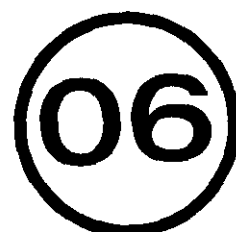


A brighter future in store



Annual Report & Accounts 2006



Homestyle group

- £451 million annual turnover
- 562 stores
- £62.5 million net assets
- 29% gearing

HOMESTYLE
GROUP PLC

www.homestylegroup.com

Beds division

£189 million

The UK's largest specialist bed retailer targeting branded and own-brand products at the mid-market and value conscious consumer.

222 stores

www.bensonsforbeds.co.uk
www.bensons4beds.co.uk

117 stores

www.homestylegroup.com

53 stores

www.thebedshed.net

Furniture division

£262 million

Out-of-town furniture retailer targeting value-for-money products at aspirational consumers.

170 stores

www.harveys4furniture.co.uk

A brighter future in store

Refinancing in 2005 secured a brighter future for Homestyle and the new management team has acted quickly with far reaching initiatives across the business. The group now comprises two fundamentally sound retail divisions that provide the foundations for maximising shareholder value through improved profitability.

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Donald Macpherson

Chairman

Chairman's statement

Following the re-financing of the group in June 2005, the last year has been a period of stabilisation and reinvigoration for our businesses.

Since then, significant challenges in the trading environment combined with management changes and a variety of operational issues have all been addressed through decisive action by a largely new executive team. The result of this work is an improving profitability trend and trading operations that are much better positioned to deliver profitable long-term growth. The commercial partnership with our majority shareholder, Steinhoff, has been a notable success opening up new sources of product to our businesses on improved commercial terms. The full benefits of this relationship are only now beginning to come through.

Financials

As previously announced, we have changed the accounting period to align with Steinhoff's year end. Turnover for the 61 weeks to 1 July 2006 was £507.3 million with a pre-tax loss of £20.6 million before reorganisation costs of £4.0 million. Loss before tax was £24.6 million. However, for the 52 weeks ending 1 July 2006, the results are considerably better with turnover of £451.1 million generating a pre-tax loss of £5.0 million before one-off reorganisation costs of £4.0 million. These figures largely reflect the financial difficulties the group was facing prior to the refinancing and at the start of the 61 week period on which we are reporting. The balance sheet has been strengthened with net assets as at 1 July 2006 of £62.5 million (30th April 2005: £14.2 million net liabilities) and net gearing of 29%. The overall pensions deficit before tax has decreased by £6.5 million to £10.9 million with plans in place to reduce it further. The Board does not propose to pay a dividend for the period.

Furniture division

Our trading operations have faced quite different challenges during the last year. The furniture division trading under the Harveys brand from 170 locations across the UK was able to benefit from the renewed financial strength of the group by recommencing national advertising thereby raising brand awareness considerably. Combined with more attractive store layouts and improved value product ranges, this resulted in like for like sales order growth of 15.5% in the 52 weeks to 1 July 2006.

Unfortunately, this sales success was held back by legacy supply chain processes which have subsequently been reorganised and resulted in one-off distribution costs of £4 million in the period. A new logistics management team has now been appointed and considerable improvements have been achieved in stock management and through a reduction in warehouse space since the reorganisation.

The furniture division results for the 61 week period to 1st July 2006 show turnover of £288.0 million and an operating loss of £22.8 million before £4.0 million of one-off items. The corresponding figures for the 52 weeks to 1st July 2006 are turnover of £262.2 million and an operating loss of £10.4 million before one-off items. This result is a clear step forward from the operating loss of £24.9 million before one-off items, recorded in the 26 weeks to 29 October 2005. The action plan in place to address issues that have held back the financial performance in recent months is already driving improvements and the future prospects are starting to look much brighter.

The large property portfolio occupied by Harveys in the UK has generated a number of trading opportunities, which



we are only beginning to address. During the year we have closed 7 stores, relocated 2 stores and opened 2 stores and we see further opportunities to rebalance our retail portfolio going forward.

Beds division

The beds division retails from 392 stores under three separate fascias: Bensons, Sleepmasters and Bed Shed. The departure of most of the former senior management team after the refinancing caused a number of operational problems during the period. A loss of momentum in the division was apparent throughout 2005 as the incumbent management worked out their notice periods through to September of that

Chairman's statement

continued

year and as we focused on putting in place a new management team with the right skills and experience. A new Divisional Managing Director, Bill Carrahar, was appointed in late 2005 together with new Operations Directors for each of the three fascias and new marketing, buying and personnel appointments in the largest fascia, Bensons. The new team is coming together well and re-energising the business. This new momentum is reflected in improved product ranges, better sales management disciplines and refreshed promotional campaigns.

During the period, concession arrangements were terminated by the two retail chains with which formal long-term agreements were not in place. This resulted in a short-term loss of turnover and one-off asset write offs from exiting the stores. We believe that the business will be stronger in the long-term as it is no longer exposed to the unpredictable actions of other retailers.

To counteract the impact of this loss of turnover, the new management team has opened 41 new stores since the end of the last financial year with much more secure arrangements in place. Further expansion is planned during the forthcoming year.

The beds division results for the 61 weeks to 1 July 2006 show turnover of £219.3 million generating an operating profit of £3.4 million. The corresponding figures for the 52 weeks to 1 July 2005 are turnover of £188.9 million and an operating profit of £5.6 million. In light of the exceptional issues that the division has had to address, outlined above, this is a respectable performance and the changes that have been made leave the division well positioned for the future.

Board

During the year a number of Board changes took effect. I was confirmed as Chairman in January 2006. In September 2005, we were pleased to announce the

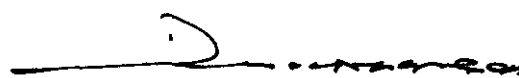
appointment of David Sussman as a non-executive Director. David is the Chairman of JD Group, one of the largest retail groups in South Africa and we are already benefiting from his commercial experience and extensive knowledge of the retail sector. Sarah Grünwald, a non-executive Director since December 2003, resigned from the Board in September 2005.

Martin Towers, a non-executive Director since February 2004, retired from the Board with effect from 30 August 2006. We are most grateful to Martin for his enormous support and valuable contribution during the last two years as the group has been restructured and refinanced. Rian du Plessis, a non-executive Director since July 2005, will take on the important role of Audit Committee Chairman and David Sussman will become the Senior Independent Director with both posts arising as a result of Martin's departure.

Outlook

As with other retailers, recent trading conditions through the warmer summer period have been testing for our businesses.

Against the backdrop of difficult trading conditions, we have taken a number of decisive actions to improve performance. As a result, both divisions are in more robust health than at any point for some years and are facing the future with fresh enthusiasm. We have a strong balance sheet, rejuvenated trading businesses, a dedicated management team and an exciting commercial partnership with Steinhoff; the ingredients are now in place for long-term success.



Donald Macpherson
Chairman
2 October 2006

Forty-one new stores across the three bed division brands – Bensons, Sleepmasters and Bed Shed – were opened in the period, including this new superstore in Nottingham

Review of operations

Homestyle enjoys leading positions in each of the home related markets in which it operates, through the strong retail park brands Harveys, Bensons, Sleepmasters and Bed Shed. The group's aim is to maximise shareholder value by improving the profitability of its retail businesses.

Highlights

- Overall performance reflects legacy of previously announced historic problems:
 - 61 weeks to 1 July 2006: turnover of £507.3 million with pre-tax loss of £20.6 million before reorganisation costs at Harveys of £4.0 million. Loss before tax of £24.6 million.
 - 26 weeks to 29 October 2005: turnover of £182.8 million with pre-tax loss of £23.3 million before one-off items.
- Much improved performance as year progressed with recovery initiatives being rolled out:
 - 52 weeks to 1 July 2006: turnover of £451.1 million with pre-tax loss of £5.0 million before one-off items of £4.0 million in relation to reorganisation costs at Harveys.
- Harveys sales order growth of 15.5% in 52 weeks to 1 July 2006.
- Progress on Harveys' legacy supply chain issues, but one-off distribution costs incurred in supporting sales growth.
- Beds Division new management team appointed and business re-energised with renewed focus on training and development of staff.
- Relationship with Steinhoff companies working well leading to improved product innovation and commercial terms.

Markets

The group operates in the furniture and beds retail market within the UK; a sizeable market but one which is highly competitive due to the large number of players.

Price competition remains inherent at the lower end of the market and the impact from the entry of non-specialists such as the supermarkets into this product category will further increase competitive activity.

We believe that the differentiators of outstanding value with improving product quality, customer service and delivery consistency will be a key focus of the sector. There will also be ongoing consolidation of companies in both the manufacturing and retail sectors in the future.

We continue to address these issues by maintaining product innovation, by continuous training and development of our staff and by rationalising our delivery structure and processes. In addition, our commercial relationship with Steinhoff is steadily increasing and proving beneficial, particularly in the area of product development.

Logistics services within both divisions have been improved.

The results can be summarised as follows:

	61 weeks to 1 July 2006 £000	52 weeks to 30 April 2005 £000
Analysis of revenue		
<i>Continuing operations</i>		
Furniture retailing	288,001	253,495
Bed retailing	219,285	200,078
Total	507,286	453,573
<i>Discontinued operations</i>		
Home Textiles Retailing	–	11,395
	507,286	464,968
Analysis of operating loss*		
<i>Continuing operations</i>		
Furniture retailing	(26,776)	(26,331)
Bed retailing	3,369	13,127
	(23,407)	(13,204)
<i>Discontinued operations</i>		
Home Textiles Retailing	–	601
	(23,407)	(12,603)

* Operating loss is stated before interest and tax and after one-off items (see page 35)

	1 July 2006 £000	30 April 2005 £000
Analysis of net assets		
Non-current assets	141,794	151,903
Net current liabilities	(61,698)	(132,220)
Non-current liabilities	(17,613)	(33,837)
Net assets/(liabilities)	62,483	(14,154)
Net debt	(18,337)	(70,250)
Gearing	29.3%	N/A

The Martina is one of the new ranges in the beds division.

Brighter ideas for the future

National advertising, innovative in-store merchandising, new products and overseas manufacturing are helping to re-establish Harveys in the competitive furniture retailing market.

Following the refinancing of the group in mid 2005, Harveys was able to focus more clearly on its future trading strategy rather than survival. New product introductions from settled supplier relationships were backed up by the recommencement of national advertising

£4 million as well as annualised cost savings. Thirdly, a range of stronger management disciplines and measures have been introduced reflecting the increased demands on the logistics system. These changes augur well for the future.

Following an extended period of limited property activity, the last year has seen a marked increase in tempo in the management of the property portfolio. 7 stores were closed in the period with 2 relocations and 2 new openings. It is expected that this more active approach

in August 2005. This gave new momentum to the business resulting in a strong uplift in sales through the key Autumn trading period.

The upturn in business created supply chain difficulties as the operational infrastructure was tested to a much greater extent than it had been in recent years. In a number of respects, the structure proved to be inadequate and addressing these inadequacies has taken some months. Under a newly appointed Logistics Director, a number of actions have resulted in a significantly improved service. Firstly, there has been a major reduction in slow moving stock which has freed up space in the regional distribution centres. Secondly, in June 2006 the national distribution hub at Peterborough was closed down resulting in a considerable one-off closure cost of

From a product perspective Harveys has reinforced its strength as the only national out of town retailer supplying a full range of upholstery, dining and bedroom furniture. The product range has been rejuvenated during the last year as the refinancing of the group has opened up many new potential supply sources. A particularly successful feature of the year has been the development of the trading relationship with Steinhoff International. Products from the Steinhoff companies now account for almost 25% of Harveys sales with all products being margin enhancing compared to anything they replace. This relationship will prove to be a key differentiating strength of Harveys in the years to come.

to property asset management will continue during the next financial year.

Harveys has been through a difficult few years. Even after refinancing, a range of issues have needed to be dealt with. This has all made the business much fitter and stronger. We now have the opportunity to capitalise fully on the inherent strengths of the Harveys business and really build on the foundations that have been put in place.

Building a brighter future

The beds division has been through a period of considerable change during the last year. Following the departure of most of the senior management of the division, a new management team has been established to take the business forward.

Under the new Divisional Managing Director, Bill Carrahar, new operations directors for each of the three fascias, Bensons, Sleepmasters and Bed Shed, have been appointed together with a number of other buying, marketing and personnel appointments. A strong management team is now in place.

The second main challenge during the last year has been the rate of change in the store portfolio. Following the particular loss of two of the more

problematic concession relationships, the rate of store closures during the year was far higher than normal. From 436 outlets a year ago, 85 were closed during the year and a further 41 opened. This is an unprecedented rate of estate change which carries with it a higher cost burden and management time pressure. We are now through this period of excessive change and are expecting a more settled period from a property perspective over the year to come.

Imported bed frames continue to play a major role in complementing the sale of mattress and divan sets which are largely produced in the UK. Each of the fascias has strengthened its product range introducing a variety of metal, wood and leather combinations into the selection. The Steinhoff companies and connections in the Far East have been particularly beneficial in sourcing new ranges on cost competitive terms. Logistics is an important facet of this type of import business and during the year we have streamlined our warehousing activities by consolidating two older distribution centres into one new Midlands based facility with changes to two further centres planned during the next year.

Staff training and development has been given a boost during the year and the fresh momentum developed in this area will be built on during the forthcoming year.

Having gone through a period of turbulence, the beds division is now settled with a dynamic management team and an appetite for growth. The focus is on the positive challenge of development rather than fire fighting and sorting out issues from the past.

The management team in the beds division has been strengthened with new specialists appointed for each of the three brands.

Stronger product ranges for each of the three fascias include imported frames along with metal, wood and leather combinations.

Corporate social responsibility

The Homestyle group recognises that its business activities have an impact on people and the environment. Corporate Social Responsibility is viewed within the business as an everyday set of principles; therefore we encourage all of our teams to address environmental responsibilities within the framework of normal operating procedures and not concentrate solely on 'green' initiatives and one-off charitable activity.

Suppliers

We source products from around the world to retail within our five businesses. We accept our responsibility to apply ethical trading principles in our dealings, but particularly with regards to developing countries. All employees of the Homestyle group are encouraged to:

- Be truthful and fair
- Comply fully with all legislation
- Protect and value our reputation with customers and suppliers

The Environment

We are committed to our aim of limiting the impact of our operations on the environment.

- We aim to ensure that, as a minimum, all of the group's activities comply with environmental standards and legislation.
- We accept our waste and recycling obligations and we endeavour to use returnable/reusable packaging within our operations.

Our Teams

Our business cannot succeed without the commitment and dedication of our staff teams.

- We are committed to equal opportunity in employment and support an open and practical approach to employing disabled people wherever suitable opportunities exist.
- In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the group continues and that appropriate training is arranged.
- We value equally our full and part time staff.
- We seek at all times to provide and manage a safe working environment in all our operations and we undertake in-house health & safety audits.
- We seek to improve the skills and performance of our employees, and so enhance career development opportunities.

The Community

As a national business we are part of the communities in which we operate, whether at store level, an office location or a distribution centre site. Wherever possible we try to have a positive impact on those communities and to facilitate local initiatives.

