



26 September 2007

Land of Leather Holdings plc

Preliminary results for the year ended 29 July 2007

Land of Leather, the UK's leading, specialist, national leather sofa retailer is pleased to announce its preliminary results for the year ended 29 July 2007.

The comparative 2006 figures are proforma unaudited results for the year ended 30 July 2006 which provide the direct comparison of performance for the current financial period. The statutory comparative period is the 17 weeks ended 30 July 2006 which was the last audited financial period.

Highlights

- Revenue £240m (2006*: £205.6m) Up 17%
- Total sales orders Up 21%
- Like for like sales orders Up 0.3%
- Gross profit margin 44.6% (2006*: 42.6%) Up 200bps
- Operating profit before exceptional items of £17.6m (2006*: £15.3m) Up 15%
- Profit before taxation and exceptional items of £18.5m (2006*: £15.7m) Up 18%
- Exceptional non-cash charge of £2.5m arising from the movement in the mark to market value of the Sterling/Dollar hedge contract under IAS39 (2006*: £5.0m)
- Profit before tax of £16m (2006*: £10.4m) Up 55%
- Basic earnings per share before exceptional items of 25.98 pence (2006*: 20.55 pence) Up 26%
- Proposed final dividend of 8.85 pence per share giving a total dividend of 12.5 pence (2006*: 9.1 pence) Up 37%
- Strong balance sheet – net cash £25.5m (2006*: £11.1m)
- Accelerated store roll-out programme:
 - 13 new stores opened in the year
 - 94 stores trading at the year end
 - 9 stores opened since the year end
 - Target number of stores increased to 160 in the UK and Eire by 2013
- Three point action plan announced to utilise surplus cash including share buyback programme of up to £6m in the new financial year

* - proforma unaudited results for the year ended 30 July 2006

“The resilient trading performance in the year ended 29 July 2007, the strong balance sheet and significant store opening programme provides an excellent platform for the future.

We anticipate that market conditions will be even more challenging in the year ahead as the full impact of the upward momentum in interest rates is felt by the consumer and this will be particularly noticeable in the first quarter of the year due to the strong trading comparatives in the previous year. However, we remain confident that our successful value-led offer together with the strong new store opening programme will deliver future growth.”

Roger Matthews
Chairman

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An analysts' briefing will be held at the offices of Investec Securities, 2 Gresham Street, London, EC2V 7QPN at 11:00am. For further information please contact Rebecca Ghent on 020 7796 4133.

A copy of the presentation of these results to analysts will be available later today from the Company's website (www.landofleather.co.uk).

CHAIRMAN'S STATEMENT

I am delighted to report another strong performance by Land of Leather, particularly considering the challenging market conditions that the retail sector has been facing since the start of this calendar year. Profit before tax and exceptional items for the year ended 29 July 2007 has increased by 18% to £18.5m (2006: £15.7m) as a result of strong sales growth from the new store opening programme and the continued improvement in gross margin.

We focus on being a truly specialist national leather sofa retailer which offers our customers both quality and excellent value for money. A major strength of the business in these challenging times remains its ability to deliver strong total sales order growth as a result of the significant store opening programme. In the year ended 29 July 2007 we opened 13 new stores and, with a further nine opened in August 2007, we are confident of opening a minimum of 15 in the new financial year. We now operate 103 stores and expect to achieve full national coverage of 160 stores by 2013; compared to our previous target of 140 stores by 2012.

Financial Results

Revenue has increased by 17% to £240m (2006: £205.6m) due to the strong contribution from the store opening programme. Total sales order growth was 21%, which included LFL sales order growth of 0.3%. These figures resulted in a gain in market share despite the difficult market conditions. In addition, the sales growth was achieved with a further substantial improvement in the gross margin of 200 bps to 44.6% (2006: 42.6%) due primarily to lower furniture purchase costs.

Profit before tax and exceptional items increased by 18% to £18.5m (2006: £15.7m). The financial period includes an exceptional non cash charge of £2.5m (2006: £5m) arising from the movement in the mark to market value of the Sterling/Dollar hedge contract under IAS39. This results in a profit before tax of £16.0m (2006: £10.4m). Basic earnings per share increased to 22.6 pence per share (2006: 13.2 pence per share), and earnings per share before exceptional items increased by 26% to 26 pence per share (2006: 20.6 pence per share).

