

LAURA ASHLEY

Interim Report 2007

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summary

- Total Group sales up 6.9% to £113.9m (2006: £106.5m).
- UK retail sales have increased 9.3% to £89.2m (LFL –7.1%).
- Margin rate continues to improve with a 2 percentage point increase.
- Profit before taxation up 113% to £6.4m (2006: £3.0m).*
- Interim dividend of 0.5 pence per share (10% of nominal value) will be paid on 12 October 2007 (2006: 0.5 pence per share).
- Continued strong cash position and an ungeared balance sheet.
- UK selling space up 8% to 672,000 sq. ft. with 13 new stores opened.
- 2007 winner of the Homes and Gardens 'Retailer of the Year Award'.

*This amount includes an exceptional gain of £2.4m (2006: nil).

"I am delighted with the strong results for the first half of this financial year. The improved profitability is a result of our successful store realignment programme, improved product offering and continued focus on operational efficiency. Despite the challenging economic conditions, we have confidence in the outlook for the Company."

K P Khoo
Chairman

chairman's statement

overview

For the 26 weeks to 28 July 2007, we are pleased to report an increase in profit before taxation of 113% to £6.4m, compared to £3.0m in 2006. The profit for the first half of this financial year includes a large pension credit which has occurred as a result of a transfer value exercise that completed on 16 July 2007. Excluding exceptional gains, profit before taxation for the 26 weeks to 28 July 2007 increased by 33% to £4.0m (2006: £3.0m).

Total Group sales were up by £7.4m (6.9%) to £113.9m, compared to £106.5m in the previous year. Total UK retail sales increased in all categories except Furniture, which was flat on last year. For the 26 weeks ended 28 July 2007, total UK store sales were up 9.3% to £89.2m (LFL -7.1%). Total sales growth has primarily been driven by our store realignment programme, which, in the short term, has impaired LFL sales.

This is largely due to the effects of cannibalisation of existing stores by new stores. We believe a more accurate sales LFL would be -3.9%; a figure that is in line with the broader retail market. Gross margins have also increased by 2 percentage points in the first half of this financial year, as a result of our

ongoing focus on better product and better sourcing. Operating expenses have risen by 5.6% to £46.9m (2006: £44.4m) primarily as a result of new store openings over the last 12 months, which have resulted in higher UK store property and employment costs.

The Board has approved an interim dividend of 0.5 pence per share (10% of nominal value) that will be paid on 12 October 2007.

product

The UK business is split into four main categories. The relative split of UK sales is as follows: Home Accessories 29%, Furniture 27%, Decorating 25% and Fashion 19%.

home accessories

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

For the 26 weeks ended 28 July 2007, sales of Home Accessories were up 8.7% (LFL -7.0%). This improvement in sales was principally driven by increasing the number of size options available in our successful bedspread ranges, such as Mia, together with more competitive

pricing of our bed linen ranges. Our mirrored products and gift products have also sold well, in particular room fragrances as well as storage and mirrored jewellery boxes. Our lighting areas have been successful, particularly with non-electric chandeliers and carrying over the Isadore print to various lighting products. We have also benefited from improved gross margins driven by our distinctive products, which need less promotion.

furniture

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

In common with many retailers in the UK, we have experienced tough trading conditions that have adversely impacted the Furniture category. The effect of rising interest rates, inflation, and a general reduction in consumer confidence has affected sales of big-ticket furniture items. For the 26 weeks ended 28 July 2007, Furniture sales were flat (LFL -12.2%). Promotional activity and gross margins have remained at similar levels to last year.

Despite the difficult trading conditions, sales have benefited from the expansion of some of our existing products such as

the Devon range of furniture. We continue to work on product differentiation and innovation: new ranges such as Bramley and the Colinton chair have been extremely successful and serve to differentiate Laura Ashley from other high street retailers.

decorating

This category includes curtains, fabric, paint, decorative accessories and wall coverings. During the 26 weeks ended 28 July 2007, Decorating sales were up 10.1% (LFL -1.7%).