We aim to behave as a good neighbour and we recruit locally from the communities in which we operate.

Shareholders

We are aware of the importance of maintaining good relations with our shareholders. We are therefore committed to providing timely and open communications with all investors to allow for an accurate assessment to be made of our value. The company website at www.homestylegroup.com is updated with all results and announcements.

Finance director's review

Total group sales were £507.3 million for the fourteen months to 1 July 2006 (12 months to 30 April 2005: £453.6 million), whilst the loss before tax and one-off items was £20.6 million compared to a £10.7 million profit last year. After one-off re-organisation costs of £4.0 million (2005 one-off costs £36.2 million) which arose from a reorganisation of the Harvey's supply chain, the pre-tax loss was £24.6 million compared to last year's £25.5 million loss.

The results can be summarised as follows:

	61 weeks to 1 July 2006 £m	52 weeks to 30 April 2005 IFRS restated £m
Revenue	507.3	453.6
(Loss)/profit from Operations before one-off items	(19.4)	15.1
Net Finance Costs	(1.2)	(4.4)
(Loss)/profit before one-off items and taxation	(20.6)	10.7
One-off items	(4.0)	(36.2)
Loss before tax and discontinued activities	(24.6)	(25.5)
Discontinued activities	–	(2.2)
Taxation	(0.4)	3.8
Loss after Taxation	(25.0)	(23.9)
Earnings per share – continuing	(10.6)p	(33.3)p

For information on a more comparable twelve month basis to 1st July 2006 versus the IFRS restated figures for the 12 months to April 2005.

- Group sales down 0.55% to £451.1 million (12 months to April 2005: £453.6 million)
- Loss before tax and one-off items was £5.1 million compared to a £10.7 million profit last year
- One-off costs were £4.0 million (2005: One-off costs of £36.2 million)
- Pre-tax loss for continuing operations was £9.1 million compared to last year's £25.5 million.

The marked difference in loss outturn is due to the majority of costs being incurred at the start of the financial period as Homestyle came out of the refinancing period in June 2005.

IFRS

We have, in accordance with the provisions of IFRS, fully adopted International Financial Reporting Standards (IFRS) and prior period comparatives have been restated. The impact of IFRS on loss before tax for the year ended April 2005 was £4.8 million, of which the major component was the goodwill amortisation adjustment of £4.7 million (in accordance with IFRS 3 goodwill is now subject to an annual impairment test rather than annual amortisation).

Loss from operations before one-off items

Losses from operations before one-off costs worsened to £20.6 million for the fourteen months to 1 July 2006 from a profit of £10.7 million for the 12 months to 30 April 2005. The key drivers of this loss were pressure on gross margins, combined with material cost increases from advertising, occupancy costs and the distribution network.

The gross margin worsened by 1.1 percentage points as a result of pressure on selling prices from the consumer in the tough retail climate. In addition, in line with other retailers, Homestyle is experiencing an increase in store operating costs in the UK, particularly occupancy, staff and energy costs.

Finance director's review

Net finance costs and taxation

Net finance costs reduced from £12.3 million in the year ended 30 April 2005 to £1.2 million in the fourteen months to 1 July 2006 (£0.2 million in the twelve months to 1 July 2006) as last year's figure reflect the costs of the large bank borrowings and charges prior to refinancing in June 2005.

There was no tax charge due to the level of taxable losses and there remains a recoverable deferred tax asset reflected of £3.9 million in respect of expected utilisation of tax losses in the foreseeable future and £3.3 million in respect of the pension scheme net deficit. In addition at 1 July 2006 the group has tax losses available for use against future taxable profits of £28.1 million, for which no asset is reflected in the accounts. The income statement reflects a deferred tax charge of £0.4 million in respect of movements in the pension fund liability.

Balance sheet and cash flow

The balance sheet reflects net assets of £62.5 million at 1 July 2006 compared to a net liability position of £14.2 million last year (as restated for IFRS). The positive movement on the balance sheet was mainly as a result of the refinancing in June 2005 when all bank debt was eliminated and the VAT dispute was satisfactorily resolved.

The cash flow statement shows an operating cash outflow of £41.7 million (twelve months to April 2005: £21.6 million). This is reflective of the operating loss during the period and the settlement of the majority of the VAT structural guarantee liability in accordance with the agreement with HM Revenue and Customs of £14.6 million during the period.

After a net cash outflow of £5.1 million in respect of capital expenditure and a net cash inflow of £45.2 million, largely in respect of the re-financing in June 2005, the group's overall cash outflow for the period to June 2006 was £1.6 million (12 months to April 2005: £9.3 million).

Capital expenditure

Capital expenditure in the period was £9.0 million with the majority invested in stores including upgrades to existing stores as well as the 43 new stores opened in the period. The balance has been invested in systems and distribution networks.

Treasury

The Board approves treasury policies and senior management directly controls the day-to-day operations within these policies.

Treasury policy is set to ensure that funding requirements minimise commercial risk and are cost effective and adequate to support ongoing trading and development activity. The main risk arising from the group's financial investments are interest rate and liquidity risk and the policies for managing these are summarised below.

The group's financial instruments comprise overdrafts, short term borrowings, loan notes, cash and trade debtors and creditors that arise directly from operations.

No speculative use of derivatives, currency or other financial instruments is permitted.

Interest rate risk

The group finances its operations through a mixture of bank borrowings and share capital. The group policy is to ensure so far as is practical, that interest costs are at the lowest possible rates. The group borrows in sterling at floating rates of interest and has the option to fix the interest rate to achieve its objective of lowest cost if required.

Liquidity risk

The group's policy is to ensure that there are sufficient facilities in place to fund its ongoing operations and that they are secure, adequate and appropriately priced for its needs.

During the year we switched £15 million of the £20 million commercial facility with Steinhoff Europe AG to the Royal Bank of Scotland on commercial terms. This facility is mainly used for working capital requirements.

Finance director's review

Pensions

The group has continued to operate eight defined benefit pension schemes during the period. The total net cash paid to these pension schemes in the 14 months to 1 July 2006 was £2.2 million (12 months to 30 April 2005: £2.1 million).

The valuation of the schemes under IAS 19 at 1 July 2006 gave rise to a reduction in the net pension deficit of £6.6 million to £10.9 million (30 April 2005: deficit of £17.5 million) or £7.7 million (30 April 2005: £12.2 million) after deferred taxation. The overall downward trend of the deficit reflects the improved returns from the schemes' invested assets.

There are less than 100 active members of all 8 defined benefit schemes and with the increasing costs as a result of longer mortality, the company is currently in a process of consultation regarding proposals to close the schemes to future accrual for existing members in November 2006. We will continue to keep the structure and the nature of the group's pensions schemes under active review.

Accounting policies and standards

The principal accounting policies used by the group are shown on pages 39 to 43. There have been no changes or adoption of new accounting policies this year beyond the adoption of IFRS.

For the fourteen months to 1st July 2006 the group has adopted International Accounting Standards and IFRS. Consequently the date of transition to IFRS for the group was 1 May 2004.

The group has made use of the exemption available under IFRS 1 to only apply IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement" from 1 May 2005.

The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS were disclosed at the Interim results and are given in note 30.

Shareholders

Shareholders' funds amount to £62.5 million, an increase of £76.6 million in the period. The share price of 61p at the start of the period reflected the troubled nature of the last year's refinancing process and has now increased to £1.11p at 1 July 2006. The resulting market capitalisation amounted to £288 million (30 April 2005: £41 million).

At the year end the net assets per share has moved from a net liability status to 24.1p per share based on net assets of £62.5 million and shares in issue of 259.1 million.

The company does not possess sufficient distributable reserves at present out of which to pay a dividend, as well as the need to further invest in the business. Therefore no final dividend is recommended.



T J Kowalski

Director

2 October 2006

Board of directors

Donald Macpherson
Chairman

Aged 74. Appointed to the board in 1997. Chairman of Mars Asset Management and a non-executive director of International Bioscience Managers Ltd.

Ian Topping
Chief Executive

Aged 46. Appointed to the board in June 2005. He is also an executive director of Steinhoff International Holdings Ltd and Managing Director of Steinhoff's UK operations.

Tim Kowalski
Finance Director

Aged 47. Appointed to the board in July 2004. Previously he was Finance Director of N.Brown Group plc.

Markus Jooste
Non-executive Director

Aged 45. Appointed to the board in June 2005. He is Chief Executive Officer of Steinhoff International Holdings Ltd.

Jan van der Merwe
Non-executive Director

Aged 46. Appointed to the board in July 2005. He is Chief Financial Officer of Steinhoff International Holdings Ltd.

Rian du Plessis
Non-executive Director

Aged 45. Appointed to the board in July 2005. He is Chairman of the Comparex Group.

David Sussman
Non-executive Director

Aged 58. Appointed to the board in September 2005. He is Executive Chairman of JD Group Ltd, a significant retail group based in South Africa.

Directors' report

for the 61 weeks ended 1 July 2006

The directors present their annual report on the affairs of the group, together with the accounts and independent auditor's report, for the 61 weeks ended 1 July 2006.

Principal activities

The principal activity of the group is the retailing of furniture and beds. The subsidiary undertakings principally affecting the profits or net assets of the group in the period are listed in note 12 to the accounts.

Business review

Details of the group's performance during the period and expected future developments are contained in the chairman's statement, the review of operations, finance director's review and corporate social responsibility review on pages 4 to 17.

Cautionary statement

The purpose of the Annual Report is for the company to provide information to its members. The Annual Report contains certain forward-looking statements relating to the operations, performance and financial condition of the group. By their nature these statements involve a level of uncertainty since future events and circumstances can cause results and developments to differ from those anticipated. Nothing in this Annual Report should be considered as a profit forecast.

Results and dividends

The audited accounts for the 61 week period are set out on pages 35 to 69. The group loss before tax and discontinued operations for the financial period was £24.6 million (12 months to April 2005 loss of £25.5 million).

The directors do not recommend the payment of a dividend.

Directors

As at 1 July 2006, the board of directors comprised Donald Macpherson (chairman), Ian Topping (chief executive), Tim Kowalski (finance director), Markus Jooste, Jan van der Merwe, Rian du Plessis, David Sussman and Martin Towers. Details of the directors who are offering themselves for election or re-election are given on page 18.

During the period Markus Jooste and Ian Topping were appointed as non-executive directors on 24 June 2005; David Brock and Ronald Spinney resigned from the board, Jan van der Merwe and Rian du Plessis were appointed as non-executive directors, Donald Macpherson took over as non-executive chairman and Ian Topping took over as the group chief executive, all with effect from 28 July 2005; and Sarah Grünwald resigned and David Sussman was appointed as a non-executive director on 26 September 2005.

Since the end of the period Martin Towers has resigned from the board with effect from 30 August 2006. There have been no other changes to the composition of the board since the end of the period.

Director's remuneration

Details of the directors' remuneration are disclosed in the Directors' remuneration report on pages 23 to 27.

Directors' interests

Tim Kowalski is a director of Localbasis Limited, the trustee of the company's employee benefit trust, which is operated in conjunction with the group's employee share schemes. At 1 July 2006 the trustee held 1,825,936 ordinary shares (30 April 2005: 2,040,000). At 29 August 2006 the trustee continued to hold 1,825,936 ordinary shares. Tim Kowalski has at no time held a beneficial interest in these shares.

Tim Kowalski also holds share options and long term incentive plan awards, details of which are given on page 27 in the directors' remuneration report.

No other director, holding office at 1 July 2006 holds, or held during the period or since, any beneficial interests in the shares of the company.

Directors' report

for the 61 weeks ended 1 July 2006

Directors' transactions

Markus Jooste, Jan van der Merwe, David Sussman and Ian Topping are directors of various Steinhoff group companies which are related parties and with whom the group has entered a number of related party transactions during the period. Details of these related party transactions are set out in note 29 to the Accounts. The relationship between the company and the Steinhoff group is regulated by a Relationship Agreement dated 24 May 2005 between the company and Steinhoff Europe AG. In addition, during the period Sarah Grünewald's company, Directorbank, received fees totalling £44,000 in respect of recruitment services provided to the group.

Save as reported above none of the directors is beneficially interested in any significant contract to which the company or a subsidiary undertaking was a party during the financial period.

Supplier payment policy

The group's policy is to set terms of payments with suppliers when agreeing the terms of each transaction. The average number of days outstanding during the period in respect of trade creditors was approximately 42 days (April 2005: 50 days).

Fixed assets

In the opinion of the directors, there was no material difference between the book and the current open market value of interests in land and buildings.

Charitable and political contributions

During the period the group made charitable donations of £3,242 (12 months to April 2005: £250). There were no political contributions.

Share capital

Changes in the company's share capital during the period are shown in note 22 to the accounts.

Shareholders

The way in which the board maintains a dialogue with shareholders is set out in the corporate governance report on page 31.

Substantial shareholdings

As at 29 September 2006 the company had been notified, in accordance with sections 198 to 208 of the Companies Act 1985, of the following interests in the ordinary share capital of the company:

Name of holder	Number	Percentage held
Steinhoff Europe AG	157,665,225	60.9%
Formal Property Management Services Limited	22,419,090	8.6%

No other beneficial interest amounting to 3% or more of the ordinary share capital of the company had been notified to the directors as at 29 September 2006.

Authority to purchase shares

At the end of the period, the directors had authority, under the shareholders' resolution of 21 October 2005 to purchase through the market 12,953,740 of the company's ordinary shares. This authority expires on 20 January 2007 unless renewed as proposed in resolution 10 set out in the notice of meeting on page 73.

Governance and directors responsibilities and going concern

A report relating to the company's governance policies and practices and a statement relating to the director's responsibilities and a going concern statement can be found on pages 28 to 32.

Employment and Environmental policies

The group's employment and environmental policies are set out in the corporate social responsibility statement on page 14.

Directors' report

for the 61 weeks ended 1 July 2006

Audit and Auditors

Each director confirms that he knows of no relevant audit information of which the company's auditors are unaware and that he has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and that the company's auditors have been made aware of such information.

In accordance with the recommendation of the Audit Committee and section 384 of the Companies Act 1985, a resolution to re-appoint Deloitte & Touche LLP as the company's auditors will be proposed at the forthcoming annual general meeting.

Financial Investments

An indication of the company's financial risk management objectives and policies and the exposure of the company to interest rate and liquidity risks is set out in the Finance Director's Review on page 16.

Annual general meeting

The 2006 annual general meeting of the company will be held at 12 noon on Friday 17 November 2006 at the offices of Hudson Sandler, 29 Cloth Fair, London EC1A 7NN. The notice of meeting is set out on pages 72 to 74. A form of proxy is enclosed with the copies of this report posted to shareholders. **THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.** If you are in any doubt about what action to take, you should immediately consult your stockbroker, bank manager, solicitor, accountant or other professional adviser authorised pursuant to the Financial Services and Markets Act 2000. If you have sold or transferred all your shares in the company, please deliver these annual report and accounts and the accompanying proxy form to the purchaser or transferee or to the persons through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Special business

The following items of special business will be proposed at the annual general meeting.