The business is strongly cash generative and reported a net cash inflow in the financial period of £14.4m (2006: £5.4m). This figure is post the investment of £8.6m on property, plant and equipment, the majority of which related to new store openings. The business is very well placed to fund its planned new store opening programme without the need for external funds. The balance sheet remains financially strong and has a substantial net cash balance at 29th July 2007 of £25.5m (2006: £11.1m).

Application of cash resources

The business model is expected to continue to generate significant levels of retained cash after investment in the store roll out programme. In light of the strong cash generation and the substantial cash balance of £25.5m at 29 July 2007, the Board is pleased to announce the following three actions:

Dividend

The Board is proposing a final dividend of 8.85p per share, which gives a total dividend of 12.5p (Pro-forma 2006: 9.1p per share) for the year. This represents an increase of 37%. The Board has reduced the dividend cover required from 2.25 times earnings (before exceptional items) to 2 times earnings due to the Company's strong growth prospects, the significant levels of cash generated by the

business and its strong cash position.. The final dividend will be paid on 23 November 2007 to those shareholders on the register on 5 October 2007.

US dollar hedge contract

Following the year end, the Board decided to terminate early the existing Sterling/Dollar hedge agreement at a cost of £5.9m. The contract was due to expire in July 2008 and commenced in April 2006 before the strong appreciation of Sterling against the US Dollar. Following the early termination, the Group will benefit from the stronger Sterling rate and expects to achieve a reduction in purchasing costs of approximately £5.7m in the year ending 3 August 2008. This reduction in cost will enable the business to mitigate a significant increase in global freight rates experienced since July 2007, absorb the anticipated £0.4m increase in the non-cash charge related to the new share incentives schemes and will provide flexibility for additional advertising and promotional activity, if required, through what is anticipated to be more challenging market conditions over the next 12 months.

Share buyback programme

The Board has authorised a share buyback programme up to a maximum cash consideration of £6m (approximately 5% of the current market capitalisation) over the next 12 months. The company currently has the authority to purchase up to 10% of the Company's issued share capital until 31 December 2007. The Board will seek to renew this authority at the Annual General Meeting.

People

As at 29th July 2007, we had 1,019 employees having created 182 new jobs in the year.

Our people are critical to the success of the business and this is even more so in the challenging market we are currently facing. I would like to thank all of our employees whose exceptional effort and commitment has enabled us to deliver another strong set of financial results.

As envisaged at flotation in July 2005 we have now been able to widen share ownership across our employees through the introduction of an 'executive share option scheme' ('ESOS') and a 'save as you earn' ('SAYE') scheme. Awards in our ESOS were made to 104 employees while the SAYE scheme was taken up by 157 employees in its first year.

Outlook

The resilient trading performance in the year ended 29 July 2007, the strong balance sheet and significant store opening programme provides an excellent platform for the future.

We anticipate that market conditions will be even more challenging in the year ahead as the full impact of the upward momentum in interest rates is felt by the consumer and this will be particularly noticeable in the first quarter of the year due to the strong trading comparatives in the previous year. However, we remain confident that our successful value-led offer together with the strong new store opening programme will deliver future growth.

Roger Matthews
Chairman
26 September 2007

CHIEF EXECUTIVE REVIEW

Store portfolio

We are increasing and improving our store portfolio by opening new stores, refurbishing older format stores and installing mezzanines in existing stores where appropriate. At the start of the financial year the total space within the store portfolio was 972,000 sq. ft. We ourselves occupied 791,000 sq. ft of this space with the remainder being sublet to concessions within our stores. The new stores and mezzanine installations increased the total space within the stores to 1.23m sq. ft. at 29 July 2007, from which we traded from 1.005m sq. ft. This represents an increase of 27% in both total space and traded space.

During the period, we have progressed our plans to install additional mezzanine floors in existing stores by completing installations in the Stevenston, Aberdeen, Uddingston, Edinburgh and Gateshead (all re-opened August 2006), Oldham and Bolton (December 2006). In addition we closed Plymouth and Romford in June 2007 to install new mezzanine floors and these re-opened in August 2007. This investment has increased the total space available on mezzanine floors to 312,000 sq.ft at 29 July 2007 from 182,000 sq.ft at the previous year end. In total, 44 out of the 94 stores operated at 29 July 2007 have a mezzanine floor compared to 29 out of 81 stores at the start of the financial period (30 July 2006).

