

## **Accounting policies**

### **Basis of accounting and consolidation**

The financial statements have been prepared under the historical cost convention and on a basis consistent with the Group's anticipated 2005 International Financial Reporting Standards ("IFRS") accounting policies.

The financial statements of the Group include the results of Laura Ashley Holdings plc and its subsidiaries and associated companies. The results of any subsidiary companies acquired or disposed of during the reporting period are included in the Group income statement from the effective date of acquisition to the date of disposal.

### **Associated undertakings**

Associated undertakings are those undertakings, other than subsidiaries, in which the Group holds a long-term participating interest and exerts significant influence. The Group's share of the profits less losses of its associated undertaking is shown in the Group income statement. The investment in its associated undertakings is stated at the Group's share of net assets less provisions.

Since the accounting policies of the associated undertaking do not necessarily conform in all respects to those of the Group, adjustments are made on consolidation where the amounts involved are material to the Group.

### **Revenue**

Revenue, which excludes value added taxes, represents the amounts receivable from customers for goods supplied and royalties and other similar income.

Royalty income is accounted for on an accruals basis to the extent that the expectation of such income can be reasonably quantified.

### **Financial instruments**

Short-term receivables and payables are not treated as financial instruments.

The Group does not hold or issue derivative financial instruments for trading purposes.

The principal derivative instruments used by the Group are forward exchange contracts, although occasionally swaps may also be used. The Group does not enter into speculative derivative contracts. Forward exchange contracts are used for hedging purposes to minimise the underlying exposure of the Group in accordance with the Group's risk management policies.

The costs and benefits arising from arrangements to mitigate the effect of exchange rate fluctuations on the results are dealt with in the income statement in the period in which the related exposure arises.

### **Currency translation**

Transactions denominated in foreign currencies are recorded at the budgeted rates of exchange for the period.

The income statements of subsidiary companies operating outside the United Kingdom ("the UK") are translated into sterling using average rates of exchange for the period. The net assets of such companies are translated into sterling at the rates of exchange prevailing at the balance sheet date.

Exchange differences that relate to the translation of net assets of overseas companies and to foreign currency borrowings to the extent that these provide a balance sheet hedge, together with any tax thereon, are taken directly to reserves.

Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing at the balance sheet date.

All transactional exchange differences are taken to the income statement.

**Leased assets**

Assets held under finance leases are capitalised and depreciated in the same manner as owned assets. Resulting lease obligations are included in other creditors and the interest element of rental obligations is charged to the income statement.

Rentals payable under operating leases are charged to the income statement, as incurred, and over the lease term.

**Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event; it is probable that a transfer of economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of obligation. Unless these conditions are met, no provision is recognised.

**Property, plant and equipment**

Depreciation of property, plant and equipment is calculated at rates estimated to write off the cost of the relevant assets, less any estimated residual value, by equal amounts over their expected useful lives. The principal lives used are:

|  |                 |
|--|-----------------|
| Freehold buildings and long leasehold property | 50 years        |
| Short leasehold property                       | Period of lease |
| Leasehold improvements                         | Period of lease |
| Plant and machinery                            | 10 years        |
| Vehicles                                       | 5 years         |
| Fixtures, fittings and equipment:              |                 |
| Computer systems                               | 5 years         |
| Shop fixtures and fittings                     | 5 years         |
| Other equipment, fixtures and fittings         | 5 to 10 years   |

Key money on properties, which is paid in certain European countries, is written down by 25% over 10 years, to its estimated recoverable amount.

Software development costs are capitalised as computer system expenditure.

**Payments on account and assets under construction**

In the course of capital projects where costs are incurred for payments on account and assets under construction or installation of equipment, they are not subject to depreciation until they are reclassified after their completion.

**Reverse premiums**

Reverse premiums received on the inception of lease agreements are released to the income statement over the primary period of the lease.

**Intangible assets**

Expenditure on intellectual property rights is amortised over the terms of the license.

**Investment in Group undertakings**

Investment in Group undertakings is stated at cost less provision for any impairment in value.

**Inventories**

Inventories are valued at the lower of average cost and net realisable value.

The cost of Group manufactured products includes all overheads based on a normal level of activity. Net realisable value is the price at which stocks can be sold in the normal course of business after allowing for the costs of realisation and, where appropriate, the cost of conversion from their existing state to a finished state.

**Deferred taxation**

Full provision is made for deferred taxation on all timing differences which have arisen but have not reversed at the balance sheet date, except as follows:

No provision is made for taxation liabilities which would arise on the distribution of profits retained by overseas subsidiaries, as there is no intention that such profits will be remitted in the foreseeable future.

Deferred tax is not recognised on timing differences arising when non-monetary assets are revalued unless there is a binding agreement to sell such an asset or the gain or loss expected to arise has been recognised.

**Pensions**

The Group operates various pension schemes for its permanent employees. For the UK defined benefit scheme, an independent actuary completes a valuation every three years, and in accordance with their recommendations, contributions are paid to the trustees of the scheme so as to secure the benefits as set out in the rules. The operating and financing costs of the scheme are recognised immediately in the income statement. The shortfall in the fair value of the plan assets as compared to the benefit obligation is provided in full in the balance sheet.