Resolution to enable directors to allot relevant securities (Resolution 8)

The annual general meeting will include as special business an ordinary resolution to renew the authority of the directors to allot relevant securities without prior consent of shareholders, pursuant to section 80 of the Companies Act 1985. The £25,231,288 nominal amount of relevant securities to which this authority relates represents the authorised but un-issued share capital of the company as at 2 October 2006. The authority will expire at the conclusion of the 2007 annual general meeting or 15 months after the passing of the resolution, if earlier. The directors have no present intention of exercising this authority.

Resolution to enable directors to allot ordinary shares for cash (Resolution 9)

The annual general meeting will also include as special business a special resolution pursuant to section 95 of the Companies Act 1985, empowering the directors to allot equity securities for cash without first being required to offer such shares to existing shareholders. Again, it is proposed to limit this authority to the period ending at the conclusion of the 2007 annual general meeting or 15 months after the passing of the resolution, if earlier. The £9,715,305 nominal amount of equity securities to which this authority relates represents approximately 15% of the issued share capital of the company as at 2 October 2006. The directors have no present intention of exercising this authority.

Resolution to enable market purchases of shares (Resolution 10)

The annual general meeting will also include as special business, a special resolution pursuant to section 166 of the Companies Act 1985 to renew the authority of the directors to make market purchases of the company's own shares. The 25,907,484 shares to which this authority relates represents approximately 10% of the issued share capital of the company as at 2 October 2006. The maximum price payable for a share shall not be more than the higher of 5 per cent above the average of the middle market quotations of such shares for the five business days before such purchases and the price stipulated by Article 5(1) of the Buy-back and Stabilisation Regulation (being the higher of the price of the last independent trade and the highest current independent bid on the trading venues where the purchase is carried out). The minimum price payable for a share will be 25p. The authority will expire at the conclusion of the 2007 annual general meeting or 15 months after the passing of the resolution, if earlier.

The directors have no immediate intention of using this power, which will be exercised only after paying due attention to the effects on assets and earnings per share for the remaining shareholders and if it is advantageous for the company to do this.

Directors' report

for the 61 weeks ended 1 July 2006

As at 2 October 2006, there were outstanding options to subscribe for 1,085,844 ordinary shares, which represented 0.42 per cent of the issued share capital of the company as at that date and would represent 0.46 per cent of the issued share capital of the company if the authority to make market purchases of ordinary shares conferred by resolution 10 was used in full.

Normally, any share purchased under this authority will be cancelled. However, the Companies (Acquisition of own Shares) (Treasury Shares) Regulations 2003 allow companies to hold shares in treasury, as an alternative to cancelling them, following a purchase of own shares by the company in accordance with the Companies Act 1985. Shares held in treasury may subsequently be cancelled, sold for cash or used to satisfy share options and share awards under an employee share scheme. If any shares held in treasury are used to satisfy options and awards under an employee share scheme, any such options and awards will be granted or made in accordance with relevant institutional shareholder guidelines.

Once held in treasury, the company is not entitled to exercise any rights, including the right to attend and vote at meetings in respect of the shares. Further, no dividend or other distribution of the company's assets may be made to the company in respect of the treasury shares.

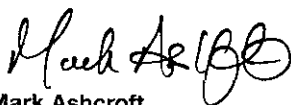
Resolution to increase the maximum aggregate remuneration of non-executive directors (Resolution 11)

The annual general meeting will also include as special business an ordinary resolution to increase the authorised maximum aggregate remuneration of the non-executive directors for their services as officers of the company as provided for in Article 30 of the company's Articles of Association. This resolution will increase the limit from £175,000 per year to £350,000 per year. This will increase the headroom available in future years, and enable the company to continue to pay non-executive directors' fees that are competitive in the context of the increasing demands being placed on such directors.

Recommendation

The directors consider that the ordinary business and the special business which is the subject matter of the resolutions to be proposed at the annual general meeting is in the best interests of the company and its shareholders as a whole and unanimously recommend that shareholders vote in favour of resolutions 1 to 11 to be proposed at the annual general meeting.

On behalf of the Board



Mark Ashcroft

Group Company Secretary

520 Europa Boulevard
Westbrook
Warrington
WA5 7TP

2 October 2006

Directors' remuneration report

for the 61 weeks ended 1 July 2006

This report has been prepared in accordance with Schedule 7A to the Companies Act 1985 (the "Act"). The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and the FRC Combined Code. A resolution to approve the report will be proposed at the Annual General Meeting of the company at which the financial statements will be approved.

Schedule 7A to the Act requires the auditors to report to the company's members on the "auditable part" of the directors' remuneration report and to state whether in their opinion that part of the report has been properly prepared in accordance with the Act. The report has therefore been divided into separate sections for audited and unaudited information.

UNAUDITED INFORMATION

Remuneration Committee

At the start of the period, the remuneration committee comprised Sarah Grünewald (chairman), Donald Macpherson and Martin Towers. Markus Jooste was appointed to the committee on 28 July 2005. On 26 September 2005 Sarah Grünewald resigned, David Sussman was appointed to the committee and Donald Macpherson took over as chairman of the committee. Martin Towers resigned on 30 August 2006. The committee now comprises Donald Macpherson (chairman), Markus Jooste and David Sussman. The committee meets as necessary, but at least twice each year. During the period the committee met on two occasions and all the members of the committee attended each of these meetings, save that Donald Macpherson did not attend one meeting.

The remuneration committee of the Board is responsible for determining and reviewing the terms of employment and remuneration of the executive directors and company secretary. The remuneration principles established for this group of employees provides the framework for the remuneration packages of all other executives. The committee had appointed Robson Rhodes to provide advice on structuring directors' remuneration packages. Robson Rhodes did not provide any other services to the group during the financial period ended 1 July 2006. Robson Rhodes received fees of £19,000 in the period.

The committee determines the base salaries, short-term and long-term incentives, pension and other benefits for executive directors and the company secretary. It aims to provide a suitable balance of performance-related and non-performance-related remuneration designed to incentivise directors and to align their interest with those of the shareholders. The committee also determines the terms of service agreements for the executive directors and the terms of any compensatory payments in the event of termination of an executive director's appointment. It also manages all grants/awards under the company's share based incentive schemes.

The remuneration committee (in the chairman's absence) also determines and reviews on behalf of the board the level of fees payable to the Chairman. The remuneration of the non-executive directors is determined by the board within the limits set out in the Articles of Association. No director plays a part in any discussion about his own remuneration.

Remuneration Policy

The policy of the remuneration committee in relation to the executive directors is to provide remuneration packages sufficient to attract, retain and motivate executives of the calibre and experience necessary to provide a successful future for the group whilst giving due consideration to remuneration levels both within and outside the group and using remuneration packages to align the interests of executive directors with those of the shareholders.

Remuneration for the executive directors consists of basic salary, a performance related annual bonus, pension contributions, share related benefits and other benefits including the provision of a company car or its cash equivalent. Remuneration packages are considered in the light of equivalent packages for similar roles in companies of similar size, nature and complexity. Full details of the remuneration of the individual directors, pension benefits and information on share related benefit are set out on pages 26 and 27. Non-executive directors receive only directors' fees and are not entitled to any performance related remuneration or retirement benefits. There are no current plans for the Remuneration Committee to change its Remuneration Policy. Performance related remuneration will continue to represent a major element of the executive directors' remuneration package so as to ensure that their interests are aligned with the interests of the shareholders.

Directors' remuneration report

for the 61 weeks ended 1 July 2006

Performance Graph

The following graph shows the company's performance, measured by total shareholder return, compared with the performance of the *FTSE All-Share Index* and *FTSE General Retailers Index* also measured by total shareholder return over the five years ending on 30 June 2006. The *FTSE General Retailers Index* has been selected for this comparison as it represents the broad industry sector in which the company operates, whilst the *FTSE All-Share Index* provides a general benchmark.

Basic Salary and Benefits

Salaries for the executive directors are set and reviewed annually in July. In setting and reviewing salaries the committee compares current rates of pay to those observed in other similar companies, the group's performance compared to similar companies and the individual's skills, experience and performance. Benefits mainly reflect the provision of motor vehicles, or a cash equivalent, medical and other insured benefits.

Annual Bonus

An annual performance-related bonus plan represents the company's short-term incentive to executive directors to achieve pre-determined financial targets. All executive directors participate in the company's annual bonus arrangements under which the Remuneration Committee may award bonuses of up to 75% of each directors' basic salary. Performance targets are set annually by the Remuneration Committee and these currently depend upon profit before tax performance. No bonus is payable in respect of the period.

Special bonuses were awarded to two executive directors in the period. Payments of £150,000 to Tim Kowalski and of £105,000 to David Brock were payable in July 2005 under a specific bonus plan based on the achievement of the substantial de-gearing of the group.

Pension Benefits

The executive directors are entitled to receive contributions from the company into money purchase pension arrangements at rates specified in each individual's service contract. Only basic salary is pensionable. There are no other pension arrangements for directors of the company.

Share Based Incentives

The company has a range of share based incentive schemes available for directors and other senior executives including both Inland Revenue approved and unapproved discretionary share option schemes and a long term incentive plan, each of which has been adopted by the company in general meeting.

Currently an executive director holds options to purchase ordinary shares granted pursuant to the Homestyle Group Unapproved 1997 Executive Share Option Scheme (the "Option Scheme"). This is a discretionary share option scheme and its Rules include aggregate and individual limits on the number of share options that may be granted under the Option Scheme. Options granted under the Option Scheme are subject to a financial performance condition. Details are set out on page 27.

An executive director also holds performance awards pursuant to the Homestyle Group Plc 1999 Long Term Incentive Plan. Performance awards enable the transfer of shares to the executive provided the executive remains an employee of the group and a performance condition is achieved. Details are set out on page 27.

Directors' remuneration report

for the 61 weeks ended 1 July 2006

There have been no amendments to the terms and condition of the director's share options or performance awards.

The Remuneration Committee is currently considering proposals for a formal policy regarding its future grants of share options and/or LTIP awards.

Service Contracts

It is the company's policy, save in exceptional circumstances, to provide 12 month rolling notice periods within the service contracts of its executive directors. The service contracts of the current executive directors comply with this policy and also reserve to the company the right to pay a director in lieu of notice. There are no other provisions in the service contracts of the executive directors relating to termination payments. In the event of termination, compensatory termination payments may be made to the director reflecting the terms of the directors service contract with due allowance in appropriate circumstances for the director's duty to mitigate his loss.

The standard letters of appointment of the chairman and the non-executive directors provide for annual re-appointments. However, this approach does not apply in the case of Markus Jooste and Jan van der Merwe whose appointments as directors are pursuant to the Relationship Agreement dated 24 May 2005 between the company and Steinhoff Europe AG. These appointments are all subject to the provisions of the company's Articles of Association, including the provisions relating to the rotation of directors and their periodic re-election by the company in general meeting. Dates of service contracts and letters of engagement are detailed below.

The following table relates to the directors' service contracts and letters of engagement and covers all directors who served during the period.

Name of Director	Date of Contract/Letter/Nomination	Unexpired Term	Notice Period
Donald Macpherson	25 April 1997	8 months	N/A
Ian Topping	26 September 2006	N/A	12 months
Tim Kowalski	31 March 2005	N/A	12 months
David Brock	16 February 2004	N/A	12 months ¹
Markus Jooste	24 June 2005	N/A	N/A ²
Jan van der Merwe	28 July 2005	N/A	N/A ²
Rian du Plessis	28 July 2005	11 months	N/A
David Sussman	26 September 2005	1 month	N/A
Martin Towers	28 January 2004	N/A	N/A ³
Ronald Spinney	11 April 2001	–	N/A ⁴
Sarah Grünewald	17 December 2003	–	N/A ⁵

1 Contract terminated upon David Brock's resignation on 28 July 2005. He had a one year rolling contract and received a termination payment of £100,000.

2 Appointment pursuant to Relationship Agreement with Steinhoff Europe AG.

3 Appointment terminated upon Martin Towers' resignation on 30 August 2006.

4 Appointment terminated upon Ronald Spinney's resignation on 28 July 2005.

5 Appointment terminated upon Sarah Grünewald's resignation on 26 September 2005.

External Directorships

It is the group's policy that executive directors should hold no more than two external directorships, subject to the group's business requirements. During the period Ian Topping held directorships with Steinhoff International Holdings Ltd and all its UK subsidiaries. As part time executive chairman David Brock also held several outside directorships. Tim Kowalski currently does not hold any outside directorships.

Directors' remuneration report

for the 61 weeks ended 1 July 2006

AUDITED INFORMATION

Aggregate Directors' Remuneration

	2005/06 61 weeks £000	2004/05 52 weeks £000
Directors' emoluments	1,064	938
Contributions to money purchase schemes	47	37
Compensation for loss of office	100	460
Aggregate directors' remuneration	1,211	1,435

Directors' Emoluments:

	Fees/Basic salary £	Special bonus £	Benefits in kind # £	Compensation for loss of office £	2005/06 total 61 weeks £	2004/05 total 52 weeks £
Executive						
Ian Topping (from 24 June 2005)*	244,166	–	–	–	244,166	–
Tim Kowalski	219,984	150,000	1,090	–	371,074	216,000
David Brock (to 28 July 2005)	50,001	105,000	–	100,000	255,001	286,000
M D Rosenblatt (to 30 September 2004)	–	–	–	–	–	125,000
J Cribb (to 31 August 2004)	–	–	–	–	–	54,000
W Woistenholme (to 27 September 2004)	–	–	–	–	–	157,000
Non-executive						
Donald Macpherson	56,667	–	–	–	56,667	25,000
Ronald Spinney (to 28 July 2005)	6,250	–	–	–	6,250	25,000
Sarah Grünewald (to 26 September 2005)	10,440	–	–	–	10,440	25,000
Martin Towers	29,167	–	–	–	29,167	25,000
Markus Jooste** (from 24 June 2005)	25,000	–	–	–	25,000	–
Jan van der Merwe** (from 28 July 2005)	25,000	–	–	–	25,000	–
Rian du Plessis (from 28 July 2005)	25,000	–	–	–	25,000	–
David Sussman*** (from 26 September 2005)	16,667	–	–	–	16,667	–
	708,342	255,000	1,090	100,000	1,064,432	938,000

Benefits in kind include the provision of a company car or a cash equivalent, life assurance, medical insurance and permanent health insurance benefits.

* Ian Topping also receives remuneration, including share related benefits, from the Steinhoff group of companies for services rendered to that group. Details may be found in the annual report of Steinhoff International Holdings Ltd.

** Directors' fees for Markus Jooste and Jan van der Merwe are payable to Steinhoff Europe AG.

*** Directors' fees for David Sussman are payable to the J D Group.

The directors do not receive general expense allowances but are reimbursed specific, reasonable expenses incurred in connection with the company's business.

Directors' remuneration report

for the 61 weeks ended 1 July 2006

Pensions

During the period two directors received contributions from the company to money purchase pension schemes as follows:

	2005/06 61 weeks £	2004/05 52 weeks £
Ian Topping	15,300	–
Tim Kowalski	32,075	27,000
Totals	47,375	27,000

There were no other pension benefits accrued and no other pension contributions were payable in respect of directors during the period.

