures		**0.4**	**-**	**0.4**	-	-	-	0.6	-	0.6
Operating (loss) / profit		**(1.5)**	**(39.3)**	**(40.8)**	24.5	37.5	62.0	13.2	(96.2)	(83.0)
Finance income		**1.7**	**-**	**1.7**	1.8	-	1.8	3.9	-	3.9
Finance expenses		**(3.2)**	**-**	**(3.2)**	(2.0)	-	(2.0)	(6.3)	-	(6.3)
Other finance charges - pensions		**(2.7)**	**-**	**(2.7)**	(4.8)	-	(4.8)	(9.2)	-	(9.2)
(Loss) / profit before tax		**(5.7)**	**(39.3)**	**(45.0)**	19.5	37.5	57.0	1.6	(96.2)	(94.6)

(Loss) / profit before tax		**(5.7)**	**(39.3)**	**(45.0)**	19.5	37.5	57.0	1.6	(96.2)	(94.6)
Tax on (loss)/profit	2	**(13.3)**	**9.6**	**(3.7)**	(7.4)	(9.7)	(17.1)	(5.8)	(6.7)	(12.5)
(Loss) / profit after tax from continuing operations		**(19.0)**	**(29.7)**	**(48.7)**	12.1	27.8	39.9	(4.2)	(102.9)	(107.1)
Discontinued operations:										
Profit/(loss) from discontinued operations	4	**(7.4)**	**55.6**	**48.2**	(2.2)	-	(2.2)	(18.3)	-	(18.3)
(Loss) / profit for the period		**(26.4)**	**25.9**	**(0.5)**	9.9	27.8	37.7	(22.5)	(102.9)	(125.4)
Earnings per share										
From continuing operations										
Basic earnings per 10p share	5			**(8.2)p**			6.8p			(18.2)p
Diluted earning per 10p share	5			**(8.2)p**			6.7p			(18.2)p
From continuing and discontinued operations										
Basic earnings per 10p share	5			**(0.1)p**			6.5p			(21.3)p
Diluted earning per 10p share	5			**(0.1)p**			6.3p			(21.3)p

Consolidated balance sheet

	Notes	**10 June 2006 Unaudited**	11 June 2005 Unaudited	24 December 2005 Audited
		£m	£m	£m
Non current assets				
Intangible assets		**3.6**	17.5	4.2
Property, plant and equipment		**178.0**	330.8	247.5
Investments		**9.1**	8.3	8.8
Deferred tax asset		**94.6**	88.9	96.7
		285.3	445.5	357.2
Current assets				
Inventories		**147.1**	237.7	173.5
Trade and other receivables		**150.0**	239.0	134.5
Other assets		**3.8**	10.4	5.5
Cash at bank and in hand		**139.7**	64.8	89.0
		440.6	551.9	402.5
Total assets classified as held for sale	7	**14.7**	-	-
Total assets		**740.6**	997.4	759.7
Current liabilities				
Trade and other payables		**(339.1)**	(396.6)	(259.0)
Non current liabilities				
Borrowings		**(52.1)**	(85.0)	(150.0)
Pension liability		**(295.6)**	(250.7)	(297.1)
Provisions		**(9.6)**	(21.2)	(13.2)
		(357.3)	(356.9)	(460.3)
Total liabilities associated with assets classified as held for sale	7	**(3.6)**	-	-
Total liabilities		**(700.0)**	(753.5)	(719.3)
Net assets		**40.6**	243.9	40.4
Equity				
Called up share capital	6	**62.8**	62.6	62.7
Share premium account	6	**81.5**	80.1	81.3
Revaluation reserve	6	**1.9**	3.9	1.9
ESOP reserve	6	**(49.6)**	(51.1)	(51.6)
Other reserves	6	**28.1**	28.1	28.1
Retained earnings	6	**(84.1)**	120.3	(82.0)
Total equity		**40.6**	243.9	40.4

Consolidated cash flow statement

	Notes	**10 June 2006 Unaudited £m**	11 June 2005 Unaudited £m	24 December 2005 Audited £m
Net cash flows from operating activities	8	**75.6**	53.6	20.6
Cash flows from investing activities				
Interest received		**1.7**	1.8	4.1
Sale of subsidiary undertaking	4	**74.6**	-	-
Payments to acquire property, plant and equipment and intangible assets		**(13.2)**	(20.1)	(47.9)
Investment in joint ventures		**-**	(0.8)	(1.2)
Receipts from sale of property, plant and equipment and intangible assets		**12.6**	30.7	57.4
Net cash generated from investing activities		**75.7**	11.6	12.4
Cash flows from financing activities				
Interest paid		**(3.5)**	(2.7)	(6.4)
Receipts from issue of own shares		**0.5**	1.7	3.7
(Decrease)/increase in loans		**(97.9)**	(15.0)	50.0
Decrease/(increase) in current asset investments		**1.7**	(1.0)	3.9
Dividends paid to Group shareholders		**-**	(11.6)	(23.4)
Net cash (used in)/ generated from financing activities		**(99.2)**	(28.6)	27.8
Net increase in cash and cash equivalents		**52.1**	36.6	60.8
Cash and cash equivalents at beginning of period		**89.0**	28.4	28.4
Currency translation differences		**0.1**	(0.2)	(0.2)
Cash and cash equivalents at end of period		**141.2**	64.8	89.0

For the purpose of the cash flow statement, cash and cash equivalents are included net of overdrafts payable on demand. These overdrafts are excluded from the definition of cash and cash equivalents disclosed on the balance sheet.

Cashflows from investing, related to discontinued operations, were £74.6m inflow for the 24 weeks ended 10 June 2006 (52 weeks to 24 December 2005: £7.2m outflow and 24 weeks to 11 June 2005: £3.1m outflow).

Statement of recognised income and expense

	Notes	**10 June 2006 Unaudited £m**	11 June 2005 Unaudited £m	24 December 2005 Audited £m
Dividends paid		**-**	(11.6)	(23.4)
Actuarial losses on defined benefit scheme		**-**	-	(30.6)
Currency translation differences		**(0.7)**	(0.6)	0.1
First time adoption of IAS 39		**(0.9)**	-	-
Shares issued		**-**	(1.5)	(1.8)
Revaluation reserve		**-**	5.3	8.2
Net loss recognised directly in equity		**(1.6)**	(8.4)	(47.5)
(Loss)/profit for the financial period		**(0.5)**	37.7	(125.4)
Total recognised income and expense for the period		**(2.1)**	29.3	(172.9)

Notes to the financial statements

1. Basis of preparation

The financial information for the 24 weeks ended 10 June 2006, and the re-stated financial information in accordance with International Financial Reporting Standards ('IFRS') for the 24 weeks ended 11 June 2005, is unaudited.