Store expansion programme

The Group accelerated its store opening programme in the year ended 29 July 2007 with 13 new stores opened as the favourable property conditions resulted in more of our target retail park locations being available. The new stores were Telford, Stevenage, Harlow, Swansea (1st quarter), Rotherham, Bray, Kilkenny, Dunfermline, Ayr, Salisbury, Stockport (2nd quarter), Birmingham (3rd quarter) and Oxford (4th quarter).

In the seven weeks since the 29 July 2007 we have opened a further nine stores in Wetherby, Grantham, Cannock, Wigan, Cardiff, Warrington, Southport, Drogheda and Wrexham. These new stores include five which were acquired from the administrator of the Klausner Group in June 2007. This brings our total number of stores to 103 and we anticipate opening a further minimum 6 stores in the remainder of the year ending 3 August 2008 to finish the year on at least 109 stores.

Our strong financial position means that we are able to capitalize on the increased availability of store locations in our target retail parks and we are confident of opening a minimum of fifteen new stores in the current financial year ending 3 August 2008. Following a full review of our existing store portfolio, we have increased our targeted number of stores from 140 to 160 in the UK and Republic of Ireland, which we believe is achievable by 2013.

Concessions

The new mezzanine space detailed above will increase the number of concessions within our stores, generating an increased rental income and additional footfall. At the start of the financial year we had 63 concessions and this had increased by 29 July 2007 to 84 concessions.

The concession partners within our stores at 29 July 2007 include The Sleep Depot (61), Paul Simons (9), Relax Furniture (3), Carpetright (4), Hammonds (5) and Diva (2).

The concession rent received in the year ended 29 July 2007 increased to £5.5m from £3.9m the previous year. As at 29 July 2007 the concession income was annualising £5.9m

although the additional concessions opened since the year end has increased this to £6.2m.

Suppliers and product range

The business used 39 different suppliers in the year ended 29 July 2007 (2006: 43 suppliers), and the top 10 suppliers represented approximately 86% (2006: 76%) of total product supplied. The business has increasingly moved its product sourcing to the Far East, with 82% (2006: 71%) of products shipped from China and total Far East supplies representing 92% (2006: 84%) of purchases.

The Group has good working relationships with its major suppliers who have worked with the business or its management for many years. We believe our position as the UK's only national upholstery retailer specialising solely in leather sofas enables us to source on very attractive terms.

Marketing and advertising

The Group significantly increased its advertising spend in the year ended 29 July 2007 to £22m from £16.5m the previous year. This equated to 9.2% of revenue which is a rise from 8.0% in the year ended 30 July 2006. The decision to invest in additional advertising was a result of the more challenging retail environment experienced from December 2006 following the second of the five interest rate increases in the year.

The principal media for Land of Leather's marketing campaign remains television, which represented 53% of total expenditure (2006: 46%). The majority of the remaining advertising spend is dedicated to the national tabloid press although the proportion of the total spend on this media reduced to 27% from 37% the previous year. The business undertook its first direct mail campaign in the year ended 29 July 2007. This proved successful and will be repeated in the new financial year.

Distribution and logistics

The Group has invested in its distribution facilities in the year with a new 70,000 sq.ft facility opened in Wellham Green and an additional 70,500 sq.ft of space being taken at the existing Tamworth centre. These two developments, plus a new mezzanine at the Avonmouth centre, increased total distribution space to 599,500 sq.ft as at 29 July 2007; an increase of 37% from the end of the previous financial year.

People and training

We invested in a dedicated training department in the year ended 29 July 2007 which will provide development opportunities for our employees and ensure customers continue to receive a high level of service. This training function will result in all store staff receiving training on varying aspects of the business every quarter.

Our staff are key to the success of the business and the continuation of the high customer service levels that we provide. We have recognised this contribution by the first issue of share options to 104 people in October 2006 and the introduction of a company wide Save As You Earn scheme which was taken up by 157 employees. We hope that the share ownership will continue to increase across the business in the next year.

Paul Briant
Chief Executive
26 September 2007

FINANCIAL REVIEW

The Group changed its accounting reference date from the end of March to the end of July and prepared accounts for the 17 weeks ended 30 July 2006. The year ended 29 July 2007 is the first full year ending on the new accounting reference date and, in order to show the underlying performance of the business, comparisons are shown for the unaudited pro-forma results for the 52 weeks ended 30 July 2006.