Directors' Share Options

The following table shows the movement in directors' share options during the period:

	30 April 2005 number of shares	Granted number of shares	Exercised number of shares	Lapsed number of shares	1 July 2006 number of shares	Exercise price	Period in which exercisable
T Kowalski	190,000	–	–	–	190,000	107.3p	4.10.2007-3.10.2014

The above options were granted under the Homestyle Group Unapproved 1997 Executive Share Option Scheme. No consideration was paid for their grant. The options may be exercised at any time between the third and tenth anniversary of the date of grant provided that the growth in the company's earnings per share exceeds the movement in the Retail Prices Index over any consecutive period of 3 years during the life of the option.

The market price of the ordinary shares at 1 July 2006 was 111p and the highest and lowest prices in the period were 141.25p and 55p respectively.

Directors' Long Term Incentive Plan

The following information relates to performance awards pursuant to the Homestyle Group Plc Long Term Incentive Plan under which directors may become entitled to shares in the future subject to certain conditions:

	30 April 2005 No of shares	Awards during the period No of shares	1 July 2006 No of shares	Market price on award £	Qualifying condition period end
Tim Kowalski	–	117,785	117,785	1.255	30 June 2009

Entitlement to the transfer or issue of shares is dependent upon the director remaining in employment with the company and is subject to a performance condition based on the group's audited cumulative profit before interest and tax for the 3 year period ending 30 June 2009. There have been no variations to the terms and conditions of the above award during the period and no awards have vested.

Approval

This report was approved by the board of directors on 2 October 2006 and is signed on its behalf by:



Donald Macpherson

Chairman

2 October 2006

Governance reports

for the 61 weeks ended 1 July 2006

Corporate governance

The Board is responsible for the governance of the company, being the systems and procedures by which the company is directed and controlled. It is recognised that any set of rules does not itself determine good governance or stewardship of a company and the directors believe that in fulfilling their responsibilities, they govern the company in the best interests of the shareholders whilst having regard to the interests of other stakeholders of the company.

This section of the annual report sets out a statement of compliance with Section 1 of the Combined Code on Corporate Governance, issued by the Financial Reporting Council in July 2003 (the "Combined Code"), and describes how the company has applied the principles set out in Section 1 of the Combined Code.

Statement of Compliance with the Combined Code

The board's statement of compliance with the Combined Code set out below should be read in the context of the specific circumstances of the company, and in particular the majority shareholding of Steinhoff Europe AG. This relationship was fully explained to shareholders in the circular issued in May 2005 relating to the re-financing of the company. In particular, there is a Relationship Agreement dated 24 May 2005 governing the relationship between the company and Steinhoff, which enables the company to operate and make decisions independently of the controlling shareholders in compliance with paragraph 3.12 of the Listing Rules of the UK Listing Authority.

The Board considers that it has complied with the provisions of Section 1 of the Combined Code throughout the financial period ended 30 June 2006 except for the following matters.

Since 28 July 2005 the Nominations Committee has not had a majority of independent non-executive members and its chair has been neither the chairman of the company nor an independent non-executive director (code provision A.4.1). Since the same date there have been members of both the Remuneration Committee (code provision B.2.1) and the Audit Committee (code provision C.3.1) who are not independent non executive directors. The Board has yet to carry out a formal evaluation of performance, given that all but two members of the board have been appointed within the period under review (code provision A.6.1), and, given the weight of other business of the Board during the period, the senior independent director did not hold a meeting during the period with the other non executive directors to appraise the chairman's performance (code provision A.6.1). For the same reason, during the period the chairman has not held meetings with the non executive directors without the executives present (code provision A.1.3). Finally, the following were completed only after the end of the period, namely:

- (i) the review by the Audit Committee of the arrangements for staff to raise concerns about possible improprieties (code provision C.3.4), and
- (ii) the adoption by the board of a formal written statement regarding the division of responsibilities between the chairman and the chief executive (code provision A.2.1).

Board of directors

The board currently comprises a chairman, two executive directors and four non-executive directors, two of whom are independent. Short biographical details of the directors are set out on page 18. The board considers that Ronald Spinney, Sarah Grünewald and Martin Towers were and that Rian du Plessis and David Sussman are independent within the meaning of the Combined Code. The board also considers that from the start of the period until his appointment as chairman on 28 July 2005, Donald Macpherson was independent. Markus Jooste and Jan van der Merwe are not considered to be independent because their appointments were proposed by Steinhoff under the terms of the Relationship Agreement.

Martin Towers took over as the Senior Independent Director on 28 July 2005 upon the appointment of Donald Macpherson as chairman. David Sussman has taken over as Senior Independent Director upon Martin Towers' resignation on 30 August 2006.

The non-executive directors bring considerable knowledge and external experience to the board's deliberations and the board considers its size and the balance of its skills and experience and the balance between executive and non-executive directors are all appropriate in the particular circumstances of the company and its businesses.

Governance reports

for the 61 weeks ended 1 July 2006

The board meets regularly throughout the period with an annually agreed formal programme of meetings and ad hoc additional meetings as required. Board meetings follow a formal agenda of matters with a view to maintaining full and effective control over appropriate financial, strategic, organisational and compliance issues. Board activity during the period was particularly high as a result of the refinancing exercise, with the full board meeting on eleven occasions and six additional meetings called at short notice to deal with specific issues, these latter meetings having been attended by a quorum of directors. The business concluded by these additional meetings was subsequently noted and confirmed by the full board. A committee of the board, formed to conclude the formalities relating to the re-financing of the company also met five times during the period. The eleven full board meetings were fully attended except that apologies for non attendance were received from Martin Towers in respect of 3 meetings, from Donald Macpherson in respect of 2 meetings and from Ronald Spinney, David Brock, Sarah Grünewald and David Sussman in respect of one meeting each.

The matters specifically reserved for the board have been reviewed during the period and include annual budgets, strategic plans, major capital expenditure, acquisitions and disposals, significant financing and contractual matters and the publication of all financial information by the company.

Information is provided to board members in the week prior to each scheduled board meeting to enable the directors to *consider issues for discussion*. All directors have access to the advice of the company secretary who is responsible for advising the board through the chairman on all governance matters. There is an agreed procedure for directors to seek independent advice at the group's expense.

Election and re-election of directors

The chairman, the chief executive, the finance director and the company secretary are responsible for the timeliness and quality of information submitted to the board. The chairman is primarily responsible for ensuring the board has adequate information provided to it before making decisions.

David Sussman, having been appointed to the board since the date of the previous annual general meeting, will retire at the annual general meeting to be held on 17 November 2006 and, being eligible, will offer himself for election as a director at that meeting.

In addition, pursuant to the requirement for rotation of directors in the company's Articles of Association, Donald Macpherson and Tim Kowalski will each retire at the annual general meeting and, being eligible, will offer themselves for re-election as directors at that meeting.

Having consulted with the nominations committee, the board recommends the election and re-election of each of these directors on the basis that they each bring business experience and expertise to the board, which enhances the board's ability to respond flexibly and promptly to the needs of the company. It is noted, pursuant to Article 35 of the company's Articles of Association, that Donald Macpherson is more than 70 years of age.

Board committees

The board has appointed an audit committee, a remuneration committee and a nominations committee. Each committee has written terms of reference dealing clearly with the committee's authority and duties and which are available on request and can be found on the company's website at www.homestylegroup.com. The secretary of the company acts as secretary to all the board committees and maintains minutes of all meetings.

Nominations committee

At the start of the period, the nominations committee comprised David Brock (chairman), Donald Macpherson, Ronald Spinney and Sarah Grünewald. On 28 July 2005, David Brock and Ronald Spinney resigned as directors and Markus Jooste was appointed to the committee and took over as chairman of the committee. On 26 September 2005, Sarah Grünewald resigned from the board and was replaced on the committee by Rian du Plessis. The committee now comprises Markus Jooste (chairman), Donald Macpherson and Rian du Plessis and it meets as and when required, but at least annually. The committee met on two occasions during the period and all members attended each of these meetings with the exception of Sarah Grünewald who did not attend one meeting.

Donald Macpherson was appointed non-executive chairman of the company on 28 July 2005. The nomination committee (with Donald Macpherson not in attendance) considered that Donald Macpherson was the appropriate candidate for the position and the post was therefore not openly advertised.

Governance reports

for the 61 weeks ended 1 July 2006

Rian du Plessis became a non-executive director on 28 July 2005. He is a chartered accountant who, after a successful career in investment banking, joined the Comparex group in February 1997 becoming CEO of Comparex Holdings Ltd in February 2000. With the retirement of Ronald Spinney the nominations committee considered Rian du Plessis a suitable replacement and therefore did not openly advertise the post.

Audit committee

At the start of the period the audit committee comprised Martin Towers (chairman), Ronald Spinney and Sarah Grünewald. On 28 July 2005, Ronald Spinney resigned as a director and Jan van der Merwe was appointed to the committee. On 26 September 2005 Sarah Grünewald resigned as a director and Rian du Plessis was appointed to the committee. Martin Towers resigned on 30 August 2006 and David Sussman was appointed in his place with Rian du Plessis taking over as chairman. The audit committee currently comprises Rian du Plessis (chairman), Jan van der Merwe and David Sussman. Each of the members of the committee has relevant financial experience. During the period the committee met on four occasions and all members of the committee were present at each meeting either in person or by telephone conference call.

The committee monitors the integrity of the financial statements of the company and any formal announcements in relation to the company's financial performance. It reviews the company's internal financial controls and also reviews the scope and effectiveness of the internal audit function. The committee recommends to the Board the appointment and re-appointment of the external auditors and considers the scope and results of the external audit and its cost effectiveness. The committee also monitors the independence and objectivity of the auditors and the nature and extent of non-audit services supplied by the external auditor by analysing fees for audit and non-audit work; by receiving from and discussing with the auditors their annual report regarding their independence policies and procedures; and by receiving from the auditors confirmation that they have complied with APB Ethical Standards.

The audit committee recommends the re-appointment of Deloitte & Touche LLP as auditors to the company.

Remuneration committee

The structure and business of the remuneration committee are summarised on the directors' remuneration report on page 23.

Other committees

From time to time other committees are established by the board to deal with specific issues. An example during the period was the committee appointed to complete the formalities relating to the re-financing of the company. All such committees have clear terms of reference specified by the board and the secretary acts as secretary to each of the committees.

Internal control and risk management

The board acknowledges its responsibility for the group's system of internal controls and for overseeing its effectiveness. It must be understood however that such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material reinstatement of loss.

The board identifies, evaluates and manages the significant risks faced by the company through the regular reporting of the Chief Executive and the Finance Director to each board meeting, the review of period management accounts, the reports of the internal audit function to the Audit Committee and through the comprehensive annual and informal interim reports of the external auditors. These processes have been in place throughout the period and since the end of the period through to the date of approval of this report, except that the reports from the internal audit function were introduced following the first appointment of a Group Audit Manager in February 2006. The board believes these processes are in accordance with the Internal Control: Revised Guidance for Directors on the Combined Code (The Turnbull Guidance) published in October 2005.

The board, through the Audit Committee, has agreed to adopt a risk management based approach to its review of internal controls and is working closely with the executive directors and the Group Audit Manager in developing these controls. These efforts will continue through the coming year, during which a full review of the effectiveness of internal controls and risk management will be undertaken on this new basis.

Governance reports

for the 61 weeks ended 1 July 2006

Throughout the period key business risks were monitored by the senior management. The senior management has reported formally to the board on a regular basis and where areas of weakness have been identified an action plan has been devised.

Key features of the internal control system that operated throughout the period are described under the following headings:

- *Control environment* – The board has put in place an organisational structure with clearly defined lines of responsibility and delegation of authority from the board to operating units. This is supported by the day to day work of the Group Audit Manager (the head of the internal audit function) who reports to the Audit Committee on a regular basis.
- *Identification and evaluation of business risks and control objectives* – The board has the primary responsibility for identifying the major business risks facing the group and for developing appropriate policies to manage those risks. The board is supported in these responsibilities by the executive team, lead by the chief executive. The risk management approach will be used to focus the attention of directors and management on the group's most significant areas of risk and to determine key control objectives.
- *Information systems* – The group operates a comprehensive annual planning and budgeting system with an annual budget approved by the board. There is a financial reporting system which compares actual results with plan and the previous year on a monthly basis to identify any significant deviation from approved plans. Reports include analysis of variances, key performance indicators and regular forecasting and in particular include a monthly cash flow statement projected for 12 months, which is used in determining that the group has adequate funding for its future needs.
- *Risk management* – The board identifies and monitors risk through the planning process and through its close involvement in the review of performance. The periodic monitoring of key issues is designed to ensure that the significant risks faced by the group are being identified, evaluated and appropriately managed, having regard to the balance of risk, cost and opportunity.
- *Main control procedures* – The board has adopted a schedule of matters which are required to be brought to it for decision, with a view to maintaining full and effective control over appropriate strategic, financial, organisational and compliance issues. The board has identified a number of key areas which are subject to regular reporting to the board which include, treasury, legal and other matters. Financial controls and procedures are in place, including procedures for seeking and obtaining approval for major transactions and organisational changes as well as organisational controls involving the segregation of incompatible duties and controls relating to the security of assets.
- *Monitoring* – The board has delegated to executive management implementation of the system of risk management and internal controls. The operation of the system is monitored and a programme of reviews focusing on key aspects of the business has been carried out.

Relations with shareholders

The directors seek to build on a mutual understanding of objectives between the company and its institutional shareholders by making annual and half-year presentations to institutional investors and stockbroking analysts, meeting existing and potential institutional shareholders and organising occasional operational tours. Individual shareholders have the opportunity to discuss issues with the directors on an informal basis at the time of the annual general meeting and are welcome to communicate with any director at any time during the year. It is the company's policy that all directors attend the annual general meeting.

The board receives reports from executive directors following their meetings with investors. Formal, independent reports of investor feedback are also presented to the board following the interim and annual results presentations.

Governance reports

for the 61 weeks ended 1 July 2006

Statement of Directors' responsibilities and going concern statement

The directors are responsible for preparing the annual report and the financial statements. The directors have prepared accounts for the company and the group in accordance with International Financial Reporting Standards ("IFRS"). Company law requires the directors to prepare such financial statements in accordance with IFRS, the Companies Act 1985 and Article 4 of the International Accounting Standard ("IAS") Regulations. IAS 1, 'Presentation of financial statements' requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS. Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

After making enquires, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing accounts.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report that complies with the requirements of the Companies Act 1985.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements differs from legislation in other jurisdictions.

Directors and officers insurance

Directors and officers liability insurance is in place providing cover for the directors and officers of the company and its subsidiaries.

Independent auditors' report

to the members of Homestyle Group Plc

We have audited the group and individual company financial statements (the "financial statements") of Homestyle Group Plc for the 61 weeks ended 1 July 2006 which comprise the consolidated income statement, the consolidated and individual company balance sheets, the consolidated and individual company cash flow statements, the consolidated statement of recognised income and expense, statement of accounting policies and the related notes 1 to 30. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' 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 and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report, the directors' remuneration report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted for use in the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements and the part of the directors' remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, in accordance with the relevant financial reporting framework and whether the financial statements and the part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We report to you whether, in our opinion, the information given in the directors' report is consistent with the financial statements. We also report to you if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We also report to you if, in our opinion, the company has not complied with any of the four directors' remuneration disclosure requirements specified for our review by the Listing Rules of the Financial Services Authority. These comprise the amount of each element in the remuneration package and information on share options, details of long term incentive schemes, and money purchase and defined benefit schemes. We give a statement, to the extent possible, of details of any non-compliance.