The next annual financial statements of the Group will be prepared in accordance with IFRS as adopted for use in the European Union (EU), whereas the Group has previously reported under UK Generally Accepted Accounting Practice (UK GAAP). The IFRS adopted in the financial statements for the period ending 24 December 2006 will be those International Accounting Standards, International Financial Reporting Standards and related interpretations (SIC and IFRIC interpretations), subsequent amendments to those standards and related interpretations, future standards and related interpretations issued or adopted by the International Accounting Standards Board (IASB) that have been endorsed by the EU. This process is ongoing and the Commission has yet to endorse certain standards issued by the IASB.

The interim financial report has been prepared in accordance with the accounting policies the Group intends to adopt for the period ended 24 December 2006, which will be in accordance with IFRS. There is however a possibility that the directors may determine that some changes are required to the IFRS comparative financial information included in the 24 December 2006 financial statements in accordance with IFRS, as the Commission is yet to endorse certain standards and, therefore, the IFRS standards and related interpretations that will be applicable and adopted for use in the EU at 24 December 2006 are not known with certainty at the time of preparing this financial information.

The basis of preparation of the re-stated IFRS financial information at 26 December 2004 ('the transition date'), at 24 December 2005 and for the period ended 10 June 2006 is disclosed within the 'Restatement of Financial Information under IFRS' document which is appended to these interim financial statements. The disclosures concerning transition from UK GAAP to IFRS are also included in the 'Restatement of Financial Information under IFRS' appendix.

These statements do not constitute statutory financial statements within the meaning of Section 240 of the Companies Act 1985. The Group's full financial statements for the 52 week period ended 24 December 2005, on which the auditors made an unqualified report, have been delivered to the Registrar of Companies.

First time adoption IAS 32 & 39

The adoption of IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' with effect from 25 December 2005 results in a change in the Group's accounting policy for financial instruments.

The impact of IAS 32/39 on the Group's financial statements relates to the recognition of derivative financial instruments at fair value. Financial assets and financial liabilities that arise on derivatives that do not qualify for hedge accounting are held on the balance sheet at fair value with the changes in value reflected through the income statement.

2. Taxation

The pre-exceptional taxation charge is calculated based on the estimated effective rate of taxation for the 2006 financial year. The estimated effective rate of taxation is heavily distorted by the following:

(i) Disallowable depreciation on assets not qualifying for capital allowances.

(ii) An increase in the deferred taxation asset of the Retail business; this has not been booked in the balance sheet or through the income statement as a deferred taxation credit.

(iii) A deferred taxation charge for the Supply business upon it's separation from MFI UK Limited; previously this deferred taxation liability was offset against the Retail division's deferred tax asset referred to above.

3. Exceptional items

Exceptional items charged to operating loss in the 24 weeks to 10 June 2006 are analysed as follows:

	Other operating income	Selling and distribution costs	Administrative expenses	**Total**
	£m	£m	£m	**£m**
Restructuring	(6.4)	2.5	13.5	**9.6**
Factory closures	-	-	29.7	**29.7**
Total charged to operating profit	(6.4)	2.5	43.2	**39.3**
Tax credit on exceptional items				**(9.6)**
Total exceptional costs after tax				**29.7**

Restructuring
As announced in our press release of 28 February 2006, the Group is undertaking a review of the store portfolio. Since the start of the year, Retail has ceased trading in 13 locations and 3 home delivery regional centres have closed.

In the same statement, the Group announced its intention to reorganise the Group into three distinct trading businesses. This process is now largely complete. The Group has incurred £12.3m costs in restructuring the legal entities and other restructuring activities.

The costs of restructuring comprise the following items:

	£m	**£m**
UK Retail restructuring:		
Redundancies	2.4	
Other restructuring costs	0.1	
Profit on disposal of properties	(6.4)	
		(3.9)
Group restructuring:		
Legal and professional fees	12.3	
Redundancy costs	1.2	
		13.5
Total restructuring costs before tax		**9.6**
Tax credit on restructuring costs		**(2.7)**
Total restructuring costs after tax		**6.9**

3. Exceptional items continued

Factory closures

As announced in our preliminary results on 28 February 2006, the Group announced the closure of two of its factories at Stockton and Scunthorpe. Both factories have now ceased operating and their assets are classified on the balance sheet as held for sale.

The costs of closure comprise the following items:

	£m
Closure of Stockton and Scunthorpe factories:	
Redundancy costs	8.2
Inventories write-offs	2.5
Assets write-downs (to estimated recoverable value)	18.6
Other costs of exit	0.4
Total factory closure costs before tax	**29.7**
Tax credit on factory closure costs	**(6.9)**
Total factory closure costs after tax	**22.8**

The tax credit associated with the exceptional costs is lower than 30% as (i) some costs are not tax deductible, and (ii) no deferred tax assets have been recognised on the write-down of factories within MFI UK Limited due to surplus tax losses in this company.

4. Discontinued operations

Sale of Hygena Cuisines SA

On 14 February 2006, the Group completed the sale of its French retail business, Hygena Cuisines SA, to Nobia AB for total gross cash proceeds (before expenses) of €135m (approximately £92m).

A profit arose on the disposal of Hygena Cuisines. An analysis of the disposal is shown below:

Net assets disposed of:	£m		£m
Fixed assets	29.8	Cash (net of expenses)	87.9
Inventories	12.7	Cash sold with business	(13.3)
Trade and other receivables	5.5	Net proceeds	74.6
Liabilities	(35.9)		
Total net assets	12.1		
Profit on disposal	62.5		
Net proceeds	74.6		

Substantial shareholding exemption was obtained from HM Revenue & Customs before the disposal, resulting in no tax being payable on the sale of the company.

4. Discontinued operations continued

Sale of Sofa Workshop Ltd

As announced on 28 February 2006, as part of the Group strategy of concentrating on core kitchen and bedroom products, the Group has commenced a sale process for Sofa Workshop Ltd. This operation, which is expected to be sold within 12 months, has been classified as a disposal group held for sale and disclosed separately on the balance sheet.

Closure of Sofa Workshop Direct

Closure of the Group's sofa manufacturing facility at Llantrisant in South Wales has been announced and a closure programme is in place.

Closure of Llantrisant sofa factory:	
Redundancy costs	1.8
Inventories write-offs	3.2
Assets write-downs (to estimated recoverable value)	2.9
Other costs of exit	1.3
Total factory closure costs before tax	9.2
Tax credit on factory closure costs	(2.3)
Total factory closure costs after tax	6.9

The results of the discontinued operations, which have been included in the consolidated income statement, were as follows:

	24 weeks to 10 June 2006			
	Hygena Cuisines	Sofa Workshop Direct	Sofa Workshop Ltd	**Total**
	£m	£m	£m	**£m**
Revenue	11.1	0.7	10.0	**21.8**
Cost of sales	(6.2)	(2.9)	(5.2)	**(14.3)**
Gross profit	4.9	(2.2)	4.8	**7.5**
Expenses	(9.5)	(0.1)	(6.0)	**(15.6)**
Loss before tax	**(4.6)**	**(2.3)**	**(1.2)**	**(8.1)**
Attributable tax (charge)/credit	(0.3)	0.7	0.3	**0.7**
Loss after tax	**(4.9)**	**(1.6)**	**(0.9)**	**(7.4)**
Exceptional items:				
Profit on disposal of discontinued operations – Hygena Cuisines	62.5	-	-	**62.5**
Costs of factory closure – Llantrisant	-	(9.2)	-	**(9.2)**
Attributable tax credit	-	2.3	-	**2.3**
	62.5	**(6.9)**	-	**55.6**
Net profit attributable to discontinued operations	**57.6**	**(8.5)**	**(0.9)**	**48.2**