Income statement

Revenue

Revenue increased by 17% to £240.0m in the year ended 29 July 2007 (2006: £205.6m). This significant increase of £34m in delivered turnover is primarily a result of the 13 new stores opened in the year (£16m), together with the full year impact of the 15 stores opened in the previous year ended 30 July 2006 (£26m) partially offset by an increase in the closing order book (£8m). The substantial increase in new store numbers generated an increase in total new sales orders of 21% which exceeds the rise in revenue (i.e. delivered sales) due to the time delay in delivering the sales orders and the build up of an order book in the new stores. The like for like sales orders for the year were also positive (0.3%) and this was despite a reduction in the average order value of 7% in the year ended 29 July 2007 compared to the previous year.

Gross margin

The overall gross margin increased by 200 bps to 44.6% compared to the previous year ended 30 July 2006. The 44.6% gross margin was an average of 45.2% (2006 H1: 42.2%) gross margin in the first half of the year and 44.1% (2006 H2: 42.9%) gross margin in the second half. The lower margin in the second half, which was anticipated at the time of the announcement of our interim results, can be attributed to the greater proportion of promotional product sold in the period and also the more challenging retail climate following several interest rate rises which necessitated a more aggressive pricing policy. Nevertheless, the overall 200 bps increase, which was achieved primarily from improved buying costs, is the third year that the business has successfully improved its gross margin whilst maintaining positive like for like sales growth.

Other operating income

Other operating income relates to rental income received from letting space to third party concessions inside Land of Leather stores (£5.5m) and rent from sub-lessees in four empty properties (£0.3m). The income increased by £1.7m to £5.8m due to increasing the number of concessions from 63 at July 2006 to 84 at July 2007 as a consequence of subletting additional space in new stores or space created on newly installed mezzanine floors.

Operating expenses

Operating expenses pre-exceptional items increased by 24.6% to £95.1m (2006: £76.3m). The significant areas which contributed to the overall £18.8m cost increase includes new stores in the current year (£4.2m), annualised cost of previous year new store openings (£5.2m), property costs on other stores (£0.5m), advertising (£5.5m), distribution costs relating to the new warehouse and higher delivery volumes (£1.9m) and management bonus (£0.8m).

Operating profit before tax and exceptional items

The Group has reported an operating profit before tax and exceptional items of £17.6m compared to £15.3m last year which equates to an increase of 15%. The overall operating profit margin remained stable at 7.3% (2006: 7.4%). We believe this is an excellent achievement following the effect on consumers of five interest rate increases during the year and also the additional costs incurred with accelerating the store opening programme.

Exceptional items

The exceptional cost of £2.5m in the year ended 29 July 2007 is in respect of the non-cash charge arising from the movement in the mark to market value of the Sterling/Dollar hedge contract under the rules of IAS39. A charge of £5m was recognised in respect of the same contract in the previous year ended 30 July 2006. The Company's foreign exchange contract for the purchase of US Dollars does not qualify for hedge accounting under IAS39 and movements in its value are therefore reported in the Income Statement. This sterling/dollar contract was due to expire in July 2008 but the Company terminated it early in August 2007 at a cost of £5.9m. This payment will be recovered over the next year by lower Sterling purchase costs as the Company will now benefit from the stronger Sterling exchange rate.

The current year ending 3 August 2008 will include an exceptional gain of £1.6m in respect of the Sterling/Dollar hedge contract which reflects the movement in the mark to market value between 29 July 2007 (£7.5m) and the settlement date of 21 August 2007 (£5.9m). In future the Company intends to use hedge contracts which qualify for hedge accounting under IAS39 in order to avoid similar volatility in reported profits.

Finance revenue

Finance revenue relates to interest receivable and the increase in the year of £0.5m to £0.9m (2006: £0.4m) is primarily due to the substantial increase in net cash in the year and the increased interest rate received following the five increases in the base rate during the year.

Profit before taxation

The reported profit before tax for the year ended 29 July 2007 is £16m compared to £10.4m the previous year. The increase of £5.6m is due to the £2.3m increase in operating profit, the £0.5m additional interest receivable and a £2.8m reduction in exceptional items.

Taxation

The effective rate of corporation tax for the year ended 29 July 2007 is 29.0% which is substantially lower than the pro-forma comparative of 35.1%. The year ended July 2007 benefited from a credit in respect of prior years (£0.3m) and deferred taxation (£0.4m); excluding these credits the effective tax rate would have been 33.3%, which is more in line with the Company's expectations. The Company expects its effective tax rate to exceed the standard rate of corporation tax due to the effect of disallowable expenditure which primarily relate to the new store roll-out programme and estimates the rate to be in the range of 31% to 32% in the new financial year.