We review whether the corporate governance statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report including the unaudited part of the directors' remuneration report and we consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Independent auditors' report

to the members of Homestyle Group Plc

Basis of audit opinion

We conducted our audit in accordance with *International Standards on Auditing (UK and Ireland)* issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the directors' remuneration report described as having been audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the directors' remuneration report described as having been audited.

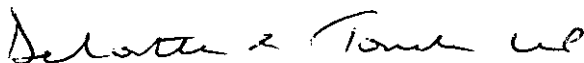
Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted for use in the European Union, of the state of the group's affairs as at 1 July 2006 and of its loss for the 61 weeks then ended;
- the individual company financial statements give a true and fair view, in accordance with IFRSs as adopted for use in the European Union as applied in accordance with the requirements of the Companies Act 1985, of the state of the individual company's affairs as at 1 July 2006;
- the financial statements and the part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the directors' report is consistent with the financial statements.

Separate opinion in relation to IFRS

As explained in note 30 to the financial statements, the group, in addition to complying with its legal obligation to comply with IFRSs as adopted for use in the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board. Accordingly, in our opinion the financial statements give a true and fair view, in accordance with IFRSs, of the state of the group's affairs as at 1 July 2006 and of its loss for the 61 weeks then ended.



Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Manchester
2 October 2006

Consolidated income statement

for the 61 weeks to 1 July 2006

	Notes	61 weeks to 1 July 2006 £000	52 weeks to 30 April 2005 (Restated) £000
Revenue – continuing operations	1	507,286	453,573
Cost of sales – continuing operations		(262,336)	(229,587)
Gross profit		244,950	223,986
Other operating income		114	28
Selling and Distribution costs		(236,477)	(190,304)
Administrative expenses		(31,994)	(46,914)
Operating loss – continuing operations	1	(23,407)	(13,204)
Operating loss – continuing operations stated after charging			
Settlement of VAT dispute (including professional fees)		–	(19,729)
Provision for Harveys onerous leases		–	(7,595)
Professional fees relating to restructuring review		–	(990)
Reorganisation of Harveys supply chain		(4,030)	–
Interest receivable	5	69	28
Finance costs	5	(1,424)	(4,106)
Pension finance cost	28	(376)	(333)
Finance costs on restructuring	5	–	(7,929)
Fair value adjustments to financial instruments		535	–
Total finance costs		(1,196)	(12,340)
Loss before taxation		(24,603)	(25,544)
Taxation	6	(378)	3,760
Loss for the period from continuing operations		(24,981)	(21,784)
Loss for the period from discontinued operations	7	–	(2,138)
Loss attributable to the equity holders of the parent		(24,981)	(23,922)
Loss per share from continuing operations			
Basic and diluted	8	(10.6)p	(33.3)p
Loss per share from continuing and discontinued operations			
Basic and diluted	8	(10.6)p	(36.6)p

Balance sheets

As at 1 July 2006

	Notes	Group		Company	
		1 July 2006 £000	30 April 2005 (restated) £000	1 July 2006 £000	30 April 2005 (restated) £000
Non-current assets					
Goodwill	9	90,654	90,654	-	-
Other intangible assets	10	129	137	129	137
Property, plant and equipment	11	43,829	51,968	-	-
Deferred tax assets	20	7,182	9,144	-	-
Investments	12	-	-	321,417	375,418
		141,794	151,903	321,546	375,555
Current assets					
Inventories	13	38,541	38,422	-	-
Trade and other receivables	14	39,588	31,502	18	110
Cash and cash equivalents		392	2,032	65	14,574
		78,521	71,956	83	14,684
Total assets		220,315	223,859	321,629	390,239
Current liabilities					
Trade and other payables	15	(106,613)	(100,191)	(212,009)	(323,084)
Retirement benefit obligation	28	(1,572)	(1,572)	-	-
Tax liabilities		(6,662)	(27,271)	-	(1,740)
Obligations under finance leases	21	(240)	(1,017)	-	-
Bank overdrafts and loans	17	(11,445)	(68,488)	-	(78,608)
Loan notes	17	(1,670)	(2,050)	(1,670)	(2,050)
Other loan	17	(5,000)	-	(5,000)	-
Derivative financial instruments	18	(496)	-	(496)	-
Short term provisions	19	(6,521)	(3,587)	-	-
		(140,219)	(204,176)	(219,175)	(405,482)
Net current liabilities		(61,698)	(132,220)	(219,092)	(390,798)
Non-current liabilities					
Trade and other payables	15	(3,322)	(4,166)	-	-
Retirement benefit obligation	28	(9,370)	(15,907)	-	-
Tax liabilities		(1,563)	(1,875)	-	-
Obligations under finance leases	21	-	(313)	-	-
Loan notes	17	(374)	(414)	-	-
Long term provisions	19	(2,984)	(11,162)	-	-
		(17,613)	(33,837)	-	-
Total liabilities		(157,832)	(238,013)	(219,175)	(405,482)
Net assets/(liabilities)		62,483	(14,154)	102,454	(15,243)
Equity					
Share capital	22	64,769	17,037	64,769	17,037
Share premium account	23	130,211	79,229	130,211	79,229
Merger reserve	23	38,649	38,649	38,649	38,649
Capital redemption reserve	23	288	288	288	288
Other reserve	23	-	1,731	-	1,731
Reserve for treasury shares	23	(4,880)	(4,910)	(4,880)	(4,910)
Retained earnings	23	(166,554)	(146,178)	(126,583)	(147,267)
Total equity		62,483	(14,154)	102,454	(15,243)

The accounts on pages 35 to 69 were approved by the board of directors on 2 October 2006 and signed on its behalf by:


T. Kowalski
Director

Consolidated cash flow

for the 61 weeks ended 1 July 2006

	61 weeks to 1 July 2006 £000	52 weeks to 30 April 2005 (restated) £000
Cash flows from operating activities		
Operating loss	(23,407)	(13,204)
Operating profit from discontinued activities	–	601
Depreciation and fixed asset impairments	11,534	10,205
Amortisation of other intangibles	8	7
Share based payments charge	30	60
Settlement of VAT structural guarantee	(14,625)	16,500
Loss on disposal of property, plant and equipment	4,830	–
Landlords' inducements	(5,272)	(1,782)
Property provisions	(5,244)	3,270
Pension contributions charged to provisions	(1,259)	(1,600)
Operating cash flows before changes in working capital	(33,405)	14,057
Increase in inventories	(119)	(7,255)
Increase in trade and other receivables	(6,353)	(13,015)
Decrease in trade and other payables	(718)	(10,230)
Cash generated by operations	(40,595)	(16,443)
Taxation refunded	509	4,356
Interest paid	(1,590)	(9,471)
Net cash flows from operating activities	(41,676)	(21,558)
Cash flows from investing activities		
Interest received	69	28
Purchase of property, plant and equipment	(9,020)	(10,725)
Proceeds on disposal of property, plant and equipment	3,826	3,594
Disposal of subsidiary	–	42,544
Disposal of investments	–	2,600
Net cash (outflow)/inflow from investing activities	(5,125)	38,041
Cash flows from financing activities		
Proceeds of bank and other loans	5,000	20,314
Repayment of bank loans	(59,584)	(34,823)
Repayment of obligations under finance leases	(1,090)	(787)
Repayment of loan notes	(420)	(199)
Proceeds on issue of share capital	98,714	286
Increase/(decrease) in bank overdrafts	2,541	(10,532)
Net cash inflow/(outflow) from financing activities	45,161	(25,741)
Net decrease in cash and cash equivalents	(1,640)	(9,258)
Opening cash and cash equivalents	2,032	11,290
Closing cash and cash equivalents	392	2,032

Cash and cash equivalents (which are presented as a single class of assets within current assets on the face of the balance sheet) comprised of cash at bank and in hand.

Company cash flow

for the 61 weeks ended 1 July 2006

	61 weeks to 1 July 2006 £000	52 weeks to 30 April 2005 (restated) £000
Cash flows from operating activities		
Operating loss	(45)	(5,348)
Amortisation of other intangibles	8	7
Share based payments charge	30	–
Operating cash flows before changes in working capital	(7)	(5,341)
Decrease in trade and other receivables	92	274
Decrease/(increase) in trade and other payables	(39,695)	70,002
Cash generated by operations	(39,610)	64,935
Interest paid	(1,160)	(3,473)
Net cash flows from operating activities	(40,770)	61,462
Cash flows from investing activities		
Interest received	1,535	692
Net cash inflow from investing activities	1,535	692
Cash flows from financing activities		
Proceeds of bank and other loans	5,000	–
Repayment of bank loans	(56,953)	(6,724)
Repayment of loan notes	(380)	(159)
Proceeds on issue of share capital	98,714	286
Increase/(decrease) in bank overdrafts	(21,655)	(44,683)
Net cash inflow/(outflow) from financing activities	24,726	(51,280)
Net decrease in cash and cash equivalents	(14,509)	10,874
Opening cash and cash equivalents	14,574	3,700
Closing cash and cash equivalents	65	14,574

Cash and cash equivalents (which are presented as a single class of assets within current assets on the face of the balance sheet) comprised of cash at bank and in hand.

Consolidated statement of recognised income and expense

for the 61 weeks ended 1 July 2006

	Notes	61 weeks to 1 July 2006 £000	52 weeks to 30 April 2005 £000
Actuarial gains/(losses) on defined benefit pension schemes	28	5,279	(3,686)
Deferred tax effect of actuarial gain/(loss)		(1,584)	1,106
Cancellation of warrants issued to the banks		1,731	–
Net income/(expense) recognised directly in equity		5,426	(2,580)
Loss for the period		(24,981)	(23,922)
Total recognised income and expense for the period		(19,555)	(26,502)
Adjustment on first time adoption of IAS 32 and IAS 39	30	(821)	–
Total recognised expense since prior year balance sheet		(20,376)	(26,502)

Statement of accounting policies

for the 61 weeks ended 1 July 2006

Basis of accounting

The financial statements of the group are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the EU.

Homestyle Group plc's consolidated financial statements were prepared in accordance with United Kingdom Generally Accepted Accounting Principles (UK GAAP) until 30 April 2005. UK GAAP differs in some areas from IFRS. Management has amended certain accounting and valuation methods applied in the UK GAAP financial statements to comply with the recognition and measurement criteria of IFRS. The comparative figures in respect of April 2005 were restated to reflect these requirements. The group has made use of the exemption available under IFRS 1 to only apply IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' from 1 May 2005. The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRSs are given in note 30.

The financial statements have been prepared on the historical cost basis except for the financial instruments and share based payments. The principal accounting policies adopted are set out below.

Accounting period

The group's accounting period historically ended on the Saturday nearest to the end of April. Following the re-financing in June 2005 by the Steinhoff International Holdings Limited group, the Homestyle group has aligned its year end with Steinhoff resulting in a 61 week period to 1 July 2006. As a result, comparative amounts reported for the prior period of 52 weeks are not entirely comparable.

Basis of consolidation

The group accounts consolidate the accounts of Homestyle Group plc and its subsidiary undertakings made up to the end of each financial period. The acquisition method of accounting has been adopted in consolidating subsidiary undertakings within the group. On acquisition, the assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable assets acquired is credited to the income statement. The results of subsidiary undertakings acquired or sold are consolidated for the periods from or to the date on which control passes.

Goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses represents any excess of the cost of acquisition over the fair value of the identifiable assets and liabilities acquired. Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed. On disposal of a subsidiary the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Property, plant and equipment

Property, plant and equipment is stated at cost, net of depreciation and any recognised impairment loss.

Depreciation is provided on all property, plant and equipment, other than freehold land, at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Freehold and long-leasehold buildings	2% per annum
Short-leasehold interests – premiums	Term of lease
– tenants fixtures	8-10% per annum
– mezzanine floors	4% per annum
Fixtures and fittings	10-25% per annum
Vehicles	20-25% per annum
Display assets	50% per annum

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or where shorter, over the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Statement of accounting policies

for the 61 weeks ended 1 July 2006

Other intangible assets

Other intangible assets are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises the purchase price of materials and merchandise. Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

Taxation

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

The tax currently payable is based on taxable profit for the 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 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.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities that affects neither the tax profit nor the accounting profit. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities.

Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. At each balance sheet date monetary assets and liabilities denominated in foreign currencies are restated at the rates prevailing on the balance sheet date. Gains and losses arising on retranslation are recognised in the income statement for the period in which the gain or loss arises except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity.

Statement of accounting policies

for the 61 weeks ended 1 July 2006

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. Profits and losses on financial instruments are recognised in the income statement as they arise.

Trade receivables

Trade receivables are measured at initial recognition at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, 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.

Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments and hedge accounting

The group's activities expose it primarily to the financial risks of changes in interest rates. The group uses interest rate swap contracts to hedge these exposures. The group does not use derivative financial instruments for speculative purposes. The use of financial derivatives is governed by the group's policies approved by the board of directors, which are set to ensure that funding requirements minimise commercial risk and are cost effective and adequate.

Changes in fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the income statement. If the cash flow hedge of a firm commitment of forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Debt

Debt is initially stated at the amount of the net proceeds after deduction of issue costs. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in the period. Costs incurred in connection with a financial restructuring or renegotiation are written off to the income statement as incurred. Where such costs are material they are separately identified within finance costs.

Statement of accounting policies

for the 61 weeks ended 1 July 2006

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

For defined benefit schemes, the cost of providing benefits is determined using the Projected Unit Cost Method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside of the income statement and presented in the statement of recognised income and expense. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the scheme.

Reserve for treasury shares

The group has applied IAS 32 in respect of shares held to meet its obligations under its long term incentive plan for key employees. The shares are held at cost and are shown as a deduction from equity shareholders' funds.

Share warrants

Share warrants represent the shares issued to the syndicated banks as part of the new facilities and are valued at the difference between the nominal value and the company share price at date of issue.

Share based payments

The group has applied the requirements of IFRS '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 May 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 date of grant 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 Black Scholes and Monte Carlo valuation models.

Finance leases

Assets held under finance leases, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful economic lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charges to the income statement over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful economic lives.

Operating leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

Revenue recognition

Revenue represents the fair value of amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales related taxes. Sales are recognised on delivery to customers.

Branch opening costs

Branch opening costs comprising costs such as rent, rates and employee remuneration incurred at a store prior to its opening are written off as incurred.

Statement of accounting policies

for the 61 weeks ended 1 July 2006

Critical judgements and estimates in applying the accounting policies

In the process of applying the accounting policies described above, management has made the following judgements and estimates that have the most significant effect on the amounts recognised in the financial statements.

Pension scheme

Valuations of the Group's defined benefit schemes are inherently based on various assumptions for investment returns, discount rates, salary and pension increases and inflation assumptions. Details of the assumptions used may be found in note 28.