5. Earnings per share

	24 weeks to 10 June 2006 Unaudited			24 weeks to 11 June 2005 Unaudited			52 weeks to 24 December 2005 Audited		
	Earnings	**Weighted average number of shares**	**Earnings per share**	Earnings	Weighted average number of shares	Earnings per share	Earnings	Weighted average number of shares	Earnings per share
	£m	**m**	**p**	£m	m	p	£m	m	p
Earnings per share									
From continuing operations:									
Basic earnings per share	**(48.7)**	**591.9**	**(8.2)**	39.9	583.5	6.8	(107.1)	588.4	(18.2)
Effect of dilutive share options	**-**	**-**	**-**	**-**	15.6	-	-	-	-
Diluted earnings per share	**(48.7)**	**591.9**	**(8.2)**	39.9	599.1	6.7	(107.1)	588.4	(18.2)
From continuing and discontinued operations:									
Basic earnings per share	**(0.5)**	**591.9**	**(0.1)**	37.7	583.5	6.5	(125.4)	588.4	(21.3)
Effect of dilutive share options	**-**	**-**	**-**	**-**	15.6	-	-	-	-
Diluted earnings per share	**(0.5)**	**591.9**	**(0.1)**	37.7	599.1	6.3	(125.4)	588.4	(21.3)

6. Equity

	Share capital	Share premium account	Revaluation reserve	ESOP reserve	Other reserves	Retained earnings
	£m	£m	£m	£m	£m	£m
As at 24 December 2005	62.7	81.3	1.9	(51.6)	28.1	(82.0)
First time adoption of IAS 39	-	-	-	-	-	(0.9)
Restated at 25 December 2005	62.7	81.3	1.9	(51.6)	28.1	(82.9)
Accumulated loss for the period	-	-	-	-	-	(0.5)
Shares issued	0.1	0.2	-	-	-	-
Net movement in ESOP	-	-	-	2.0	-	-
Foreign exchange	-	-	-	-	-	(0.7)
As at 10 June 2006	**62.8**	**81.5**	**1.9**	**(49.6)**	**28.1**	**(84.1)**

7. Assets classified as held for sale

The major classes of assets and liabilities comprising the operations classified as held for sale are as follows:

	Sofa Workshop Ltd	Factories	**Total**
	£m	£m	**£m**
Property, plant and equipment	1.4	9.3	**10.7**
Inventories	1.5	-	**1.5**
Trade and other receivables	1.0	-	**1.0**
Cash and cash equivalents	1.5	-	**1.5**
Total assets classified as held for sale	5.4	9.3	**14.7**
Trade and other payables	(3.6)	-	**(3.6)**
Total liabilities associated with assets classified as held for sale	(3.6)	-	**(3.6)**
Net assets of disposal group	1.8	9.3	**11.1**

8. Net cash flows from operating activities

	10 June 2006 Unaudited	11 June 2005 Unaudited	24 December 2005 Audited
	£m	£m	£m
Group operating (loss)/profit – continuing operations	**(40.8)**	62.0	(83.0)
Group operating profit/(loss) – discontinued operations (note 4)	**45.2***	(2.8)	(20.0)
Group operating profit/(loss)	**4.4**	59.2	(103.0)
Adjustments for:			
Depreciation and amortisation	**18.4**	29.5	65.4
Share based compensation charge	**1.8**	1.0	-
Profit on sale of subsidiary	**(62.5)**	-	-
Share of joint venture (profits)/losses	**(0.4)**	1.0	1.5
Costs of closures (excluding profit and loss on disposal)	**17.4**	5.7	20.9
Exceptional items	**16.0**	(35.7)	107.3
Loss/(profit) on disposal of property, plant and equipment and intangible assets	**15.1**	(7.2)	(17.4)
Operating cash flows before movements in working capital	**10.2**	53.5	74.7
Movements in working capital			
Decrease in stock	**6.5**	0.7	21.3
(Increase)/decrease in trade and other receivables	**(44.4)**	(21.1)	43.7
Increase/(decrease) in trade and other payables	**106.0**	20.5	(91.4)
(Decrease)/increase in post employment benefits	**(2.7)**	-	(5.1)
Exceptional items	**(21.8)**	5.6	(19.2)
HMRC refund re structural guarantee	**21.8**	-	-
	65.4	5.7	(50.7)
Cash generated from operations	**75.6**	59.2	24.0
Tax paid	**-**	(5.6)	(3.4)
Net cash flows from operating activities	**75.6**	53.6	20.6
Net cash flow from operating activities comprises:			
Continuing operating activities	**63.6**	42.4	24.2
Discontinued operating activities	**(9.8)**	11.2	(3.6)
	53.8	53.6	20.6

* Before tax credit of £3.0m

9. Reconciliation of net debt

	10 June 2006 Unaudited	11 June 2005 Unaudited	25 December 2005 Audited
	£m	£m	£m
Net debt at start of period	**(55.5)**	(62.2)	(62.2)
Net increase in cash and cash equivalents	**50.4**	37.6	56.9
Decrease/(increase) in debt and lease financing	**97.9**	15.0	(50.0)
Currency translation differences	**0.1**	(0.2)	(0.2)
Net cash/(debt) at end of period	**92.9**	(9.8)	(55.5)
Represented by:			
Cash and cash equivalents	**139.7**	64.8	89.0
Cash and cash equivalents - classified as held for sale	**1.5**	-	-
	141.2	64.8	89.0
Other assets	**3.8**	10.4	5.5
Borrowings	**(52.1)**	(85.0)	(150.0)
	92.9	(9.8)	(55.5)

10. Structural guarantee

MFI reached a settlement with HM Revenue & Customs in January 2006 over its VAT dispute on structural guarantee. The resource required, and associated litigation risk, was deemed to be a distraction to achieving a successful business turnaround. Both parties agreed to settle with HM Revenue & Customs refunding £21.8m to MFI.

INDEPENDENT REVIEW REPORT TO MFI FURNITURE GROUP PLC

Introduction

We have been instructed by the company to review the financial information for the twenty-four weeks ended 10 June 2006 which comprise the income statement, the balance sheet, the statement of recognised income and expense, the cash flow statement and related notes 1 to 10. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with Bulletin 1999/4 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to them in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority, which require that the accounting policies and presentation applied to the interim figures are consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Adoption of International Financial Reporting Standards

As disclosed in note 1, the next annual financial statements of the group will be prepared in accordance with International Financial Reporting Standards as adopted for use in the EU. Accordingly, the interim report has been prepared in accordance with the recognition and measurement criteria of IFRS and the disclosure requirements of the Listing Rules.

