

LAURA ASHLEY

Interim Report 2008

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summary

- Total Group sales up 5.5% to £120.2m (2007: £113.9m).
- 1 percentage point margin improvement.
- Increase in UK retail sales by 7.3% to £95.7m.
- Profit before taxation and exceptionals up 13% to £4.5m (2007: £4.0m).
- Exceptional gain of £0.2 million (2007: £2.4 million).
- Interim dividend of 0.5 pence per share (10% of nominal value) will be paid on 7 November 2008 (2007: 0.5 pence per share)
- UK selling space up 11% to 835,000 sq. ft. in the period with 20 new stores opened in the first half of the year (January 2008: 751,000 sq. ft).
- E-Commerce sales have overtaken Mail Order sales for the first time.

“Once again we have delivered another trading period of higher sales, margins and profit. I am very pleased that we have achieved this against a continuing difficult economic climate. Trading conditions on the high street this year have been extremely challenging, with no indication that the economic situation is likely to improve in the short-term. However, I do believe we are well positioned with our continued focus on operational efficiency, product differentiation and innovation. In addition, I am delighted with the growing success of our E-commerce business and our store re-alignment programme and I am confident about the prospects of our franchise partners, particularly in Asia.”

K P Khoo
Chairman

chairman's statement

overview

For the 26 weeks to 26 July 2008, we are pleased to report an increase of 13% in profit before taxation and exceptional items to £4.5m, compared to £4.0m in 2007.

Total Group sales were up by £6.3m (5.5%) to £120.2m, compared to £113.9m in the previous year. Total UK retail sales increased in all categories except Furniture, which was marginally below last year. For the 26 weeks ended 26 July 2008, total UK store sales were up 7.3% to £95.7m (LFL -8.1%). Total sales growth has primarily been driven by our store realignment programme.

Gross margins have also increased by 1 percentage point in the first half of this financial year as a result of our ongoing focus on improved product offering and better sourcing. Operating expenses, excluding exceptional items, have risen by 7.9% to £53.2m (2007: £49.3m), primarily as a result of new store openings over the last twelve months, which have resulted in higher UK store property and employment costs.

The exceptional item for the current period of £0.2m relates to the gain on disposal of a store. In 2007, the exceptional gain of £2.4m was primarily due to a large credit which occurred as a result of a pension transfer value exercise. Including exceptional gains, profit before taxation for the 26 weeks to 26 July 2008 decreased by 27% to £4.7m (2007: £6.4m).

The Board has approved an interim dividend of 0.5 pence per share (10% of nominal value) that will be paid on 7 November 2008 (2007: 0.5p).

product

The relative split of UK sales in the 26 weeks to 26 July 2008 is as follows: Home Accessories 28% (H1 2007: 29%), Furniture 26% (H1 2007: 27%), Decorating 24% (H1 2007: 25%) and Fashion 22% (H1 2007: 19%).

home accessories

The Home Accessories product category includes lighting, gifts, bed linen, rugs, throws and cushions. The products epitomise Laura Ashley's focus on distinctive, inspirational and quality product offerings.

For the 26 weeks ended 26 July 2008, sales of Home Accessories

were up 1.6% (LFL -13.3%). We have seen strong growth in our Lighting and Home Accessories areas. Glass lamp bases and chandeliers continue to be successful and new innovative lighting products such as Bluma, Harrington and Lara all performed well. Our door stops, signs, photo frames and home fragrances, especially the new fresh linen and jasmine range, have all been key products contributing to Home Accessories' performance.

furniture

The Furniture product category includes upholstered furniture, beds and cabinet furniture.

The retail environment in the UK has been extremely challenging and, in particular sales of 'big ticket' items have been adversely impacted. For the 26 weeks ended 26 July 2008, Furniture sales were down 2.0% (LFL -13.2%).

We continue to deliver product differentiation and innovation, as seen in the successful launch of our Kempton chairs and Avignon cabinet furniture. Extensions to existing ranges, such as the Padstow and Kendal sofas and Darwin chairs, have also performed well.

* Laura Ashley calculates like-for-like sales after taking into account cannibalisation from stores opened as part of its store realignment strategy.

decorating

This category includes curtains, fabric, paint, decorative accessories and wall coverings. During the 26 weeks ended 26 July 2008, Decorating sales were up 3.8% (LFL -8.3%).

Our Made-to-Measure curtains and our statement print wallpaper were the best performing product ranges. Sales of our Made-to-Measure curtains were driven by the continued success of plain and embroidered silks and strong statement fabrics such as Marcianna cranberry and Ellington teal.