Property provisions

Provisions for property related costs require management to make judgements and estimates in relation to amounts and lengths of time for which provisions may be required. The provisions are reviewed regularly in the light of the most current information available.

Goodwill

The calculation for considering the impairment of the carrying amount of goodwill requires a comparison of the present value of the cash-generating units for which goodwill has been allocated, to the value of goodwill in the consolidated balance sheet. The calculation of present value requires an estimation of the future cash flows expected to arise from the cash-generating units and the selection of a suitable discount rate.

Standards and interpretations

At the date of authorisation of these financial statements, the following standards and interpretations, which have not been applied in these financial statements, were in issue but not yet effective. The directors anticipate that the adoption of these standards and interpretations will have no material impact on the Group's financial statements. The directors anticipate that the Group will adopt these standards and interpretations on their effective dates:

- IAS 1 Amendment 'Capital disclosures', is effective for periods commencing on or after 1 January 2007;
- IAS 39 Amendment 'Cashflow hedge accounting of forecast intragroup transactions', issued in April 2005, is effective for periods commencing on or after 1 January 2006;
- IAS 39 Amendment 'The fair value option', issued in June 2005, is effective for periods commencing on or after 1 January 2006;
- IAS 39 Amendment 'Financial guarantee contracts', issued in August 2005, is effective for periods commencing on or after 1 January 2006;
- IAS 21 Amendment 'The effects of changes in foreign exchange rates – net investment in a foreign operation', issued in December 2005 is effective for periods commencing on or after 1 April 2006;
- IFRS 7 'Financial instruments: disclosures', issued in August 2005, is effective for periods commencing on or after 1 January 2007 and introduces new disclosures to improve the information about financial instruments;
- IFRIC 4 'Determining whether an arrangement contains a lease', issued in December 2004, is effective for periods commencing on or after 1 January 2006 and requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement;
- IFRIC 8 'Scope of IFRS 2', issued in January 2006, is effective for periods commencing on or after 1 May 2006;
- IFRIC 9 'Reassessment of embedded derivatives', issued in March 2006, is effective for periods commencing on or after 1 June 2006; and
- IFRIC 10 'Interim Financial Reporting and Impairment', issued in July 2006, is effective for periods commencing on or after 1 November 2006.

Interpretations in issue but not considered relevant to the activities of the Group are as follows:

- IFRIC 1 'Changes in existing decommissioning, restoration and similar liabilities';
- IFRIC 2 'Members' shares in cooperative entities and similar instruments';
- IFRIC 5 'Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds';
- IFRIC 6 'Liabilities arising from participating in a specific market – waste electrical and electronic equipment'; and
- IFRIC 7 'Applying the restatement approach under IAS 29' "Financial reporting in hyperinflationary economies".

Notes to the accounts

1. Segmental information

For management purposes, the group is currently organised into two operating divisions – furniture and bed retailing. These divisions are the basis on which the group reports its primary segment information.

	61 weeks to 1 July 2006 £000	52 weeks to 30 April 2005 (restated) £000
Analysis of revenue		
<i>Continuing operations</i>		
Furniture retailing	288,001	253,495
Bed retailing	219,285	200,078
Total	507,286	453,573
<i>Discontinued operations</i>		
Home Textiles Retailing	–	11,395
	507,286	464,968
Analysis of operating loss		
<i>Continuing operations</i>		
Furniture retailing (including one off costs £4.0 million (2005: £27.3 million))	(26,776)	(26,331)
Bed retailing	3,369	13,127
	(23,407)	(13,204)
<i>Discontinued operations</i>		
Home Textiles Retailing	–	601
	(23,407)	(12,603)
Total finance costs	(1,196)	(14,918)
Loss before taxation	(24,603)	(27,521)
Taxation	(378)	3,599
Loss after taxation	(24,981)	(23,922)
Segment assets		
Furniture retailing	103,145	101,216
Bed retailing	116,778	120,611
Central unallocated assets	392	2,032
Total assets	220,315	223,859
Segment liabilities		
Furniture retailing	(93,793)	(109,732)
Bed retailing	(45,310)	(55,999)
Central unallocated liabilities	(18,729)	(72,282)
Total liabilities	(157,832)	(238,013)

Notes to the accounts

1. Segmental information (continued)

	61 weeks to 1 July 2006 £000	52 weeks to 30 April 2005 (restated) £000
Other segmental information		
Capital additions		
Furniture retailing	6,252	7,537
Bed retailing	2,768	3,869
Discontinued operations	–	717
	9,020	12,123
Depreciation		
Furniture retailing	7,701	6,621
Bed retailing	3,833	3,088
Discontinued operations	–	496
	11,534	10,205

The group's activities are in one geographic segment, being the United Kingdom

Intra group transactions are conducted on an arms length basis.

2. Items charged to operating loss

	61 weeks to 1 July 2006 £000	52 weeks to 30 April 2005 (restated) £000
Reorganisation of Harveys supply chain	4,030	–
Settlement of VAT dispute (including professional fees)	–	19,729
Provision for Harveys onerous leases	–	7,595
Professional fees relating to restructuring review	–	990
	4,030	28,314

Notes to the accounts

3. Loss on ordinary activities before taxation

	61 weeks to 1 July 2006 £000	52 weeks to 30 April 2005 (restated) £000
Loss for the period has been arrived at after charging/(crediting):		
Cost of inventories recognised as an expense	255,148	221,923
Depreciation of property, plant and equipment		
– owned assets	10,874	9,315
– under finance leases	660	394
Loss on disposal of fixed assets	4,830	–
Landlord's inducements	(5,272)	(1,782)
Other operating lease rentals payable		
– plant and machinery	2,988	2,738
– property	62,684	51,734
Auditors' remuneration for audit services	160	317

Amounts payable to Deloitte and Touche LLP and their associates by the company's UK subsidiary undertakings in respect of non-audit services were £nil (2005: £1,398,000).

4. Staff costs

	61 weeks to 1 July 2006 £000	52 weeks to 30 April 2005 (restated) £000
The average monthly number of employees was:		
Distribution	789	811
Sales	2,180	2,468
Administration	354	371
	3,323	3,650
Employees' aggregate remuneration comprised:		
Wages and salaries	77,985	70,604
Social security costs	7,377	6,602
Other pension costs	1,070	847
	86,432	78,053

Notes to the accounts

4. Staff costs (continued)

Key management personnel

The remuneration of executive directors together with that of other senior executives, who are the key management personnel of the group, is set out in aggregate for each of the categories specified in IAS 24 "Related Party Disclosures". Further information about the remuneration of individual executive directors is set out in the Directors' remuneration report. The Directors' remuneration report also lists the individual directors' interests in the shares of the company.

	61 weeks to 1 July 2006 £000	52 weeks to 30 April 2005 (restated) £000
Salary and short term employee benefits	1,243	1,140
Post employment benefits	90	67
Taxation payments	100	–
Store based payments	88	44
	1,521	1,251

5. Finance costs

	61 weeks to 1 July 2006 £000	52 weeks to 30 April 2005 (restated) £000
Interest expense:		
Bank loans and overdrafts	1,226	3,968
Finance leases and hire purchase contracts	105	51
Other loans	93	87
Total interest and similar charges payable	1,424	4,106
Interest receivable:		
Other interest receivable	(69)	(28)
Total interest receivable	(69)	(28)
Finance costs – net	1,355	4,078
Finance costs arising on restructuring	–	7,929

Finance costs arising on restructuring comprise bank and other professional fees relating to a restructuring of the group's bank loan and overdraft facilities.

6. Taxation on loss on ordinary activities

	61 weeks to 1 July 2006 £000	52 weeks to 30 April 2005 (restated) £000
<i>Current tax</i>		
U.K. Corporation tax at 30.0% (2005: 30.0%) on loss for the period	–	555
<i>Deferred taxation</i>		
Origination and reversal of timing differences	(378)	3,205
Total taxation credit	(378)	3,760

Notes to the accounts

6. Taxation on loss on ordinary activities (continued)

The tax charge for the period can be reconciled to the loss per the income statement as follows:

	61 weeks to 1 July 2006 £000	52 weeks to 30 April 2005 (restated) £000
Loss before taxation	24,603	25,544
Tax at the current UK corporation tax rate	7,381	7,663
Tax effect of expenses not deductible in determining taxable loss	(1,549)	(4,510)
Tax effect of origination and reversal of timing differences	(378)	(695)
Movement in deferred tax asset not recognised	(5,954)	908
Adjustment in respect of prior periods	122	394
Tax (charge)/credit for the period	(378)	3,760

In addition to the amount charged to the income statement, a deferred tax charge of £1,584,000 (2005: credit £1,106,000) relating to the actuarial gain/loss on the group's defined benefit pension schemes has been charged directly to equity.

Of the charge to taxation in the prior period, a further £161,000 related to profits arising in relation to Home Textiles retailing which was disposed of during that period.

7. Discontinued operations

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

	61 weeks to 1 July 2006 £000	52 weeks to 30 April 2005 (restated) £000
Revenue	–	11,395
Expenses	–	(13,372)
Loss before tax	–	(1,977)
Attributable tax expense	–	(161)
Net loss attributable to discontinued operations	–	(2,138)

The home textiles business was disposed of in May 2004, in order to generate cash flow for the business and rationalise the group into two divisions – furniture and bed retailing. A loss of £2,262,000 was incurred on disposal being the proceeds less the carrying amount of the net assets and associated costs. The discontinued operation contributed an operating cash inflow of £601,000 in the year ended 30 April 2005.

Notes to the accounts

8. Loss per share

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

IAS 33 "Earnings per share" requires presentation of diluted EPS when a company could be called upon to issue shares that would decrease net profit or increase net loss per share. As the group is loss making, with outstanding share options, net loss per share would only be increased by the exercise of out-of-the-money options. It would be inappropriate to assume that option holders would act irrationally, therefore no adjustment has been made to diluted EPS for out-of-the-money share options and diluted EPS equals basic EPS.

	61 weeks to 1 July 2006 £000	52 weeks to 30 April 2005 (restated) £000
Loss for the period from continuing operations	(24,981)	(21,784)
Loss for the period from discontinued operations	–	(2,138)
Loss attributable to the equity holders of the parent	(24,981)	(23,922)
	61 weeks to 1 July 2006 000	52 weeks to 30 April 2005 (restated) 000
Weighted average number of ordinary shares for the purpose of basic loss per share	236,433	65,356
Basic and diluted – discontinued operations	–	(3.3)p

9. Goodwill

	Group £000
Cost:	
At 1 May 2005	157,948
Additions	–
At 1 July 2006	157,948
Accumulated impairment losses:	
At 1 May 2005	67,294
Impairment losses for the period	–
At 1 July 2006	67,294
Carrying amount:	
At 1 July 2006	90,654
At 1 May 2005	90,654

Notes to the accounts

9. Goodwill (continued)

	Group (restated) £000
Cost:	
At 1 May 2004	188,680
Disposals	(30,732)
At 30 April 2005	157,948
Accumulated impairment losses:	
At 1 May 2004	98,026
Disposals	(30,732)
At 30 April 2005	67,294
Carrying amount:	
At 30 April 2005	90,654
At 1 May 2004	90,654

Goodwill is reviewed annually for impairment. The furniture division and beds division are regarded as separate cash generating units. Each cash generating unit's recoverable amount is based on projections of the unit's cash generating performance for the next twenty years using the budget for the next financial year, then an assumption of 1% growth for the remainder of the twenty years, discounted at a weighted average cost of capital of 10%. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money. The growth rate assumption is a prudent estimate by management.

The results of the calculations are then subject to sensitivity tests in assessing whether any impairment is required.

Management have concluded that no impairment is therefore required.

	Group £000
Furniture retailing	18,069
Bed retailing	72,585
	90,654

10. Other intangible assets

	Group		Company	
	1 July 2006 £000	30 April 2005 (restated) £000	1 July 2006 £000	30 April 2005 (restated) £000
Cost				
At start of period	144	2,994	144	2,994
Disposals	–	(2,850)	–	(2,850)
At end of period	144	144	144	144
Amounts written off				
At start of period	7	–	7	–
Amortisation	8	7	8	7
At end of period	15	7	15	7
Carrying amount	129	137	129	137

The amortisation period is over the estimated useful life which is estimated to be twenty years.

Notes to the accounts

11. Property, plant and equipment

Group	Property			Fixtures, fittings and vehicles £000	Total £000
	Freehold £000	Long lease £000	Short lease £000		
Cost or valuation:					
At 1 May 2005	204	2,144	7,250	81,131	90,729
Additions	–	–	170	8,850	9,020
Disposals	–	(47)	(558)	(8,818)	(9,423)
Reclassifications	–	(142)	142	–	–
At 1 July 2006	204	1,955	7,004	81,163	90,326
Depreciation					
At 1 May 2005	22	497	5,785	32,457	38,761
Charge for the period	5	40	495	10,994	11,534
Disposals	–	(186)	(354)	(3,258)	(3,798)
Reclassifications	–	(1)	30	(29)	–
At 1 July 2006	27	350	5,956	40,164	46,497
Net book amount					
At 1 July 2006	177	1,605	1,048	40,999	43,829
At 1 May 2005	182	1,647	1,465	48,674	51,968

The net book value of tangible fixed assets include £978,000 (April 2005: £1,273,000) in respect of assets held under finance leases and hire purchase contracts.

Group	Property			Fixtures, fittings and vehicles £000	Total £000
	Freehold £000	Long lease £000	Short lease £000		
Cost or valuation:					
At 1 May 2004	298	2,948	19,286	92,694	115,226
Additions	–	–	35	12,088	12,123
Disposals	–	(10)	(997)	(3,598)	(4,605)
Disposal of business	(94)	(794)	(1,349)	(29,778)	(32,015)
Reclassifications	–	–	(9,725)	9,725	–
At 30 April 2005	204	2,144	7,250	81,131	90,729
Depreciation					
At 1 May 2004	36	497	5,855	28,088	34,476
Charge for the period	4	40	498	9,663	10,205
Disposals	–	(4)	(846)	(1,943)	(2,793)
Disposal of business	(18)	(36)	(814)	(2,259)	(3,127)
Reclassifications	–	–	1,092	(1,092)	–
At 30 April 2005	22	497	5,785	32,457	38,761
Net book amount					
At 30 April 2005	182	1,647	1,465	48,674	51,968
At 1 May 2004	262	2,451	13,431	64,606	80,750

Notes to the accounts

12. Investments

	Group		Company	
	1 July 2006	30 April 2005 (restated)	1 July 2006	30 April 2005 (restated)
	£000	£000	£000	£000
Shares in subsidiary undertakings				
At start of period	-	-	375,418	375,418
Amounts transferred to inter-company	-	-	(9,094)	-
Provision for impairment	-	-	(44,907)	-
At end of period	-	-	321,417	375,418
Subsidiary undertakings:				
Company		Shares in subsidiary undertakings £000	Loan notes £000	Total £000
Cost:				
At 1 May 2005		391,453	309,094	700,547
Loan notes capitalised		300,000	(300,000)	-
Amounts transferred to inter-company		-	(9,094)	(9,094)
At 1 July 2006		691,453	-	691,453
Amounts written off:				
At 1 May 2005		205,862	119,267	325,129
Loan notes capitalised		119,267	(119,267)	-
Provision for impairment		44,907	-	44,907
At 1 July 2006		370,036	-	370,036
Book value				
At 1 July 2006		321,417	-	321,417
At 1 May 2005		185,591	189,827	375,418

The impairment shown for the company is in relation to the hive-up of a number of subsidiary companies. There was no net impact on the company's retained earnings or on the results of the group.