Review work performed

We conducted our review in accordance with the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the twenty-four weeks ended 10 June 2006.

Deloitte & Touche LLP
Chartered Accountants London
19 July 2006

RESTATEMENT OF FINANCIAL INFORMATION UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

CONTENTS

INTRODUCTION

Following a European Union Regulation issued in 2002, MFI Furniture Group Plc is required to report its consolidated figures under IFRS (as adopted by the European Union) for the financial year commencing on 25 December 2005. The Group's first annual report under IFRS will be for period ending 24 December 2006 ('2006') and these financial statements will include comparative figures under IFRS for the 52 weeks ended 24 December 2005 ('2005'). The first results to be published under IFRS will be the interim results for the 24 weeks ended 10 June 2006.

The transition date for the purposes of adopting IFRS is 26 December 2004.

The adoption of IFRS represents an accounting change only, and does not affect the underlying operations or cash flows of the Group.

This document explains the accounting policy changes arising from the adoption of IFRS from those applied in the UK GAAP financial statements for the year ended 24 December 2005.

Detailed reconciliations to assist in understanding the nature and value of the differences between UK GAAP and IFRS are given in the appendix to this release.

SUMMARY OF MAIN CHANGES

The main changes to the results for the 52 weeks ended 24 December 2005 under UK GAAP are :

- Loss for the period after tax of £125.4m, £6.8m higher than under UK GAAP
- Basic EPS of (21.3)p, (1.1)p lower than under UK GAAP
- Net assets at 26 December 2004 (the transition date) £214.0m compared to £218.5m under UK GAAP

The changes are summarised in the next two tables:

Impact on 2005 profit

	52 weeks to 24 December 2005 £m	24 weeks to 11 June 2005 £m
(Loss)/profit after tax under UK GAAP	**(118.6)***	**42.1**
Lease incentives	(3.3)	(1.6)
Share-based payment	(0.4)	(0.2)
Pensions	(0.1)	-
Other employee benefits	-	(4.5)
Provision for losses	-	1.6
Goodwill amortisation	-	0.4
Impact on (loss)/profit before tax	(3.8)	(4.3)
Taxation	(3.0)	(0.1)
Impact on (loss)/profit after tax	**(6.8)**	**(4.4)**
Revised (loss)/profit after tax	**(125.4)**	**37.7**

Impact on net assets

	As at 26 December 2004 £m	As at 25 December 2005 £m
Net assets as reported under UK GAAP	**218.5***	**60.8**
Lease incentives	(9.6)	(11.7)
Stepped rents	-	(1.2)
Pensions	-	(0.8)
Revaluation reserves	(10.9)	(10.6)
Dividends	11.6	-
Taxation	4.4	3.9
Decrease in net assets	**(4.5)**	**(20.4)**
Net assets reported under IFRS	**214.0**	**40.4**

* As restated for FRS 17

SIGNIFICANT CHANGES

The most significant areas of change, described more fully in the following pages are;

- Employee benefits – a fair value charge is made for awards and options under share schemes (IFRS 2) and a holiday pay provision is recognised at 11 June 2005;
- Lease incentives – incentives on entering a property lease are recognised over the term of the lease (IAS 17);
- Stepped rents – fixed increases in property lease costs are recognised on a straight line basis over the term of the lease (IAS 17);
- Long leasehold revaluations – revaluation surpluses on long leaseholds are not recognised under IFRS (IAS 17); and
- The timing of the recognition of dividends (IAS 10)

None of the IFRS adjustments relate to cash and therefore there is no impact on cash flows. IAS 7 *Cash Flow Statements* changes the definition of cash used in the cash flow statement to cash and cash equivalents. Cash and cash equivalents include cash on hand and demand deposits that are short-term highly liquid investments that are readily convertible to known amounts of cash. The group does not have any investments which meet the definition of cash equivalents under IFRS.

BASIS OF PREPARATION

The financial information disclosed on pages 5 to 6 has been prepared on a consistent basis with the interim financial statements for the 24 weeks ended 10 June 2006. The basis of preparation of the interim financial information is disclosed in note 1 to the interim financial statements.

The Group's revised accounting policies under IFRS are presented in Appendix 2.

The financial information presented below includes the consolidated balance sheets at 26 December 2004 and 25 December 2005, and the income statement for the 52 weeks ended 25 December 2005, as restated for IFRS.

IFRS 1 exemptions

IFRS 1 First Time Adoption of International Financial Reporting Standards sets out the procedures that the Group must follow when it adopts IFRS for the first time. The Group is required to establish its IFRS accounting policies for the period ended 24 December 2006 as at 24 December 2005 and apply these retrospectively to determine the IFRS opening balance sheet at its date of transition, 26 December 2004.

The standard permits a number of optional exemptions to this general principal. The Group has adopted the following approach to the key exemptions:

- **Financial instruments**; the Group has taken the exemption not to restate comparatives for IAS 32 and IAS 39. Comparative information for 2005 in the 2006 financial statements will be presented on the existing UK GAAP basis.
- **Share based payments**; the Group has adopted the exemption to apply IFRS2 *Shared–based Payment* only to awards made after 7 November 2002.
- **Cumulative translation differences**; Under IAS 21 *Foreign Exchange*, the Group is required to classify all cumulative translation differences as a separate component of equity. As permitted by IFRS 1 the Group has elected to set the cumulative translation differences reserve to nil at the date of transition.
- **Goodwill**; the Group has elected not to apply IFRS 3 *Business Combinations* retrospectively to business combinations that occurred prior to the transition date. As a result the goodwill recognised on the acquisition of Sofa Workshop remains at book value as stated under UK GAAP at the transition date and the amortisation for the first half of 2005 has been reversed.
- **Fair value or revaluation as deemed costs;** Under IAS 16 Property, Plant and Equipment (PPE), a company must adopt either a cost or revaluation model for revaluing its PPE. The Group has elected under IFRS 1 to reflect previously re-valued items of property, plant and equipment at their December 2004 valuations under UK GAAP, as deemed cost on transition.

Consolidated income statement
for the 52 weeks ended 24 December 2005

	2005 under UK GAAP* £m	IFRS adjustments £m	2005 restated for IFRS £m
Continuing operations:			
Revenue	1,382.4	-	1,382.4
Cost of sales	(720.3)	-	(720.3)
Gross profit	662.1	-	662.1
Other operating income	17.4	-	17.4
Selling and distribution costs	(664.4)	(3.3)	(667.7)
Administrative expenses	(95.3)	(0.1)	(95.4)
Share of joint ventures	0.6	-	0.6
Operating loss	(79.6)	(3.4)	(83.0)
Finance income	3.9	-	3.9
Finance expenses	(6.3)	-	(6.3)
Other finance charges - pensions	(8.8)	(0.4)	(9.2)
Loss before tax	(90.8)	(3.8)	(94.6)
Tax on loss	(9.5)	(3.0)	(12.5)
Loss after tax	**(100.3)**	**(6.8)**	**(107.1)**
Discontinued operations:			
Loss for the period from discontinued operations	(18.3)	-	(18.3)
Loss for the period	**(118.6)**	**(6.8)**	**(125.4)**