Our range of statement print wallpapers, many sourced from our unique archive, has continued to perform extremely well. Made-to-measure silk curtains such as the recently introduced Blenheim design, have proved to be very popular. Our roomset "By The Sea" theme has sold well and been extensively covered in consumer publications.

Changes in product mix and sourcing arrangements have resulted in improved margin rates to the extent that LFL margin for the 26 weeks ended 28 July 2007 was up 1.6%.

fashion

For the 26 weeks ended 28 July 2007, UK retail Fashion sales increased by 4.2% (LFL -6.4%),

driven by new store openings and the full year effect of stores converted from Home only product to mixed product. For the same period last year, LFL sales increased by 45% as Fashion emerged from a period of consolidation.

In the first half of the current financial year, another strong season on dresses was experienced. Woven linen dresses, both plain and printed, were a particular success. In addition, the knitted dress category continues to grow. Improvements to fabric, fit and styling have resulted in higher sales of trousers. On knitwear, cardigans performed strongly, particularly styles designed to be worn with dresses.

Tighter control over stock levels, reduced markdown levels and improved intake margin have resulted in a significant improvement in gross margin rates

UK operations retail stores

At 28 July 2007, the property portfolio in the UK comprised 196 stores, up from 178 one year ago. In the 26 weeks ended 28 July 2007, total selling space has increased by 8% to 672,000 square feet. We have three main store types: mixed product

stores (101), Home stores (65) and Home concession stores (30). We have continued to build on our strategy of identifying more cost effective locations and have opened 13 new stores in the first half, totalling 60,000 square feet of selling space. As part of the process of realigning our stores, 6 stores were closed (12,000 square feet) during the first half.

For the remainder of the current financial year and next year, we intend to continue our store development programme at a similar rate, subject to our normal property selection criteria.

mail order and e-commerce

Our Mail Order and E-Commerce channels remain a vital part of our multi-channel retail strategy, representing 12% of total UK retail sales. For the 26 weeks ended 28 July 2007, total Mail Order and E-commerce sales were up 3.1% on last year. Within this figure and reflecting the trend we have seen over the last 3 years, Mail Order sales were down 12.0% and E-Commerce sales were up 36.8%. Margin rates are in line with last year.

Increasingly, our website is an important 'first step' for

chairman's statement continued

customers before they come in to store. As well as being a valuable retail channel, it is a powerful online catalogue for customers wishing to browse both Fashion and Home products that are later bought in store. At 28 July 2007, we had 443,000 registered E-Commerce customers (2006: 383,000).

International operations franchising

There are currently 206 franchised stores in 28 countries worldwide. Franchising activities outside of the UK continue to be an important part of the Laura Ashley brand. In the 26 weeks ended 28 July 2007, Franchise revenues decreased by £0.2m to £9.6m, mainly due to reduced sales in the Far East.

licensing

In the 26 weeks ended 28 July 2007, Licensing income decreased by £0.2m to £1.9m. This represents the loss of one North American licensee. However, in the first half of the current financial year, revenues have increased from new licensees signed up over the last 12 months.

pensions

As part of our ongoing efforts to reduce pension risk, the Company conducted a transfer value exercise that entailed

making offers of incentive payments totalling £2.3m during the first half of the current financial year, to deferred members of the Laura Ashley pension scheme to take a reduced transfer value to an alternative pension scheme of their choice. The effect of this exercise was a deficit reduction of £4.6m and a net benefit to the Company of £2.3m, which is included in the profit and loss account for the 26 weeks ended 28 July 2007. In addition, the Company contributed £1.3m (2006: £0.4m) into the pension fund.

dividend

An interim dividend in respect of the financial year ended 27 January 2007 of 0.5 pence per ordinary share (10% of nominal value) was paid on 16 February 2007.

On 1 June 2007, shareholders approved the payment of a final dividend of 0.5 pence per share (10% of nominal value), taking the total dividend for that year to 1 pence per share (20% of nominal value), representing a 100% increase year on year. This dividend was paid on 5 June 2007.