Earnings per share

Basic and diluted earnings per share were 22.6 pence (2006: 13.2 pence basic and diluted). In the year ended 29 July 2007 the Company issued its first share options and thus there is a small difference between the basic and diluted earnings per share.

The basic and diluted earnings before exceptional items were both 26.0 pence which is an increase of 26%.

Dividend

The final dividend proposed, if approved, would make a total dividend for the year of 12.5 pence per ordinary share (2006: 9.1 pence) which is an increase of 37%. This substantial increase above the rise in earnings per share results from the Board's confidence to reduce the dividend cover to 2 times from 2.25 times due to the strong cash position and confidence in the retail model to continue delivering strong growth and cash generation.

Balance sheet

The balance sheet remains very strong with net assets of £30.6m at 29 July 2007 (2006: £26.9m) which included net cash of £25.5m (2006: £11.1m).

Capital expenditure

Total capital expenditure in the year ended 29 July 2007 amounted to £8.6m (2006: £10.3m) before contributions from landlords. The capital expenditure primarily comprised investment in the 13 new stores (£5.7m) and major refurbishments of existing stores incorporating new mezzanine floors (£2.3m). The reduction in capital expenditure compared to the previous year can be attributed mainly to two relocations in August 2005 (£0.9m).

The cost of fitting out new stores is partially funded by contributions from landlords and in the year ended 29 July 2007 the Group received £2.0m (2006: £3.8m) in landlord inducements which are credited to the Income Statement over the full period of the lease.

Working capital

Working capital was a major contributor towards the company's strong cash generation in the year with a positive movement of £13.9m in the year with an increase in inventory more than being compensated by a significant £15m rise in trade and other payables.

Inventory at 29 July 2007 totalled £15.4m compared to £12.2m at the previous year end. The increase of 26% exceeds the total sales order growth of 16% due to the increase of £1.4m in showroom display stock to £6.2m and base stock in the new distribution centres.

Trade and other payables increased to £44.5m at 29 July 2007 compared to £29.5m at 30 July 2006. This significant increase of £15m is primarily attributable to the increase in trade payables in respect of goods, services or capital expenditure of £4.5m and customer deposits of £7.1m. The increase in the business was partially responsible for the higher balances but also the creditor day average over the financial year increased to 32 days from 25 days in the comparable year and customer deposits improved as the percentage of "no deposit" finance orders reduced to 23% from 29%.

Current liabilities also include the mark to market valuation of the Sterling/Dollar hedge and other forward contracts as at 29 July 2006 of £7.7m. (See details above under Exceptional Items).

Financial structure

As at 29 July 2007 the Group had net cash of £25.5m (2006: £11.1m) which included customer deposits of £16.1m (2006: £9.0m). The level of cash in excess of customer deposits therefore increased to £9.4m from £2.1m at the previous year end.

The Group renegotiated its banking facilities on 31 July 2007 and has agreed a £5m committed multi-option facility and a £1m overdraft/letter of credit facility. The new facility replaces the previous £7m uncommitted amortising revolving facility and is governed by similar financial covenants.

Cash flow

The cash flow statement for the year ended 29 July 2007 shows a cash inflow from operations of £33.8m compared to an inflow of £20.9m in 2006. The cash inflow exceeds operating profit due to the business benefiting from a negative working capital structure. The strong growth in sales orders from the new store roll out programme results in significant increases in customer deposits and trade payables which is greater than the resulting inventory and debtor balances. The year ended 29 July 2007 benefited in cash flow terms from a return to more normal levels of trade payable credit terms (32 days) and also a reduction in the level of finance orders which increased customer deposits.

The net cash inflow in the year ended 29 July 2006 was £14.4m after investing £8.6m in the purchase of fixed assets and the payment of £5.4m in dividends. The highly cash generative nature of the business means the Group is able to fund its planned new store expansion and investment in the existing store portfolio without the need for external funds. In addition, the Chairman's statement includes details of several proposed actions to utilise the increasing cash resources.