Earnings per share

Earnings per share from continuing operations

Basic (loss)/earnings per 10p ordinary share	(18.2)p
Diluted (loss)/earnings per 10p ordinary share	(18.2)p

Earnings per share continuing and discontinued operations

Basic (loss)/earnings per 10p ordinary share	(21.3)p
Diluted (loss)/earnings per 10p ordinary share	(21.3)p

* after reclassification of discontinued activities in accordance with IFRS 5 as shown in the appendix

Consolidated balance sheet as at 26 December 2004 and 25 December 2005

	2004 under UK GAAP £m	IFRS Adjustments £m	2004 restated for IFRS £m	2005 restated for IFRS £m
Non-current assets				
Goodwill and intangible assets	13.7	4.3	18.0	4.2
Property, plant and equipment	381.6	(15.2)	366.4	247.5
Investments	8.1	-	8.1	8.8
Deferred tax	-	102.4	102.4	96.7
	403.4	91.5	494.9	357.2
Current assets				
Inventories	238.4	-	238.4	173.5
Trade and other receivables	217.9	-	217.9	134.5
Other assets	9.4	-	9.4	5.5
Cash at bank and in hand	28.4	-	28.4	89.0
	494.1	-	494.1	402.5
Total assets	**897.5**	**91.5**	**989.0**	**759.7**
Current liabilities				
Trade and other payables	(359.3)	2.0	(357.3)	(259.0)
	(359.3)	2.0	(357.3)	(259.0)
Non-current liabilities				
Borrowings	(100.0)	-	(100.0)	(150.0)
Pension liability	(206.2)	(88.4)	(294.6)	(297.1)
Provisions	(13.5)	(9.6)	(23.1)	(13.2)
	(319.7)	(98.0)	(417.7)	(460.3)
Total liabilities	(679.0)	(96.0)	(775.0)	(719.3)
Net assets	**218.5**	**(4.5)**	**214.0**	**40.4**
Called up share capital	62.3	-	62.3	62.7
Share premium account	77.2	-	77.2	81.3
Revaluation reserve	21.8	(14.2)	7.6	1.9
ESOP reserve	(55.1)	3.0	(52.1)	(51.6)
Other reserves	28.1	-	28.1	28.1
Retained earnings	84.2	6.7	90.9	(82.0)
Total equity	**218.5**	**(4.5)**	**214.0**	**40.4**

KEY AREAS OF IMPACT

The most significant areas of impact on the Group's results for 2005 and on the transition balance sheet at 26 December 2004 are explained below.

Employee benefits

a) Share based payments (IFRS 2)

The Group operates a range of share-based incentive schemes. IFRS 2 requires that all shares or options awarded to employees as remuneration should be measured at fair value at grant date, using an option pricing model, and charged against profits over the vesting period. This treatment has been applied to all awards granted after 7 November 2002 and not fully vested at the date of transition.

The additional pre-tax charge arising from the adoption of IFRS 2 for the year ended 24 December 2005 was £0.4m, resulting in a corresponding reduction in net assets.

b) Pensions (IAS 19)

In 2005 the Group adopted FRS 17 under UK GAAP. This is broadly similar to the accounting treatment under IAS 19. Minor adjustments have been made to the pension deficit in the 2005 balance sheet, resulting in an increase in the gross deficit of £1.1m and an increase in the associated deferred tax asset of £0.3m. This has the effect of reducing the net assets in the 2005 balance sheet by £0.8m.

c) Other employee benefits (IAS 19)

Under UK GAAP no provision was made for holiday pay. Under IAS 19 *Employee Benefits* the expected cost of short term absences should be recognised when employees render the service that increases their entitlement. As a result at the half year 2005 an accrual has been made for holiday earned but not taken. The accrual in the first half of 2005 (£4.5m) will reverse by the year end as the holiday pay and financial years are coterminous and Group policy is that no holiday entitlement is carried forward to the next holiday year.

Property leases

a) Lease incentives (IAS 17)

Lease incentives received on entering into property leases are currently recognised as deferred income on the balance sheet and are amortised to the profit and loss account over the period to the first rent review where rentals are expected to reach a market rate. Under IAS 17, these incentives are amortised over the entire term of the lease. As the term of the lease is longer than the period to the first rent review amounts amortised to the profit and loss account will be restated on the balance sheet as deferred income and released over the term of the lease. The impact on the balance sheet at date of transition is a reduction in net assets by £9.6m. The impact on the 2005 income statement was an increased charge to the income statement of £2.1m with a corresponding reduction in net assets.

b) Stepped rents (IAS 17)

Lease costs on entering into a lease are currently charged to the income statement at the rate agreed in the current rent review period. Under IAS 17 where a property lease agreement includes fixed rental uplifts ("fixed rent"), then the total cost of the lease must be spread over the term of the lease on a straight line basis. At the date of transition there is no impact on the net assets of the company as no such lease agreements were in place. In 2005 the impact was an increased charged to the income statement of £1.2m and a corresponding increase in creditors.

c) Revaluation of long leaseholds (IAS 17)

Revaluation of long leaseholds is derecognised at the date of transition resulting in a reduction in net assets of £10.9m. The corresponding adjustment at 24 December 2005 is to reduce net assets by £10.6m.

Dividends (IAS 10)

Under IAS 10 *Events after the Balance Sheet Date*, dividends declared after the balance sheet date are not recognised as a liability at the balance sheet date, as the liability does not represent a present obligation as defined by IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Consequently the final dividend creditor for 2004 (£11.6m) is derecognised in the transition balance sheet and charged against equity in the 24 weeks to 11 June 2005. There was no final proposed dividend for 2005 and therefore there is no impact of adopting IAS 10 on the balance sheet as at 24 December 2005.

Taxation (IAS 12)

IAS 12 requires deferred tax to be provided on all temporary differences rather than just timing differences as under UK GAAP. In addition the adoption of IAS 12 results in the Group recognising deferred tax on revaluations and rolled over property gains on disposal.

This has the effect of increasing the tax charge by £3.0m in the 2005 income statement and the net assets in the transition balance sheet by £4.2m.

For MFI there are 2 areas of significance where the difference between tax written down value and book value give rise to additional deferred tax adjustments under IFRS. These are:

- Deferred tax must be provided on re-valued land, this results in a deferred tax liability of £0.8m at the end of 2005; and
- Deferred tax must also be provided on gains on disposal rolled over into land, and this gives rise to a deferred tax liability of £0.4m at the end of 2005.

The effective overall tax rate on the 2005 loss before tax is 386.7% (816.7% UK GAAP). The decrease is a result of deferred tax being provided on all temporary timing differences as described above.