Principal Group investments

The parent company has investments in the following subsidiary undertakings which principally affected the profits or net assets of the group. Those investments which are not significant have been omitted. All are held directly by Homestyle Group PLC and are incorporated in England and Wales.

Company	Principal activity	Holding	Proportion of voting interest
Homestyle Operations Limited	Retail	Ordinary shares	100%
Homestyle Group Properties plc (formerly A G Stanley Holdings plc)	Property	Ordinary shares	100%
Homestyle Facilities Limited	Leasing	Ordinary shares	100%

Notes to the accounts

13. Inventories

	Group		Company	
	1 July 2006	30 April 2005 (restated)	1 July 2006	30 April 2005 (restated)
	£000	£000	£000	£000
Goods for sale	38,541	38,422	–	–

14. Trade and other receivables

	Group		Company	
	1 July 2006	30 April 2005 (restated)	1 July 2006	30 April 2005 (restated)
	£000	£000	£000	£000
Trade receivables	6,136	4,666	–	–
Other receivables	7,620	4,869	–	–
UK corporation tax receivable	29	537	–	–
Prepayments and accrued income	25,803	21,430	18	110
	39,588	31,502	18	110

The directors consider that the carrying amount of trade and other receivables approximate to their fair value.

15. Trade and other payables – less than one year

	Group		Company	
	1 July 2006	30 April 2005 (restated)	1 July 2006	30 April 2005 (restated)
	£000	£000	£000	£000
Trade payables	58,205	59,916	23	–
Amounts owed to group undertakings	–	–	211,423	321,301
Other payables	2,239	1,591	173	174
Customer deposits received	24,064	19,014	–	–
Accruals and deferred income	22,105	19,670	390	1,609
	106,613	100,191	212,009	323,084

The average credit period taken for trade payables is 42 days (April 2005: 50 days).

The directors consider that the carrying amount of trade and other payables approximate to their fair value.

16. Trade and other payables – more than one year

	Group		Company	
	1 July 2006	30 April 2005 (restated)	1 July 2006	30 April 2005 (restated)
	£000	£000	£000	£000
Other payables	3,322	4,166	–	–

The Directors consider that the carrying amount of trade and other payables approximate to their fair value.

Notes to the accounts

17. Bank overdrafts and loans

	Group		Company	
	1 July 2006	30 April 2005 (restated) £000	1 July 2006	30 April 2005 (restated) £000
Bank overdrafts	11,445	8,904	–	21,655
Bank loans	–	59,584	–	56,953
Other loans	5,000	–	5,000	–
Loan notes	2,044	2,464	1,670	2,050
	18,489	70,952	6,670	80,658
The borrowings are repayable as follows:				
On demand or within one year	18,115	70,538	6,670	80,658
In the second year	40	40	–	–
In the third to fifth years inclusive	334	374	–	–
After five years	–	–	–	–
	18,489	70,952	6,670	80,658
Less: Amount due for settlement within 12 months (shown under current liabilities)	(18,115)	(70,538)	(6,670)	(80,658)
Amount due for settlement after 12 months	374	414	–	–

All borrowings are sterling denominated.

Bank borrowings are arranged at floating interest rates linked to bank base rate, thus exposing the group to cash flow interest rate risk.

Other loans represents a loan from Steinhoff UK Beds Limited repayable on or after 30 September 2006, attracting interest at a rate of 5.5%.

Of the loan notes, £1,670,000 accrue interest at base rate plus 1%. The remaining £374,000 loan notes accrue interest at base rate.

Bank overdrafts are repayable on demand.

At 1 July 2006, the group had available £13,555,000 (April 2005: £20,196,000) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

The weighted average interest rates in the period were:

	1 July 2006	30 April 2005
Bank overdrafts	5.6%	6.6%
Bank loans	6.4%	6.4%
Other loans	5.5%	–
Loan notes	4.6%	4.8%

Notes to the accounts

17. Bank overdrafts and loans (continued)

UK GAAP

As per IFRS1, the group has elected not to present comparative information in accordance with IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 30 "Financial Instruments". The required UK GAAP disclosures for the comparative period are shown below.

Financial assets

The group has no financial assets which are benchmarked against the floating rate based on UK bank rates.

Financial liabilities

The interest rate profile of the group's borrowings at 30 April 2005 after taking into account interest rate swaps and caps is as follows:

	30 April 2005 £000
Fixed rate	51,330
Floating rate	20,952
Total	72,282

The floating rate financial liabilities are sterling denominated bank borrowings, overdrafts and loan notes that bear interest at rates based on LIBOR and bank base rates. The fixed rate debt relates to floating rate debt swapped to fixed rate and finance leases. The weighted average interest rate for fixed rate liabilities was 5% and the weighted average period for which rates are fixed is 3 years.

Currency exposures

As at 30 April 2005 the group did not have any significant foreign currency exposures.

Maturity of financial liabilities

The maturity profile of the group's financial liabilities at 30 April 2005 was as follows:

	30 April 2005 £000
One year or less, or on demand	71,555
In more than one year but not more than two years	353
In more than two years but not more than five years	374
Total	72,282

Borrowing facilities

The group has various undrawn committed borrowing facilities. The undrawn facilities available at 30 April 2005 in respect of which all conditions precedent had been met were as follows:

	30 April 2005 £000
Expiring in one year or less	20,196

Notes to the accounts

18. Financial instruments

Currency derivatives

The group utilises currency derivatives to hedge significant future transactions and cash flows. The group is a party to a variety of foreign currency forward contracts in the management of its exchange rate exposures.

At the balance sheet date, total notional amount of outstanding forward foreign exchange contracts that the group has committed are as below:

	1 July 2006 £000	30 April 2005 £000
Forward foreign exchange contracts	-	-

Interest rate swaps

As per IFRS1, the group has elected not to present comparative information in accordance with IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 30 "Financial Instruments". The required UK GAAP disclosures for the comparative period are shown below.

The group uses interest rate swaps to manage its exposure to interest rate movements on its bank borrowings. Contracts with nominal values of £50 million have fixed interest payments at an average of 5.03% for periods up until 31 December 2010 and have floating interest receipts based on 3 month LIBOR.

The fair value of swaps entered into as at 1 July 2006 is estimated at £496,000 liability (April 2005: £821,000). These amounts are based on market values of equivalent instruments at the balance sheet date. Movements in the fair value during the period have been reflected within the consolidated income statement.

UK GAAP

The group uses financial instruments to hedge the risk associated with interest rates on borrowings. Interest differentials on financial instruments are recognised by adjusting net interest payable. At 30 April 2005 the fair value was a liability of £821,000 which, under UK GAAP, was not reflected on the balance sheet.

19. Provisions

	Property provisions £000	Provision for termination of operation £000	Total £000
At 1 May 2005	14,499	250	14,749
Utilisation	(4,994)	(250)	(5,244)
At 1 July 2006	9,505	-	9,505
Included in current liabilities			6,521
Included in non-current liabilities			2,984
			9,505

Property provisions are made for future rental costs where properties are vacant or for expected losses where a store is loss making. The provision is made for the remaining term of the lease or estimated date of assignment if earlier. The group also provides for dilapidations where expenditure is expected to be incurred to restore leasehold premises to the condition required under individual lease agreements at the end of their term.

The provision is expected to be payable over the next two years.

Notes to the accounts

20. Deferred tax

	Group		Company	
	1 July 2006	30 April 2005 (restated)	1 July 2006	30 April 2005 (restated)
	£000	£000	£000	£000
Deferred taxation liability:				
Accelerated capital allowances	(1,632)	(86)	-	-
Pension fund	(3,282)	(5,244)	-	-
Short term timing differences	(14,279)	(8,005)	-	-
	(19,193)	(13,335)	-	-
Recognised as recoverable in non-current assets	7,182	9,144	-	-
Not recognised	12,011	4,191	-	-
	19,193	13,335	-	-

The amount recognised as an asset represents the amount expected to be recovered from the utilisation of tax losses in the foreseeable future. The amount not recognised is due to the unpredictability of future profit streams. Losses may be carried forward indefinitely.

	Group £000	Company £000
The movements on the deferred taxation provision during the period were as follows:		
At 1 May 2005	9,144	-
Charge for the period	(1,962)	-
At 1 July 2006	7,182	-

21. Finance leases

	Minimum lease payments		Present value	
	1 July 2006	30 April 2005 (restated)	1 July 2006	30 April 2005 (restated)
	£000	£000	£000	£000
Amounts payable under finance leases:				
Within one year	240	1,017	218	925
In the second to fifth years inclusive	-	313	-	259
After five years	-	-	-	-
	240	1,330	218	1,184
Future finance charges on finance lease obligations	(22)	(146)	-	-
Present value of finance lease obligations	218	1,184		

All lease obligations are denominated in sterling.

The fair value of the group's lease obligations approximates their carrying amount.

The group's obligations under finance leases are secured by the lessor's charges over the leased assets.

Notes to the accounts

22. Share capital

	Group and Company	
	1 July 2006 £000	30 April 2005 £000
Authorised		
360,000,000 (April 2005: 88,000,000) ordinary shares of 25p each	90,000	22,000
Allotted, called-up and fully paid		
259,074,848 ordinary shares of 25p each (April 2005: 68,147,949 of 25p each)	64,769	17,037

Movement in share capital

	Group and Company	
	Number of ordinary shares	£000
At 1 May 2005	68,147,949	17,037
Firm placing and open offer	190,926,899	47,732
At 1 July 2006	259,074,848	64,769

Options have been granted and exist under the following schemes to subscribe for ordinary shares of the company:

The Homestyle Group Executive Share Option Scheme:

Options over 69,625 shares at 332.5p exercisable between 4 April 2000 and 3 April 2007.
Options over 11,628 shares at 157.5p exercisable between 27 September 2001 and 26 September 2008.
Options over 108,973 shares at 294p exercisable between 30 November 2002 and 29 November 2009.
Options over 100,040 shares at 332p exercisable between 12 September 2003 and 11 September 2010.
Options over 164,000 shares at 281p exercisable between 24 October 2003 and 23 October 2010.
Options over 22,800 shares at 429p exercisable between 22 June 2004 and 21 June 2011.
Options over 89,970 shares at 303p exercisable between 1 July 2005 and 30 June 2012.

The Homestyle Group Unapproved 1997 Executive Share Option Scheme:

Options over 319,524 shares at 332.5p exercisable between 4 April 2000 and 3 April 2007.
Options over 13,659 shares at 157.5p exercisable between 27 September 2001 and 26 September 2008.
Options over 66,027 shares at 294p exercisable between 30 November 2002 and 29 November 2009.
Options over 96,960 shares at 354p exercisable between 22 June 2003 and 21 June 2010.
Options over 96,173 shares at 281p exercisable between 24 October 2003 and 23 October 2010.
Options over 15,000 shares at 429p exercisable between 22 June 2004 and 21 June 2011.
Options over 375,363 shares at 332.5p exercisable between 26 June 2005 and 25 June 2012.
Options over 190,000 shares at 107.3p exercisable between 4 October 2007 and 3 October 2014.
Options over 362,791 shares at 107.5p exercisable between 3 November 2007 and 4 November 2014.

The Harveys Approved Share Option Scheme:

Options over 46,703 shares at 490p exercisable between 6 February 2000 and 5 February 2007.
Options over 61,186 shares at 554p exercisable between 2 February 2001 and 1 February 2008.

The Harveys Unapproved Executive Share Option Scheme:

Options over 31,118 shares at 554p exercisable between 2 February 2001 and 1 February 2008.
Options over 27,970 shares at 353p exercisable between 18 August 2002 and 17 August 2009.

In addition performance awards have been issued on 8 March 2006 pursuant to the **Homestyle Group Plc Long Term Incentive Plan** under which 353,355 shares may be issued or transferred to executives at nil cost to them if they remain in employment and a performance condition is satisfied over the 3 year period ending on 30 June 2009.

Notes to the accounts

23. Statement of changes in shareholders' equity

	Share capital £000	Share premium £000	Merger reserve £000	Capital redemption reserve £000	Other reserve £000	Treasury reserve £000	Retained earnings £000	Total £000
Group:								
At 30 April 2005	17,037	79,229	38,649	288	1,731	(4,910)	(146,178)	(14,154)
Adjustment on first time adoption of IAS 32 and IAS 39	-	-	-	-	-	-	(821)	(821)
At 1 May 2005	17,037	79,229	38,649	288	1,731	(4,910)	(146,999)	(14,975)
Cancellation of warrants issued to the bank	-	-	-	-	(1,731)	-	1,731	-
Issue of ordinary share capital	47,732	50,982	-	-	-	-	-	98,714
Share based payments	-	-	-	-	-	30	-	30
Actuarial gain on retirement benefit schemes (net of tax)	-	-	-	-	-	-	3,695	3,695
Loss for the period	-	-	-	-	-	-	(24,981)	(24,981)
At 1 July 2006	64,769	130,211	38,649	288	-	(4,880)	(166,554)	62,483
Company:								
At 30 April 2005	17,037	79,229	38,649	288	1,731	(4,910)	(147,267)	(15,243)
Adjustment on first time adoption of IAS 32 and IAS 39	-	-	-	-	-	-	(821)	(821)
At 1 May 2005	17,037	79,229	38,649	288	1,731	(4,910)	(148,088)	(16,064)
Cancellation of warrants issued to the bank	-	-	-	-	(1,731)	-	1,731	-
Issue of ordinary share capital	47,732	50,982	-	-	-	-	-	98,714
Share based payments	-	-	-	-	-	30	-	30
Profit for the period	-	-	-	-	-	-	19,774	19,774
At 1 July 2006	64,769	130,211	38,649	288	-	(4,880)	(126,583)	102,454

The profit for the financial period in the accounts of Homestyle Group Plc was £19,774,000 (April 2005: loss £31,321,000). As provided by Section 230 of the Companies Act 1985, no income statement is presented in respect of Homestyle Group Plc.

Notes to the accounts

24. Capital commitments

Capital expenditure contracted for but not provided in the accounts at 1 July 2006 amounted to £1,649,000 (April 2005: £nil).

25. Operating lease commitments

The Group as lessee

	Land & Buildings 1 July 2006 £000	Plant & Machinery 1 July 2006 £000	Land & Buildings 30 April 2005 £000	Plant & Machinery 30 April 2005 £000
On leases terminating:				
Within one year	52,138	1,953	51,994	2,080
Between two and five years	193,147	3,302	200,186	5,211
After five years	374,540	3	429,186	498
Total	619,825	5,258	681,366	7,789

Lease commitments are non-cancellable in respect of vehicles and on short and long term leases in respect of certain land and buildings.

Leases of land and buildings are typically subject to rent reviews at specified intervals and provide for the lessee to pay all insurance, maintenance and repair costs. The company had no lease commitments at either 1 July 2006 or 30 April 2005.