Treasury and risk management

The Group has no debt and as such the Group does not currently have interest rate hedging policies. The principal exposure relates to foreign currency and in particular the US dollar for a proportion of the purchases from the Far East. Where appropriate, the Group uses financial instruments to mitigate these risks and all transactions in derivatives, principally foreign exchange contracts, are made solely to manage these risks. The Company policy will now utilise hedging instruments which qualify for hedge accounting under the rules of IAS39 and covers 95% of its exposure to its forecast foreign currency exposure over the next 12 months on a rolling basis.

Trading update

The Group has previously released trading updates on a quarterly basis and trading performance will continue to be provided in the quarterly interim management statements as required under the new Transparency Directive Rules. The first interim management statement will be for the quarter ending 28 October 2007.

Clive Hatchard
Chief Financial Officer
26 September 2007

Consolidated income statement

For the 52 weeks ended 29 July 2007

	Notes	52 weeks trading to 29.7.07	17 weeks trading to 30.7.06	Proforma Unaudited 52 weeks trading to 30.7.06 (a)
		£000	£000	£000
Revenue	2	239,980	69,831	205,642
Cost of sales		<u>(133,019)</u>	<u>(39,549)</u>	<u>(118,080)</u>
Gross profit		106,961	30,282	87,562
Other operating income		5,766	1,643	4,074
Distribution costs		(12,078)	(3,469)	(10,381)
Administration and other costs		(83,029)	(25,145)	(65,943)
Operating profit before exceptional items		17,620	3,311	15,312
Exceptional items	3	(2,463)	(5,025)	(5,305)
Operating profit / (loss) after exceptional items		15,157	(1,714)	10,007
Finance costs		(47)	-	(3)
Finance revenue		920	206	363
Profit / (loss) before tax		16,030	(1,508)	10,367
Income tax (expense) / credit	4	(4,641)	171	(3,636)
Profit / (loss) for the period		11,389	(1,337)	6,731
Basic earnings per share (pence)	5	22.57	(2.63)	13.24
Diluted earnings per share (pence)	5	22.56	(2.63)	13.24
Basic earnings per share before exceptional items (pence)	5	25.98	4.29	20.55
Diluted earnings per share before exceptional items (pence)	5	25.97	4.29	20.55
Paid dividends pence per share		3.65	3.10	9.10
Proposed dividends pence per share		8.85	-	-
		<u>12.50</u>	<u>3.10</u>	<u>9.10</u>

Footnote :

- (a) The 52 weeks ended 30 July 2006 are unaudited pro-forma comparatives.
The unaudited pro-forma figures provide a direct comparison of performance for the current financial year.

Consolidated balance sheet

As at 29 July 2007

	As at 29.7.07	As at 30.7.06
	£000	£000
ASSETS		
Non-current assets		
Property, plant and equipment	25,754	20,612
Intangible assets - goodwill	6,168	6,168
Intangible assets - brand	13,300	13,300
Intangible assets - software	768	471
	<u>45,990</u>	<u>40,551</u>
Current assets		
Inventories	15,354	12,152
Trade and other receivables and prepayments	8,685	8,674
Cash and cash equivalents	25,514	11,077
	<u>49,553</u>	<u>31,903</u>
TOTAL ASSETS	<u>95,543</u>	<u>72,454</u>
Current liabilities		
Trade and other payables	44,481	29,520
Financial instruments	7,736	5,025
Income tax payable	1,374	474
Provisions	494	638
	<u>54,085</u>	<u>35,657</u>
Non-current liabilities		
Other payables	7,436	6,525
Provisions	408	85
Deferred income tax liabilities	2,969	3,300
	<u>10,813</u>	<u>9,910</u>
Total liabilities	<u>64,898</u>	<u>45,567</u>
NET ASSETS	<u>30,645</u>	<u>26,887</u>
EQUITY AND LIABILITIES		
Equity attributable to equity holders of the parent		
Share capital	508	508
Share premium	16,947	16,947
Other reserves	(124)	(21)
Employee Benefit Trust	(2,211)	-
Retained earnings	15,525	9,453
TOTAL EQUITY	<u>30,645</u>	<u>26,887</u>