Wallpaper performance was driven by statement wallpapers with key colours such as linen, cranberry and duck egg. Short lead times from our factory in Wales continue to allow us to react to customer demand for best selling patterns and recolour popular prints within the season, which has led to improved sales.

fashion

For the 26 weeks ended 26 July 2008, UK retail Fashion sales increased, despite tough market conditions, by 23.9% (LFL +6.7%) mainly driven by a stronger product offer and the added space from new store openings.

Product categories that performed particularly well were knitwear which saw the third successive season of significant growth. Dresses also performed successfully, with a stronger co-ordinated offer across the collection in terms of colour, size and print.

UK operations retail stores

At 26 July 2008, the property portfolio in the UK comprised 225 stores, up from 208 six months ago. In the 26 weeks ended 26 July 2008, total selling space increased by 11% to 835,000 square feet. We have three main store types: mixed product stores (124), Home stores (69) and Home concession stores (32). We have continued to build on our strategy of identifying more cost effective locations and have opened 20 new stores in the first half, totalling 91,000 square feet of selling space. As part of the process of realigning our stores, three stores were closed (7,000 square feet) during the first half.

In the medium term, we intend to continue our store development programme, subject to our normal stringent property selection criteria.

direct sales

Our Direct Sales which comprise E-Commerce and Mail Order remain a vital part of our multi-channel retail strategy, representing 12% of total UK retail sales. For the 26 weeks ended 26 July 2008, total Direct sales were up 8.6% on last year driven by the increase in E-Commerce sales. Within this figure and reflecting the trend we have seen over the last three years, Mail Order sales were down 15.0% and E-Commerce sales were up 43.0%. For the first time E-Commerce sales have overtaken Mail Order sales during the period.

international operations

There are currently 216 franchised stores in 25 countries worldwide. Franchising activities outside the UK continue to be an important part of the Laura Ashley brand. In the 26 weeks ended 26 July 2008, franchise revenues decreased by £0.9m to £8.7m due to the temporary effects of our previously-announced strategic review with some of our franchisees. Recent trading with franchisees gives us confidence that normal performance will be resumed for year-end.

Our Asian franchise partner has major plans to develop the China market where it has been

chairman's statement continued

agreed that 80 stores will be opened over the next five years. Opportunities with partners in various other territories are close to finalisation.

In the 26 weeks ended 26 July 2008, licensing income decreased by £0.1m to £1.8m, due mainly to lower sales from North American licensees.

dividend

A final dividend in respect of the financial year ended 26 January 2008 of 1.0 pence per ordinary share (20% of nominal value) was paid on 6 June 2008. When taken with a first interim dividend of 0.5 pence per share and a second interim dividend of 0.5 pence per share, this took the total dividend for the year ended 26 January 2008 to 2.0 pence per share.

On 23 September 2008, the Board approved the payment of an interim dividend of 0.5 pence per ordinary share (10% of nominal value). This interim dividend will be paid on 7 November 2008 to holders of ordinary shares on the register at the close of business on 17 October 2008.

The Board will continue to review dividend payments on the basis of annual profitability taking into account the future development of the business.

current trading and outlook

In the 33 weeks to 13 September 2008, total UK retail sales were up 4.3%. For the same period, like-for-like sales were down -11.6%. Margin rates have continued to improve compared to the same period last year. However, the tough trading conditions experienced in the first half continue, with little sign of the UK retail market in which we operate improving.

We continue to exploit opportunities within and outside the UK to expand the business through our various channels. We are working on improvements to our website to increase the visits and sales, as we consider it a key part of our business. Our product offerings continue to be innovative and design led with strong statement fabrics and wallpaper as evidenced by successful new product launches and extensions of best selling existing products. Improvements in service levels include shortening lead times and selectively increasing our total selling space through our store realignment programme.

In light of the current economic climate, we are approaching the second half of this year cautiously.

K P Khoo
Chairman

responsibility statement

We confirm that to the best of our knowledge:

- a) The condensed set of financial statements has been prepared in accordance with IAS 34;
- b) The interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- c) The interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of material related party transactions and changes therein).