On 16 September 2007, the Board approved the payment of an interim dividend of 0.5 pence

per share (10% of nominal value). This interim dividend will be paid on 12 October 2007 to holders of ordinary shares on the register at the close of business on 28 September 2007.

current trading

In the 32 weeks to 8 September 2007, total UK retail sales were up 4.5%. LFL performance (-8.3%) reflects the continued cannibalisation effect of our new store opening programme, as discussed above, and challenging UK retail conditions. All our product offerings remain resilient and we continue to increase total selling space through our store realignment programme.

Trading conditions on the high street, this year, have been difficult and we are not immune. We are, however, committed to continue our focus on store realignment, improved product offering and increased operational efficiency. We believe this focus will lead to further growth in profitability in the second half of the current financial year.

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 28 July 2007

	26 weeks to 28 July 2007 (unaudited) £m	26 weeks to 29 July 2006 (unaudited) £m	52 weeks to 27 January 2007 (audited) £m
Revenue	113.9	106.5	225.0
Cost of sales	(61.5)	(59.8)	(123.1)
Gross profit	52.4	46.7	101.9
Operating expenses	(46.9)	(44.4)	(90.7)
Profit from operations	5.5	2.3	11.2
Share of operating profit of associate	0.4	0.4	0.4
Finance income	0.5	0.5	0.9
Finance costs	–	(0.2)	(0.3)
Profit before taxation	6.4	3.0	12.2
Taxation	(2.2)	(1.1)	(4.2)
Profit for the period	4.2	1.9	8.0
Earnings per share – basic and diluted	0.57p	0.26p	1.08p

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

condensed group balance sheet

as at 28 July 2007

	At 28 July 2007 (unaudited) £m	At 29 July 2006 (unaudited) £m	At 27 January 2007 (audited) £m
Non-current assets			
Property, plant and equipment	31.2	28.2	29.0
Deferred tax asset	1.9	3.9	3.7
Investment in associate	3.3	3.4	3.3
Investment in quoted shares	1.1	0.7	0.6
	37.5	36.2	36.6
Current assets			
Inventories	36.3	40.6	37.7
Trade and other receivables	21.0	21.4	20.8
Cash and cash equivalents	21.3	18.5	31.7
	78.6	80.5	90.2
Total assets	116.1	116.7	126.8
Current liabilities			
Current tax liabilities	0.4	2.2	2.5
Obligations under finance leases	–	0.4	0.2
Trade and other payables	52.0	44.5	50.0
	52.4	47.1	52.7
Non-current liabilities			
Retirement benefit liabilities	6.4	13.3	12.3
Provisions and other liabilities	0.1	0.3	0.1
	6.5	13.6	12.4
Total liabilities	58.9	60.7	65.1
Net assets	57.2	56.0	61.7
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	(65.7)	(66.9)	(61.2)
Total equity	57.2	56.0	61.7

condensed group statement of changes in shareholders' equity

for the 26 weeks ended 28 July 2007

	share capital fm	share premium fm	own shares fm	retained earnings fm	total equity fm
Balance as at 28 January 2006	37.3	86.4	(0.8)	(63.9)	59.0
Profit for the 6 months ended 29 July 2006	–	–	–	1.9	1.9
Exchange differences on translations of investments	–	–	–	(0.2)	(0.2)
Dividends paid	–	–	–	(3.7)	(3.7)
Purchase of own shares	–	–	–	(1.0)	(1.0)
Balance as at 29 July 2006	37.3	86.4	(0.8)	(66.9)	56.0
Profit for the 6 months ended 27 January 2007	–	–	–	6.1	6.1
Exchange differences on translation of investments	–	–	–	(0.4)	(0.4)
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