RECLASSIFICATIONS

In addition, IFRS introduces a number of balance reclassifications that have no direct impact on profit for the period or net assets.

a) Intangible assets (IAS 38)

Capitalised software costs are currently charged to plant and equipment on the balance sheet. Under IAS 38 *Intangible Assets* only software that is an integral part of the related hardware should be included in plant and equipment, all other software should be reclassified as an intangible asset. This has resulted in capitalised software costs of £4.3m being reclassified as intangible fixed assets as at 26 December 2004. There is no income statement impact.

b) Pensions (IAS 1)

The net of tax presentation is not permitted under IFRS 1. The deferred tax asset that relates to the pension liability is no longer netted off against the pension creditor but is shown separately as a deferred tax asset.

c) Discontinued operations (IFRS 5)

IFRS 5 requires separate disclosure of the profit or loss from discontinued operations net of tax in a single line on the face of the income statement. The impact of reporting discontinued operations in accordance with IFRS 5 is shown in the appendix.

d) Cash flow (IAS 7)

The format of the cash flow statement will change with cash flow being categorised under the headings of operating, investing and financing.

e) Non operating exceptionals (IAS 1)

IFRS does not recognise ‘non operating exceptionals’. This contrasts to UK GAAP which required certain items to be separately disclosed on the face of the profit and loss account below the operating profit line. Items which do not relate to underlying business performance, such profit or loss on disposal of fixed assets will now be reported in operating profit. In the interests of clarity the group will highlight individual items contained in operating profit where necessary to ensure that there is a full understanding of performance in any period. The definition of items to be separately highlighted on the face of the income statement will be consistently applied in future years.

Balance sheet as at 26 December 2004 - Audited

£m	Full year to 25 December 2004 under UK GAAP	IFRS 2 Share schemes	IAS 17 Stepped rents	IAS 17 Lease premiums	IAS 38 Intangible assets	IAS 10 Dividends	IAS 12 Deferred Tax	IAS 17 Revaluation reserves	IAS 1 Deferred tax gross up	IAS 19 Pensions Deficit	2004 restated for IFRS
Non-current assets											
Goodwill and intangible assets	13.7				4.3						18.0
Property, plant and equipment	381.6				(4.3)			(10.9)			366.4
Investments	8.1										8.1
Deferred tax asset	-								102.4		102.4
Total fixed assets	403.4	-	-	-	-	-	-	(10.9)	102.4	-	494.9
Current assets											
Inventories	238.4										238.4
Trade and other receivables	217.9										217.9
Other assets	9.4										9.4
Cash at bank and in hand	28.4										28.4
Total assets	897.5	-	-	-	-	-	-	(10.9)	102.4	-	989.0
Current liabilities											
Trade and other payables	(359.3)			(9.6)		11.6					(357.3)
	(359.3)	-	-	(9.6)	-	11.6	-	-	-	-	(357.3)
Non current liabilities											
Borrowings	(100.0)										(100.0)
Pension liability	(206.2)								(88.4)		(294.6)
Provisions	(13.5)						4.4		(14.0)		(23.1)
	(319.7)	-	-	-	-	-	4.4	-	(102.4)	-	(417.7)
Total liabilities	(679.0)	-	-	(9.6)	-	11.6	4.4	-	(102.4)	-	(775.0)
Net assets	**218.5**	**-**	**-**	**(9.6)**	**-**	**11.6**	**4.4**	**(10.9)**	**-**	**-**	**214.0**
Called up share capital	62.3										62.3
Share premium account	77.2										77.2
Revaluation reserve	21.8						(3.3)	(10.9)			7.6
ESOP reserve	(55.1)	3.0									(52.1)
Other reserves	28.1										28.1
Retained earnings	84.2	(3.0)		(9.6)		11.6	7.7				90.9
Total Equity	**218.5**	**-**	**-**	**(9.6)**	**-**	**11.6**	**4.4**	**(10.9)**	**-**	**-**	**214.0**

Income statement for the year ended 24 December 2005 - Audited

£m	As reported IFRS format	*IFRS 5 Reclass discontinued operations	2005 UK GAAP in IFRS format	IFRS 2 Share Schemes	IAS 17 Stepped rents	IAS 17 Lease premiums	IAS 12 Deferred Tax	IAS 19 Pensions charge	IFRS restated balance
Continuing Operations :									
Revenue	1,552.2	(169.8)	1,382.4						1,382.4
Cost of sales	(810.4)	90.1	(720.3)						(720.3)
Gross profit	741.8	(79.7)	662.1	-	-	-	-	-	662.1
Other operating income	17.4	-	17.4						17.4
Selling and distribution costs	(740.8)	76.4	(664.4)		(1.2)	(2.1)			(667.7)
Administrative expenses	(116.6)	21.3	(95.3)	(0.4)				0.3	(95.4)
Share of joint ventures	(1.5)	2.1	0.6						0.6
Operating loss	(99.7)	20.1	(79.6)	(0.4)	(1.2)	(2.1)	-	0.3	(83.0)
Finance income	4.0	(0.1)	3.9						3.9
Finance expenses	(6.3)	-	(6.3)						(6.3)
Other finance charges - pensions	(8.8)	-	(8.8)					(0.4)	(9.2)
Loss before tax	(110.8)	20.0	(90.8)	(0.4)	(1.2)	(2.1)	-	(0.1)	(94.6)
Tax on loss	(7.8)	(1.7)	(9.5)				(3.0)		(12.5)
Loss after tax	(118.6)	18.3	(100.3)	(0.4)	(1.2)	(2.1)	(3.0)	(0.1)	(107.1)
Discontinued operations:									
Loss for the period from discontinued operations		(18.3)	(18.3)						(18.3)
Loss for the period	(118.6)	-	(118.6)	(0.4)	(1.2)	(2.1)	(3.0)	(0.1)	(125.4)

*Included in the reclassification are the results of operations that meet the definition of discontinued operations in accordance with IFRS 5 at 10 June 2006 and which have been disclosed as discontinued in the comparatives included in the interim financial information. Three of these operations (Hygena Cuisines SA, Sofa Workshop Limited and Sofa Workshop Direct) do not meet the definition of discontinued at 24 December 2005 under IFRS but in order to aid comparability with the comparatives shown as discontinued in the interim financial statements their results are included in the reclassification adjustment as shown above.