Consolidated statement of changes in equity

	Share capital £000	Share premium £000	Retained earnings £000	ESOP Trust £000	Other reserves £000	Total equity £000
At 2 April 2006	508	16,947	10,790	-	110	28,355
Loss for the period	-	-	(1,337)	-	-	(1,337)
Movements in cash flow hedges	-	-	-	-	(186)	(186)
Deferred tax on cash flow hedges	-	-	-	-	56	56
Currency translation reserve	-	-	-	-	(1)	(1)
At 30 July 2006	508	16,947	9,453	-	(21)	26,887
Profit for the period	-	-	11,389	-	-	11,389
Movements in cash flow hedges	-	-	-	-	(247)	(247)
Deferred tax on cash flow hedges	-	-	-	-	74	74
Currency translation reserve	-	-	-	-	70	70
Employee Benefit Trust	-	-	-	(2,211)	-	(2,211)
Dividends paid	-	-	(5,437)	-	-	(5,437)
Share-based payment	-	-	120	-	-	120
At 29 July 2007	508	16,947	15,525	(2,211)	(124)	30,645

Consolidated cash flow statement

For the 52 weeks ended 29 July 2007

	52 weeks trading to 29.7.07 £000	17 weeks trading to 30.7.06 £000	Proforma Unaudited 52 weeks trading to 30.7.06 £000
Cash flows from operating activities			
Operating profit before exceptional items	17,620	3,311	15,312
Exceptional item	<u>(2,463)</u>	<u>(5,025)</u>	<u>(5,305)</u>
Operating (loss) / profit	15,157	(1,714)	10,007
Amortisation of intangible assets	61	26	78
Depreciation	1,756	440	1,216
Charge for share option schemes	136	-	-
Exceptional non-cash item : derivative instrument charge	2,463	5,025	5,025
Loss on disposal of property, plant and equipment	190	598	652
(Increase) / Decrease in working capital	13,948	(3,867)	3,892
Other	<u>80</u>	<u>63</u>	<u>43</u>
Cash generated from operating activities	33,791	571	20,913
Income tax paid	<u>(3,997)</u>	<u>(1,853)</u>	<u>(4,522)</u>
Net cash flows from operating activities	<u>29,794</u>	<u>(1,282)</u>	<u>16,391</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	(8,220)	(3,253)	(10,023)
Purchase of intangible assets - software	(358)	(111)	(283)
Proceeds from disposal of property, plant and equipment	-	7	(16)
Interest received	<u>920</u>	<u>206</u>	<u>363</u>
Net cash flows from investing activities	<u>(7,658)</u>	<u>(3,151)</u>	<u>(9,959)</u>
Cash flows from financing activities			
Share purchase for ESOP	(2,211)	-	-
Payment of capital element of finance leases	(4)	(6)	(19)
Dividends paid to equity holders of the parent	(5,437)	-	(1,018)
Interest paid	<u>(47)</u>	<u>-</u>	<u>(3)</u>
Net cash flows from financing activities	<u>(7,699)</u>	<u>(6)</u>	<u>(1,040)</u>
Net (decrease) / increase in cash and cash equivalents	14,437	(4,439)	5,392
Cash and cash equivalents at beginning of period	<u>11,077</u>	<u>15,516</u>	<u>5,685</u>
Cash and cash equivalents at end of period	<u>25,514</u>	<u>11,077</u>	<u>11,077</u>

Notes to the Financial Statements

NOTE 1

The principal accounting policies are set out in the Group's financial statements for the year ended 30 July 2006.

This preliminary announcement has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) which comprise standards and interpretations approved by the International Accounting Standards Board (IASB), and applied in accordance with the provisions of the Companies Act 1985.

The financial information set out in this preliminary announcement does not constitute statutory accounts as defined in section 240 of the Companies Act 1985.

The statutory accounts for the year to 29 July 2007, on which the auditor's unqualified report has been made, will be delivered to the Registrar following the Company's forthcoming Annual General Meeting.

NOTE 2

Revenue segmental analysis

By geographical market

UK

Republic of Ireland

Segment revenue

	52 weeks trading to 29.7.07 £000	17 weeks trading to 30.7.06	Proforma Unaudited 52 weeks trading to 30.7.06 £000
UK	216,814	64,067	187,030
Republic of Ireland	23,166	5,764	18,612
Segment revenue	239,980	69,831	205,642

The primary segment reporting format is determined to be geographic segments as the Group's risks and rates of return are affected predominantly by the geographical location of operations.

There is considered to be no secondary segment as, by business activity, revenue arises wholly in the Group's principal activity, the retail of upholstery furniture.

Geographical analysis of revenue is by origin and is not significantly different from revenue by destination.

There were no discontinued operations during the period under review.

There has been no inter-segmental revenue, and all sales arise from external sources.