By order of the Board

David Cook

Finance Director

condensed group income statement

for the 26 weeks ended 26 July 2008

	26 weeks to 26 July 2008 (unaudited) £m	26 weeks to 28 July 2007 (unaudited) £m	52 weeks to 26 January 2008 (audited) £m
Revenue	120.2	113.9	237.6
Cost of sales	(62.8)	(61.5)	(125.8)
Gross profit	57.4	52.4	111.8
Operating expenses	(53.0)	(46.9)	(93.3)
Profit from operations	4.4	5.5	18.5
Share of operating profit of associate	0.1	0.4	0.3
Dividend income	0.1	–	–
Finance income	0.1	0.5	1.0
Profit before taxation	4.7	6.4	19.8
Taxation	(1.1)	(2.2)	(5.8)
Profit for the period	3.6	4.2	14.0
Earnings per share – basic and diluted	0.49p	0.57p	1.90p

The Group's results shown above are derived entirely from continuing operations.

There were no recognised gains or losses other than those included in the Condensed Group Income Statement.

condensed group balance sheet

as at 26 July 2008

	At 26 July 2008 (unaudited) £m	At 28 July 2007 (unaudited) £m	At 26 January 2008 (audited) £m
Non-current assets			
Property, plant and equipment	38.8	31.2	35.4
Deferred tax asset	1.8	1.9	1.8
Investment in associate	3.5	3.3	3.6
Investment in quoted shares	2.4	1.1	2.1
	46.5	37.5	42.9
Current assets			
Inventories	42.3	36.3	39.5
Trade and other receivables	19.2	21.0	26.7
Cash and cash equivalents	14.8	21.3	29.2
	76.3	78.6	95.4
Total assets	122.8	116.1	138.3
Current liabilities			
Current tax liabilities	(1.8)	0.4	(1.2)
Bank borrowings	1.0	–	–
Trade and other payables	64.2	52.0	69.3
	63.4	52.4	68.1
Non-current liabilities			
Retirement benefit liabilities	6.4	6.4	6.5
Deferred tax liabilities	1.4	–	1.4
Provisions and other liabilities	0.3	0.1	0.4
	8.1	6.5	8.3
Total liabilities	71.5	58.9	76.4
Net assets	51.3	57.2	61.9
Equity			
Share capital	37.3	37.3	37.3
Share premium	86.4	86.4	86.4
Own shares	(0.8)	(0.8)	(0.8)
Retained earnings	(71.6)	(65.7)	(61.0)
Total equity	51.3	57.2	61.9

condensed group statement of changes in shareholders' equity

for the 26 weeks ended 26 July 2008

	Share Capital £m	Share Premium £m	Own Shares £m	Retained Earnings £m	Total Equity £m
Balance as at 27 January 2007	37.3	86.4	(0.8)	(61.2)	61.7
Profit for the 6 months ended 28 July 2007	–	–	–	4.2	4.2
Exchange differences on translation of investments	–	–	–	(0.2)	(0.2)
Dividends paid	–	–	–	(7.4)	(7.4)
Purchase of own shares	–	–	–	(1.1)	(1.1)
Balance as at 28 July 2007	37.3	86.4	(0.8)	(65.7)	57.2
Profit for the 6 months ended 26 January 2008	–	–	–	9.8	9.8
Exchange differences on translation of investments	–	–	–	0.3	0.3
Dividends paid	–	–	–	(3.7)	(3.7)
Purchase of own shares	–	–	–	(1.1)	(1.1)
Unrealised investment loss	–	–	–	(0.6)	(0.6)
Balance as at 26 January 2008	37.3	86.4	(0.8)	(61.0)	61.9
Profit for the 6 months ended 26 July 2008	–	–	–	3.6	3.6
Exchange differences on translation of investments	–	–	–	(0.1)	(0.1)
Dividends paid	–	–	–	(10.9)	(10.9)
Purchase of own shares	–	–	–	(1.4)	(1.4)
Unrealised investment loss	–	–	–	(1.8)	(1.8)
Balance as at 26 July 2008	37.3	86.4	(0.8)	(71.6)	51.3

condensed group cash flow statement

for the 26 weeks ended 26 July 2008

	26 weeks to 26 July 2008 (unaudited) £m	26 weeks to 28 July 2007 (unaudited) £m	52 weeks to 26 January 2008 (audited) £m
Operating activities			
Cash generated from operations	5.7	5.2	27.2
Corporation tax paid	(1.7)	(2.4)	(6.2)
Dividends paid	(10.9)	(7.4)	(11.1)
Dividends received	0.1	–	–
Finance income	0.1	0.5	1.0
	(6.7)	(4.1)	10.9
Investing activities			
Purchase of property, plant and equipment	(5.5)	(4.5)	(10.9)
Sale of property, plant and equipment	0.2	0.1	1.9
Purchase of investment	(2.1)	(0.7)	(2.1)
Net cash received from associate	0.1	0.1	0.1
	(7.3)	(5.0)	(11.0)
Financing activities			
Purchase of own shares	(1.4)	(1.1)	(2.2)
Bank borrowings	1.0	–	–
Payment of finance lease obligations	–	(0.2)	(0.2)
	(0.4)	(1.3)	(2.4)
Net decrease in cash and cash equivalents	(14.4)	(10.4)	(2.5)