Balance sheet as at 24 December 2005 - Audited

£m	Full year to 24 December 2005 under UK GAAP	IFRS 2 Share schemes	IAS 17 Stepped rents	IAS 17 Lease premiums	IAS 38 Intangible assets	IAS 12 Deferred Tax	IAS 17 Revaluation reserves	IAS 1 Deferred tax gross up	IAS 19 Pensions Deficit	2005 restated for IFRS
Non-current assets										
Goodwill and intangible assets	-				4.2					4.2
Property, plant and equipment	262.3				(4.2)		(10.6)			247.5
Investments	8.8									8.8
Deferred tax asset	-							96.7		96.7
	271.1	-	-	-	-	-	(10.6)	96.7	-	357.2
Current assets										
Inventories	173.5									173.5
Trade and other receivables	134.5									134.5
Other assets	5.5									5.5
Cash at bank and in hand	89.0									89.0
	402.5	-	-	-	-	-	-	-	-	402.5
Total assets	**673.6**	**-**	**-**	**-**	**-**	**-**	**(10.6)**	**96.7**	**-**	**759.7**
Current liabilities										
Trade and other payables	(246.0)		(1.2)	(11.7)						(259.0)
	(246.0)	-	(1.2)	(11.7)	-	-	-	-	-	(259.0)
Non-current liabilities										
Borrowings	(150.0)									(150.0)
Pension liability	(207.2)							(89.2)	(0.8)	(297.1)
Provisions	(9.6)					3.9		(7.5)		(13.2)
	(366.8)	-	-	-	-	3.9	-	(96.7)	(0.8)	(460.3)
Total liabilites	(612.8)	-	(1.2)	(11.7)	-	3.9	-	(96.7)	(0.8)	(719.3)
Net assets	**60.8**	**-**	**(1.2)**	**(11.7)**	**-**	**3.9**	**(10.6)**	**-**	**(0.8)**	**40.4**
Called up share capital	62.7									62.7
Share premium account	81.3									81.3
Revaluation reserve	13.3					(0.8)	(10.6)			1.9
ESOP reserve	(55.0)	3.4								(51.6)
Other reserves	28.1									28.1
Retained earnings	(69.6)	(3.4)	(1.2)	(11.7)		4.7			(0.8)	(82.0)
Total equity	**60.8**	**-**	**(1.2)**	**(11.7)**	**-**	**3.9**	**(10.6)**	**-**	**(0.8)**	**40.4**

Income statement for the 24 weeks ended 11 June 2005 - Unaudited

£m	As reported - IFRS format	IFRS 5 Reclass discontinued operations	Half Year 2005 UK GAAP in IFRS format	IFRS 2 Share schemes	IAS 17 Stepped rents	IAS 17 Lease premiums	IAS 12 Deferred tax	IFRS 3 Goodwill amortisation	IAS 19 Holiday pay	IAS 37/IFRS 5 Provision for future losses	IAS 19 Pension charge	IFRS restated balance
Continuing Operations												
Revenue	757.3	(80.6)	676.7									676.7
Cost of sales	(378.8)	42.8	(336.0)									(336.0)
Gross profit	378.5	(37.8)	340.7	-	-	-	-	-	-		-	340.7
Other operating income	7.2	-	7.2									7.2
Selling and distribution costs	(321.5)	36.5	(285.0)		(0.6)	(1.0)						(286.6)
Administrative expenses	0.3	3.1	3.4	(0.2)				0.4	(4.5)	1.6		0.7
Share of joint ventures	(1.0)	1.0	-									-
Operating profit	63.5	2.8	66.3	(0.2)	(0.6)	(1.0)	-	0.4	(4.5)	1.6	-	62.0
Finance income	1.8	-	1.8									1.8
Finance expenses	(2.0)	-	(2.0)									(2.0)
Other finance charges - pensions	(4.8)	-	(4.8)									(4.8)
Profit before tax	58.5	2.8	61.3	(0.2)	(0.6)	(1.0)	-	0.4	(4.5)	1.6	-	57.0
Tax on profit	(16.4)	(0.6)	(17.0)				(1.0)		1.4	(0.5)		(17.1)
Profit after tax	42.1	2.2	44.3	(0.2)	(0.6)	(1.0)	(1.0)	0.4	(3.1)	1.1	-	39.9
Discontinued operations:												
Loss from discontinued operations		(2.2)	(2.2)									(2.2)
Profit for the period	42.1	-	42.1	(0.2)	(0.6)	(1.0)	(1.0)	0.4	(3.1)	1.1	-	37.7

*Included in the reclassification are the results of operations that meet the definition of discontinued operations in accordance with IFRS 5 at 10 June 2006 and which have been disclosed as discontinued in the comparatives included in the interim financial information. Three of these operations (Hygena Cuisines SA, Sofa Workshop Limited and Sofa Workshop Direct) do not meet the definition of discontinued at 24 December 2005 under IFRS but in order to aid comparability to the comparatives shown as discontinued in the interim financial statements they have been included in this reclassification adjustment

Balance sheet as at 11 June 2005 - Unaudited

£m	Half Year to 11 June 2005	IFRS 2 Share schemes	IAS 17 Stepped rents	IAS 17 Lease premiums	IAS 38 Intangible assets	IAS 10 Dividends	IAS 12 Deferred Tax	IAS 17 Revaluation reserves	IFRS 3 Goodwill amortisation	IFRS 2 Holiday pay	IAS 37/IFRS 5 Provision for future losses	IFRS 1 Deferred tax gross up	IFRS restated balance
Non-current assets													
Goodwill and intangible assets	13.4				3.8				0.3				17.5
Property, plant and equipment	345.2				(3.8)			(10.6)					330.8
Investments	8.3												8.3
Deferred tax asset												88.9	88.9
	366.9	-	-	-	-	-	-	(10.6)	0.3	-	-	88.9	445.5
Current assets													
Inventories	237.7												237.7
Trade and other receivables	239.0												239.0
Other assets	10.4												10.4
Cash at bank and in hand	64.8												64.8
	551.9	-	-	-	-	-	-	-	-	-	-	-	551.9
Total assets	**918.8**	**-**	**-**	**-**	**-**	**-**	**-**	**(10.6)**	**0.3**	**-**	**-**	**88.9**	**997.4**
Current liabilities													
Trade and other payables	(393.2)		(0.6)	(10.6)		11.6	(0.9)			(4.5)	1.6		(396.6)
	(393.2)	-	(0.6)	(10.6)	-	11.6	(0.9)	-	-	(4.5)	1.6	-	(396.6)
Non-current liabilities													
Borrowings	(85.0)												(85.0)
Pension liability	(175.8)											(74.9)	(250.7)
Provisions	(14.0)	0.1	0.2	0.3			5.3			1.4	(0.5)	(14.0)	(21.2)
	(274.8)	0.1	0.2	0.3	-	-	5.3	-	-	1.4	(0.5)	(88.9)	(356.9)
Total liabilites	(668.0)	0.1	(0.4)	(10.3)	-	11.6	4.4	-	-	(3.1)	1.1	(88.9)	(753.5)
Net assets	**250.8**	**0.1**	**(0.4)**	**(10.3)**	**-**	**11.6**	**4.4**	**(10.6)**	**0.3**	**(3.1)**	**1.1**	**-**	**243.9**
Called up share capital	62.6												62.6
Share premium account	80.1												80.1
Revaluation reserve	16.2						(1.7)	(10.6)					3.9
ESOP reserve	(54.3)	3.2											(51.1)
Other reserves	28.1												28.1
Retained earnings	118.1	(3.1)	(0.4)	(10.3)		11.6	6.1		0.3	(3.1)	1.1		120.3
Total equity	**250.8**	**0.1**	**(0.4)**	**(10.3)**	**-**	**11.6**	**4.4**	**(10.6)**	**0.3**	**(3.1)**	**1.1**	**-**	**243.9**

IFRS ACCOUNTING POLICIES

1. Basis of consolidation

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities. Subsidiaries are fully consolidated from the date on which control is transferred until the date that control ceases.

The purchase method of accounting is used to account for acquisition of subsidiaries by the Group.