condensed group cash flow statement

for the 26 weeks ended 28 July 2007

	26 weeks to 28 July 2007 (unaudited) £m	26 weeks to 29 July 2006 (unaudited) £m	52 weeks to 27 January 2007 (audited) £m
Operating activities			
Cash generated from operations	5.2	4.1	23.5
Corporation tax paid	(2.4)	(0.7)	(3.5)
Dividends paid	(7.4)	(3.7)	(3.7)
Finance income	0.5	0.5	0.9
Finance costs	–	(0.2)	(0.3)
	(4.1)	–	16.9
Investing activities			
Purchase of property, plant and equipment	(4.5)	(2.0)	(5.6)
Sale of property, plant and equipment	0.1	–	0.2
Purchase of investment	(0.7)	(0.6)	(0.7)
Net cash received from associate	0.1	0.1	0.1
	(5.0)	(2.5)	(6.0)
Financing activities			
Purchase of own shares	(1.1)	(1.0)	(1.0)
Payment of finance lease obligations	(0.2)	(0.1)	(0.3)
	(1.3)	(1.1)	(1.3)
Net (decrease)/increase in cash and cash equivalents	(10.4)	(3.6)	9.6

reconciliation of net cash flow to movement in net funds

for the 26 weeks ended 28 July 2007

	26 weeks to 28 July 2007 (unaudited) £m	26 weeks to 29 July 2006 (unaudited) £m	52 weeks to 27 January 2007 (audited) £m
Net (decrease)/increase in cash and cash equivalents	(10.4)	(3.6)	9.6
Cash inflow from changes in leases	0.2	0.1	0.3
Change in net cash during the period	(10.2)	(3.5)	9.9
Net funds at the beginning of the period	31.5	21.6	21.6
Net funds at the end of the period	21.3	18.1	31.5

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 27 January 2007, 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.

2 dividends

During the 26 weeks ended 28 July 2007, the Company paid a total dividend in relation to the financial year ended 27 January 2007 of 1.0p per ordinary share.

notes continued

3 segmental analysis

	26 weeks to 28 July 2007	26 weeks to 29 July 2006	52 weeks to 27 January 2007
	Total (unaudited)	Total (unaudited)	Total (audited)
	£m	£m	£m
Revenue			
Retail	101.6	93.6	199.7
Non-retail	12.3	12.9	25.3
	113.9	106.5	225.0
Profit before taxation			
Branch contribution			
Retail	13.4	9.0	24.3
Non-retail	4.7	4.4	7.6
	18.1	13.4	31.9
Indirect overhead costs	(12.6)	(11.1)	(20.7)
Profit from operations	5.5	2.3	11.2
Share of operating profit of associate	0.4	0.4	0.4
Finance income	0.5	0.5	0.9
Finance costs	–	(0.2)	(0.3)
Profit before taxation	6.4	3.0	12.2

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.

4 principal exchange rates

	26 weeks to 28 July 2007		26 weeks to 29 July 2006		52 weeks to 27 January 2007	
	average	period end	average	period end	average	period end
US Dollar	1.98	2.03	1.80	1.87	1.86	1.96
Euro	1.48	1.49	1.45	1.46	1.47	1.52
Japanese Yen	239	241	208	214	217	238

5 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.

6 earnings per share

	26 weeks to 28 July 2007 (unaudited)	26 weeks to 29 July 2006 (unaudited)	52 weeks to 27 January 2007 (audited)
Basic and diluted earnings attributable to ordinary shareholders (£m)	4.2	1.9	8.0
Weighted average number of ordinary shares – basic and diluted ('000)	738,501	742,570	741,202
Earnings per share	0.57p	0.26p	1.08p

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.

notes continued

7 reconciliation of operating profit to net cash inflow from operating activities

	26 weeks to 28 July 2007 (unaudited) £m	26 weeks to 29 July 2006 (unaudited) £m	52 weeks to 27 January 2007 (audited) £m
Operating profit	5.5	2.3	11.2
Unrealised investment loss	0.2	–	–
Depreciation charge	2.3	2.8	5.6
Profit on sale of property, plant and equipment	(0.1)	–	(0.1)
Change in inventories	1.4	(5.6)	(2.7)
Change in receivables	(0.2)	1.3	1.9
Change in payables	2.0	3.2	8.7
Change in provisions and other liabilities	(5.9)	0.1	(1.1)
Net cash inflow from operating activities	5.2	4.1	23.5

8 related party transactions

The related party transactions that have occurred in the 26 weeks ended 28 July 2007 are not materially different in size or nature to those reported in the Company's Annual Report for the year ended 27 January 2007.



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