reconciliation of net cash flow to movement in net funds

for the 26 weeks ended 26 July 2008

	26 weeks to 26 July 2008 (unaudited) £m	26 weeks to 28 July 2007 (unaudited) £m	52 weeks to 26 January 2008 (audited) £m
Net decrease in cash and cash equivalents	(14.4)	(10.4)	(2.5)
Cash (outflow)/inflow from changes in loans and leases	(1.0)	0.2	0.2
Change in net funds resulting from cash flows	(15.4)	(10.2)	(2.3)
Net funds at the beginning of the period	29.2	31.5	31.5
Net funds at the end of the period	13.8	21.3	29.2

notes

1 basis of preparation

This condensed set of financial statements has been prepared in accordance with the requirements of IAS 34 'Interim Financial Reporting' as adopted by the European Union ('EU').

As required by the Disclosure and Transparency Rules of the UK's Financial Services Authority, the condensed set of financial statements has been prepared by applying the accounting policies and presentation that were applied in the preparation of the Company's published consolidated financial statements for the financial year ended 26 January 2008, which were prepared in accordance with International Financial Reporting Standards as adopted by the EU.

These half-year condensed financial statements are unaudited and do not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985.

notes continued

2 segmental analysis

	26 weeks to 26 July 2008 Total (unaudited) £m	26 weeks to 28 July 2007 Total (unaudited) £m	52 weeks to 26 January 2008 Total (audited) £m
Revenue			
Retail	109.1	101.6	212.4
Non-retail	11.1	12.3	25.2
	120.2	113.9	237.6
Profit before taxation			
Branch contribution			
Retail	10.5	13.4	32.9
Non-retail	4.7	4.7	8.4
	15.2	18.1	41.3
Indirect overhead costs	(10.8)	(12.6)	(22.8)
Profit from operations	4.4	5.5	18.5
Share of operating profit of associate	0.1	0.4	0.3
Dividend income	0.1	–	–
Finance income	0.1	0.5	1.0
Profit before taxation	4.7	6.4	19.8

Retail revenue reflects sales through Laura Ashley's managed stores, Mail Order and E-Commerce. Non-retail revenue includes Licensing, Franchising and Manufacturing.

Branch contribution is stated after deducting direct operating expenses, buying, marketing and administrative costs.

3 taxation

Taxation has been calculated by applying the forecast full year effective rate of tax in the individual fiscal territories to the results for this period.

4 earnings per share

	26 weeks to 26 July 2008 (unaudited)	26 weeks to 28 July 2007 (unaudited)	52 weeks to 26 January 2008 (audited)
Basic and diluted earnings attributable to ordinary shareholders (£m)	3.6	4.2	14.0
Weighted average number of ordinary shares – basic and diluted ('000)	731,063	738,501	736,224
Earnings per share	0.49p	0.57p	1.90p

Basic and diluted earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares during the period.

In the opinion of the directors, there are no dilutive instruments.

notes continued

5 reconciliation of profit from operations to net cash inflow from operating activities

	26 weeks to 26 July 2008 (unaudited) £m	26 weeks to 28 July 2007 (unaudited) £m	52 weeks to 26 January 2008 (audited) £m
Profit from operations	4.4	5.5	18.5
Depreciation charge	2.1	2.3	4.3
Profit on sale of property, plant and equipment	(0.2)	(0.1)	(1.7)
Change in inventories	(2.8)	1.4	(1.8)
Change in receivables	7.5	(0.2)	(5.9)
Change in payables	(5.1)	2.0	19.3
Change in provisions and other liabilities	(0.2)	(5.7)	(5.5)
Net cash inflow from operating activities	5.7	5.2	27.2

6 related party transactions

The related party transactions that have occurred in the 26 weeks ended 26 July 2008 are not materially different in size or nature to those reported in the Company's Annual Report for the financial year ended 26 January 2008.



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