NOTE 3

Exceptional items

Cost of sales:

Derivative financial instrument charge

	52 weeks trading to 29.7.07 £000	17 weeks trading to 30.7.06	Proforma Unaudited 52 weeks trading to 30.7.06 £000
Derivative financial instrument charge	2,463	5,025	5,025

Administration costs:

Flotation costs - other

Flotation costs - other	-	-	280
	2,463	5,025	5,305

Items which are both material and non-recurring are presented as exceptional items.

The exceptional item incurred in the current and prior period relate to the non-cash charge arising from the revaluation of foreign exchange derivatives in accordance with IAS39.

The exceptional items incurred in the pro-forma unaudited comparative period relate to the revaluation of foreign exchange derivatives in accordance with IAS39, and costs incurred directly as a result of the Company flotation on 21 July 2005 for the pro-forma comparative period.

Tax relief in the income statement relating to the exceptional item in the current 52 week period, the 17 weeks to 30 July 2006 and the 52 weeks to 30 July 2006 are £739k, £1,508k, and £1,592k respectively. Tax relief relating to the exceptional items arising in the proforma period is unaudited.

	52 weeks trading to 29.7.07	17 weeks trading to 30.7.06	Proforma Unaudited 52 weeks trading to 30.7.06
NOTE 4			
Income tax	£000	£000	£000

i **The major components of income tax expense for the periods under review are :**

Current income tax	5,235	1,294	4,921
Adjustments in respect of current income tax of previous years	(337)	-	-
Total current income tax	4,898	1,294	4,921
Adjustments in respect of deferred income tax of previous years	181	-	-
Deferred tax - reversal and origination of temporary differences	(82)	(1,465)	(1,285)
Adjustment to deferred tax for reduced income tax rate in April 2008	(356)	-	-
Tax charge / (credit) in the income statement	4,641	(171)	3,636

NOTE 5

Earnings per ordinary share

Basic earnings per share figures are calculated by dividing profit after tax for the period by the weighted average number of ordinary shares in issue during the period less the weighted average number of shares held by the employee benefit trust during the period. The employee benefit trust first acquired shares in February 2007. Diluted earnings per share figures are calculated by dividing profit after tax for the period by the weighted average number of ordinary shares in issue during the period, increased by the dilutive effect of potential ordinary shares from the executive share option scheme and the savings related share option schemes. The first options under the executive share option scheme were granted in November 2006 and the first options under the savings related share option scheme were granted in May 2007.

The options granted under the executive share option scheme are not dilutive as the average share price during the year, is lower than the exercise price of the share options.

	52 weeks trading to 29.7.07	17 weeks trading to 30.7.06	Proforma Unaudited 52 weeks trading to 30.7.06
Earnings			
Net profit / (loss) attributable to ordinary equity holders of the parent (£000)	11,389	(1,337)	6,731
Weighted average number of ordinary shares in issue in the period	50,825,210	50,825,210	50,825,210
Weighted average number of shares held by the EBT	(357,830)	-	-
Weighted average number of shares for calculating basic earnings per share	50,467,380	50,825,210	50,825,210
Basic earnings per share (pence)	22.57	(2.63)	13.24
Weighted average number of ordinary shares in issue in the period	50,467,380	50,825,210	50,825,210
Effect of dilutive options	18,675	-	-
Weighted average number of shares for calculating diluted earnings per share	50,486,055	50,825,210	50,825,210
Diluted earnings per share (pence)	22.56	(2.63)	13.24

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

Earnings per ordinary share before exceptional items

The Group presents exceptional items on the face of the income statement. This presentation allows shareholders to identify and assess more easily the trends in trading financial performance before recognising these unusual items.

Therefore, for comparative purposes, earnings per share is also presented on this basis, calculated on net profit before exceptional costs but after income tax:

	52 weeks trading to 29.7.07	17 weeks trading to 30.7.06	Proforma Unaudited 52 weeks trading to 30.7.06
Net profit / (loss) attributable to ordinary equity holders of the parent (£000)	11,389	(1,337)	6,731
Exceptional items after tax (£000)	1,724	3,518	3,714
Net profit attributable to ordinary equity holders before exceptional items (£000)	13,113	2,181	10,445
Basic earnings per share before exceptional items (pence)	25.98	4.29	20.55
Diluted earnings per share before exceptional items (pence)	25.97	4.29	20.55