Inter-company transactions, balances and unrealised gains on transactions between Group companies and eliminated.

Joint Ventures

Joint ventures are accounted for in the financial statements of the Group under the gross equity method of accounting.

2. Foreign currencies

Foreign currency transactions

Transactions in foreign currency are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rate ruling at the date. Foreign exchange gains and losses are recognised in the income statement.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated into sterling at foreign exchange rates ruling at the balance sheet date. The results and cash flows of overseas subsidiaries and the results of joint ventures are translated into sterling on an average exchange rate basis, weighted by the actual results of each month.

Exchange differences arising from the translation of the results and net assets of overseas subsidiaries are recognised in the translation reserve.

3. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services, based on despatch of goods or services provided to customers outside the Group, excluding sales taxes and discounts.

4. Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested, foreign exchange gains and losses, interest on pension scheme liabilities net of expected return on assets, and gains and losses on hedging instruments that are recognised in the income statement.

Interest income is recognised in the income statement as it accrues, using the effective interest method.

5. Exceptional items

Certain items do not reflect the Group's underlying trading performance and, due to their significance in terms of size or nature, have been classified as exceptional. The gains and losses on these discrete items, such as profits on disposal of property interests, reorganisation costs and other non-operating items can have a material impact on the absolute amount of and trend in profit from operations and the result for the period. Therefore any gains and losses on such items are analysed as exceptional on the face of the income statement.

6. Taxation

The tax expense represents the sum of the taxation currently payable and deferred taxation.

The tax currently payable is based on taxable profit for the financial period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other financial years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

7. Leased assets
Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Benefits received as an incentive to sign a lease, whatever form they may take, are credited to the income statement on a straight-line basis over the lease term.

8. Goodwill
Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition.

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment at least annually. Any impairment is recognised immediately in the profit or loss and is not subsequently reversed.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at he previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 29 March 1997 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

9. Investments
Investments are stated at cost less any provision for impairment.

10. Intangible assets – software
Where computer software is not an integral part of a related item of computer hardware, the software is classified as an intangible asset. The capitalised costs of software for internal use include external direct costs of materials and services consumed in developing or obtaining the software and payroll and payroll-related costs for employees who are directly associated with and who devote substantial time to the project. Capitalisation of these costs ceases no later than the point at which the software is substantially complete and ready for its intended internal use. These costs are amortised over their expected useful lives, which are reviewed annually.

11. Properties, plant and equipment
The Group has adopted the transitional provisions of IFRS1 to use previous revaluations as deemed cost at the transition date.

All property, plant and equipment is stated at cost less accumulated depreciation (see below), and less any provision for impairment.

Depreciation of property, plant and equipment is provided to write off the difference between the cost, excluding freehold land, and their residual value over their estimated lives on a straight-line basis. The current range of useful lives is as follows:

Freehold buildings	50 years
Long leasehold property	over period of lease
Short leasehold property	over period of lease
Fixtures and fitting	2–10 years
Plant and machinery	3-10 years

Residual values, remaining useful economic lives and depreciation periods and methods are reviewed annually and adjusted if appropriate.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

12. Impairment of assets
The carrying amount of the Group's assets is reviewed at each balance sheet date to determine whether there is an indication of impairment. If such an indication exists, the asset's recoverable amount is estimated.

For goodwill assets that have an indefinite life and intangible assets not yet available for use, the recoverable amount are estimated at each balance sheet date.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment losses are recognised in the income statement.

13. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes an attributable proportion of manufacturing overheads based on budgeted levels of activity. Provision is made for obsolete, slow-moving or defective items where appropriate.

14. Non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of fair value, less costs to sell, and carrying amount.

Impairment losses on initial classification as held for sale are included in profit or loss. Gains or losses on subsequent re-measurements are also included in profit or loss.

15. Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

16. Pensions

The Group operates two defined benefit pension schemes. The Group's net obligation in respect of the defined benefit pension schemes is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value and the fair value of any scheme assets is deducted. The discount rate is the yield at the balance sheet date on AA rated bonds that have maturity dates approximating to the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit method. Scheme assets are valued at bid price.

Current and past service costs are recognised in operating profit and net financing costs include interest on pension scheme liabilities and expected return on assets.

All actuarial gains and losses as at 25 December 2004, the date of transition to IFRSs, were recognised. Actuarial gains and losses that arise subsequent to 25 December 2004 in calculating the Group's obligation in respect of a scheme are recognised immediately in reserves and reported in the statement of recognised income and expense (SORIE).

17. Deferred taxation

Deferred taxation is provided in full using the balance sheet liability method. It is the tax expected to be payable or recoverable on the temporary difference between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets and liabilities other than in a business combination that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will not reverse in the foreseeable future. The amount of deferred taxation provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred taxation asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The carrying amount of deferred taxation assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

18. Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value, as reduced by appropriate allowances for estimated irrecoverable amounts.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Bank borrowings
Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis to the income statement using effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables
Trade payables are not interest bearing and are stated at their nominal value.

Adoption of IAS 32 and IAS 39
As permitted by IFRS 1, the Company has elected to apply IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' prospectively from 25 December 2005. Consequently, the relevant comparative information for the 52 weeks ended 24 December 2005 does not reflect the impact of these standards.

Derivative financial instruments
The Group does not currently use derivative financial instruments to reduce its exposure to exchange rate movements. The Group does not hold or issue derivatives for speculative or trading purposes. Under UK GAAP, as used for the 2005 comparatives, such derivative contracts are not recognised as assets and liabilities on the balance sheet and gains and losses arising on them are not recognised until the hedged item is itself recognised in the financial statements.

From 26 December 2005 onwards, derivative financial instruments are recognised as assets and liabilities measured at their fair values at the balance sheet date. Changes in their fair values are recognised in the income statement and this is likely to cause volatility in situations where the carrying value of the hedged item is either not adjusted to reflect the fair value changes arising from the hedged risk or is so adjusted but that adjustment is not recognised in this income statement. Provided the conditions specified by IAS 39 are met, hedge accounting may be used to mitigate this income statement volatility.

The Company expects that hedge accounting will not generally be applied to transactional hedging relationships, such as hedges of forecast or committed transactions.

Where the hedging relationship is classified as a cash flow hedge, to the extent the hedge is effective, changes in the fair value of the hedging instrument will be recognised directly in equity rather than in the income statement. When the hedged item is recognised in the financial statements, the accumulated gains and losses recognised in equity will be either recycled to the income statement or, if the hedged item results in a non-financial asset, will be recognised as adjustments to its initial carrying amount.

Embedded derivatives
Under UK GAAP, as used for the 2005 comparatives, embedded derivatives are not recognised in the financial statements. From 25 December 2005 onwards, derivatives embedded in non-derivative host contracts are recognised separately as derivative financial instruments when their risks and characteristics are closely related to those of the host contract and the host contract is not stated at its fair value with changes in its fair value recognised in the income statement.

19. Share-based payments
The Group has applied the requirements of IFRS 2 Share-based payments. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2005.

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.