The Group as lessor

The group sub-lets vacant stores or parts of stores to third parties. Property rental income received during the period for the group was £11,470,000 (April 2005: £10,186,000).

At the balance sheet date, the group had contracts with sub-tenants for the following total future minimum lease rentals:

	1 July 2006 £000	30 April 2005 £000
On leases terminating:		
Within one year	296	6
Between two and five years	3,239	4,374
After five years	105,765	116,112
Total	109,300	120,492

26. Contingent liabilities

The parent company has guaranteed the banking and financial lease obligations of its subsidiary undertakings.

The group, in common with other multiple retailing organisations, has contingent liabilities, as head lessee, in respect of future rentals on leases assigned to third parties. Amounts become payable only on the default of the assignees and to the extent that the related properties are not subsequently re-let in accordance with the terms of the leases. In the event of amounts becoming payable the cost may be mitigated by re-occupancy by the group.

Notes to the accounts

27. Share based payments

Equity-settled share option plan

The group plan provides for a grant price equal to the average quoted market price of the group shares on the date of grant. The vesting period is 3 years. If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Furthermore, options are forfeited if the employee leaves the Group before the options vest.

	1 July 2006		30 April 2005	
	Options	Weighted average exercise price £	Options	Weighted average exercise price £
Outstanding at beginning of period	552,791	1.075	552,791	1.075
Forfeited during the period	(116,279)	–	–	–
Outstanding at the end of period	436,512	1.075	552,791	1.075

The inputs into the Monte Carlo model are as follows:

Weighted average share price	£1.037
Weighted average exercise price	£1.075
Expected volatility	38.56%
Expected life	3.5 years
Risk free rate	4.676%
Expected dividend yield	0.000%

Expected volatility was determined by calculating the historic volatility of the group's share price using historical data over a term commensurate with the expected life of each option. The expected life used in the model has been adjusted based upon management's best estimate.

Long term incentive plan

The group plan provides for awards at nil cost, the vesting of which depends upon the satisfaction of a TSR performance condition relative to a comparator group of companies. The vesting period is approximately 3 years. If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Furthermore, options are forfeited if the employee leaves the group before the options vest.

	1 July 2006		30 April 2005	
	Options	Weighted average exercise price £	Options	Weighted average exercise price £
Outstanding at beginning of period	144,025	–	144,025	–
Granted during the period	353,355	–	–	–
Forfeited during the period	(144,025)	–	–	–
Outstanding at the end of period	353,355	–	144,025	–

Awards in respect of 353,355 shares were made on 8 March 2006.

Notes to the accounts

27. Share based payments (continued)

The inputs into the Black-Scholes model are as follows:

Weighted average share price	£1.218
Weighted average exercise price	£0.000
Expected volatility	34.49%
Expected life	3.414 years
Risk free rate	3.13%
Expected dividend yield	5.42%

Expected volatility was determined by calculating the historic volatility of the group's share price using historical data over a term commensurate with the expected life of each option. The expected life used in the model has been adjusted based upon management's best estimate.

28. Retirement benefit schemes

Defined contribution schemes

The group operates three defined contribution pension schemes. The assets of the schemes are held separately from those of the group in funds under the control of trustees.

The total cost charged to the income statement of £562,000 (12 months to April 2005: £1,065,000) represents contributions payable to these schemes by the group at rates specified in the rules of the plans.

Defined benefit schemes

The group operates eight defined benefit pension schemes. Under the schemes, the employees are entitled to retirement benefits based on final salary on attainment of retirement age. No other post-retirement benefits are provided.

Details of the most recent actuarial valuations of the principal schemes are as follows:-

	Harveys Group Pension Scheme	Kingsbury Group Pension Scheme	Cantors non Contributory Pension Scheme	Rosebys Pension Scheme	Rexmore Executive Pension Scheme	Rexmore Group Pension Scheme	Rexmore Managers Pension Scheme	S. Ross Pension Scheme
Date of actuarial valuation	31 Dec 2004	31 Dec 2004	31 Dec 2004	31 Dec 2004	31 Dec 2004	31 Dec 2004	31 Dec 2004	31 Dec 2004
<i>Main assumptions:</i>								
Investment returns	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	5.75%
Salary increases	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	N/A	N/A
Actuarial value of assets (£000)	4,018	18,016	6,430	7,267	2,507	3,312	2,870	858
Funding level	67%	92%	82%	64%	93%	51%	54%	45%

Major assumptions for the IAS 19 valuation were:

Assumptions	2003 %	2004 %	2005 %	2006 %
Discount rate	5.65	5.75	5.50	5.55
Rate of increase in salaries	3.60	3.90	3.90	4.00
Rate of increase in pensions in payment	2.60	2.90	2.90	3.00
Rate of increase in deferred pensions	2.60	2.90	2.90	3.00
Inflation assumption	2.60	2.90	2.90	3.00

Notes to the accounts

28. Retirement benefit schemes (continued)

The following information in respect of the pension schemes has been provided in accordance with the requirements of IAS 19:

	Expected rate of return 2006 %	Fair value 2006 £000s	Expected rate of return 2005 %	Fair value 2005 £000s
Equities	7.8%	35,626	7.8%	29,179
Bonds	5.3%	15,677	5.3%	15,088
Property	7.8%	216	–	–
Cash	4.8%	2,541	4.5%	1,501
Total market value of assets		54,060		45,768
Less deferred tax		(16,218)		(13,730)
		37,842		32,038
Present value of scheme liabilities		65,001		63,247
Less deferred tax		(19,500)		(18,974)
		45,501		44,273
Net pension liability under IAS 19		(7,659)		(12,235)

	1 July 2006 61 weeks £000s	30 April 2005 52 weeks £000s
Analysis of amount charged to the income statement		
Loss on ordinary activities before tax:		
Net company service cost	(561)	(535)
Curtailment gain (included in loss on sale/termination of operations)	–	1,049
Total charge to loss on ordinary activities before tax	(561)	514
Net interest:		
Expected return on scheme assets	3,627	3,058
Interest on scheme liabilities	(4,003)	(3,391)
Net return	(376)	(333)
Amounts charged to the income statement	(937)	181
<i>Statement of recognised income and expense:</i>		
Actual less expected return on assets	5,367	1,306
Experience gains/losses	–	2,714
Change in assumptions	(88)	(7,706)
Actuarial gain/(loss) recognised before tax	5,279	(3,686)

Notes to the accounts

28. Retirement benefit schemes (continued)

	1 July 2006 61 weeks £000s	30 April 2005 52 weeks £000s
Movement in deficit during the period		
Deficit in scheme at beginning of period	(17,479)	(16,107)
Current service cost	(561)	(535)
Contributions	2,195	2,133
Other finance costs	(376)	(333)
Actuarial (loss)/gain	5,279	(3,686)
Curtailment gain	–	1,049
Deficit in scheme before tax	(10,942)	(17,479)
Deferred tax	3,282	5,244
Deficit in scheme at end of period net of deferred tax	(7,660)	(12,235)
Details of experience gains and losses		
Actual less expected return on assets	5,367	1,306
Percentage of assets	10%	3%
Experience gains and losses on liabilities	–	2,714
Percentage of liabilities	–%	4%
Total amount recognised in Statement of recognised income and expense	5,279	(3,686)
Percentage of liabilities	8%	–6%

	1 July 2006 61 weeks £000s	30 April 2005 52 weeks £000s
Movements in the present value of defined benefit obligations were as follows:		
At start of period	63,247	61,829
Current service cost	561	535
Employee contributions	93	99
Interest cost	4,003	3,391
Actuarial (loss)/gain	88	4,992
Curtailment gain	–	(1,049)
Benefits paid	(2,991)	(6,550)
At end of period	65,001	63,247

Movements in the fair value of scheme assets were as follows:

At start of period	45,768	45,722
Expected return on scheme assets	3,627	3,058
Actuarial (loss)/gain	5,368	1,306
Employer contributions	2,195	2,133
Employee contributions	93	99
Benefits paid	(2,991)	(6,550)
At end of period	54,060	45,768

Notes to the accounts

29. Related party transactions

Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the group and its associates in the Steinhoff International Holdings Limited group are disclosed below.

During the period, group companies entered into the following transactions with related parties who are not members of the group:

	Sale of goods/ services £000	Purchase of goods/ services £000	Interest expense £000	Amounts owed by related parties £000	Amounts owed to related parties £000
Steinhoff group – fellow subsidiaries	100	20,916	34	4	12,539
Steinhoff group – parent company	–	–	313	–	–

Steinhoff is a related party as it owns 61% of the group. It was not a related party in the previous accounting period as it acquired its holding in July 2005.

All transactions are made on an arms length basis. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

Included within amounts owed to related parties is a loan of £5,000,000 from Steinhoff UK Beds Limited, repayable on or after 30 September 2006, attracting interest at a rate of 5.5%.

30. Explanation of transition to IFRS

This note sets out details of the changes in accounting policies arising from the adoption of IFRS, together with restated financial information for the opening balance sheet at 1 May 2004 and 30 April 2005 and the 52 weeks ended 30 April 2005.

IFRS 1 – First time adoption of International Financial Reporting Standards

In implementing the transition to IFRS, the group has followed the requirements of IFRS 1, which in general requires IFRS accounting policies to be applied fully retrospectively in deriving the opening balance sheet at the date of transition. Significant accounting policy changes, together with the relevant transitional provisions, and their effect on the financial statements of the group are explained in this section.

However, IFRS 1 contains certain mandatory exceptions and some optional exemptions to this principle of retrospective application. The relevant transitional provisions are set out where applicable below.

IFRS 2 – Share based payments

The charge recognised in the income statement for share based payments is based on the fair value of the option or award at date of grant, which is expensed over the vesting period of the option or award. Fair value is measured by use of the Black Scholes and Monte Carlo valuation models.

IFRS 3 – Business combinations and goodwill

The group has elected to take the exemption available under IFRS 1 to not apply IFRS 3 retrospectively to goodwill and business combinations arising before the date of transition to IFRS. Goodwill arising on such acquisitions has therefore been retained at its UK GAAP carrying value at 1 May 2004.

Under UK GAAP, goodwill arising as a result of the acquisition of a subsidiary undertaking was amortised over 20 years. However, under IFRS, no amortisation charge is to be made. Instead, any goodwill recognised in the balance sheet is subject to an annual impairment review or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The group has carried out an impairment review of the carrying value of its goodwill as at 1 May 2004 and found that no charge for impairment need be made from this date. The effect of this review has been to reverse the amortisations originally made against the income statement, and thereby reduce the loss by £4,736,000 for the 52 weeks ended 30 April 2005.

Notes to the accounts

30. Explanation of transition to IFRS (continued)

IAS 17 – Leases

Under UK GAAP, operating lease incentives in respect of rent free periods were recognised in the income statement over the period to the date of the first rent review. In accordance with IAS 17, all lease incentives must now be recognised in the income statement over the full term of the lease. The effect of this standard has resulted in an adjustment carrying forward an increased amount in the value of rent free periods in deferred lease incentives within current liabilities and in deferred lease incentives within non current liabilities totalling £3,790,000 at 1 May 2004. In respect of the 52 week period to 30 April 2005, adjustments have been made to decrease deferred lease incentives creditors by £143,000.

IAS 32 and 39 – Financial instruments

The group adopted IAS 32 and IAS 39 on 1 May 2005 as permitted under the exemptions of IFRS 1. The impact was limited to the recognition of fair value movements in interest rate swaps on the group's balance sheet when the group becomes a party to the contractual provisions of such an instrument. Profits and losses on financial instruments are recognised in the income statement as they arise.

IAS 33 – Earnings per share

The method of calculating earnings per share has not changed on the transition to IFRS. However the calculations have changed as a result of those restatements on the transition from UK GAAP to IFRS which affect profit.

Reconciliation of net assets

At 1 May 2004	UK GAAP £000	Lease incentives IAS 17 £000	Employee benefits IAS 19 £000	Share based payments IFRS 2 £000	Effect of transition to IFRS £000	Restated under IFRS £000
Non-current assets						
Goodwill	90,654				–	90,654
Other intangible assets	2,994				–	2,994
Property, plant and equipment	80,750				–	80,750
Deferred tax assets	–		4,831		4,831	4,831
	174,398	–	4,831	–	4,831	179,229
Current assets						
Inventories	68,212				–	68,212
Trade and other receivables	26,064				–	26,064
Cash and cash equivalents	11,290				–	11,290
	105,566	–	–	–	–	105,566
Total assets	279,964	–	4,831	–	4,831	284,795
Current liabilities						
Trade and other payables	(140,862)	96			96	(140,766)
Retirement benefit obligation	(1,265)				–	(1,265)
Tax liabilities	(6,214)				–	(6,214)
Obligations under finance leases	(278)				–	(278)
Bank overdrafts and loans	(41,052)				–	(41,052)
Loan notes	(2,209)				–	(2,209)
Short term provisions	(4,219)				–	(4,219)
	(196,099)	96	–	–	96	(196,003)
Net current (liabilities)/assets	(90,533)	96	–	–	96	(90,437)

Notes to the accounts

30. Explanation of transition to IFRS (continued)

Reconciliation of net assets (continued)

At 1 May 2004

	UK GAAP £000	Lease incentives IAS 17 £000	Employee benefits IAS 19 £000	Share based payments IFRS 2 £000	Effect of transition to IFRS £000	Restated under IFRS £000
Non-current liabilities						
Trade and other payables	(166)	(3,886)			(3,886)	(4,052)
Retirement benefit obligation	(10,011)		(4,831)		(4,831)	(14,842)
Obligations under finance leases	(441)				–	(441)
Bank loans	(52,477)				–	(52,477)
Loan notes	(454)				–	(454)
Long term provisions	(7,154)				–	(7,154)
	(70,703)	(3,886)	(4,831)	–	(8,717)	(79,420)
Total liabilities	(266,802)	(3,790)	(4,831)	–	(8,621)	(275,423)
Net assets	13,162	(3,790)	–	–	(3,790)	9,372
Equity						
Share capital	16,751				–	16,751
Share premium account	78,330				–	78,330
Merger reserve	38,649				–	38,649
Capital redemption reserve	288				–	288
Reserve for treasury shares	(5,150)			180	180	(4,970)
Retained earnings	(115,706)	(3,790)		(180)	(3,970)	(119,676)
Total equity	13,162	(3,790)	–	–	(3,790)	9,372

Reconciliation of group income statement

For the 52 weeks ended 30 April 2005

	UK GAAP £000	Goodwill IFRS 3 £000	Lease incentives IAS 17 £000	Share based payments IFRS 2 £000	Discontinued activities £000	Effect of transition to IFRS £000	Restated under IFRS £000
Revenue	464,968				(11,395)	(11,395)	453,573
Operating loss	(17,422)	4,736	143	(60)	(601)	4,218	(13,204)
Finance costs (net)	(14,918)				2,578	2,578	(12,340)
Loss before taxation	(32,340)	4,736	143	(60)	1,977	6,796	(25,544)
Taxation	3,599				161	161	3,760
Loss from continuing operations	(28,741)	4,736	143	(60)	2,138	6,957	(21,784)
Loss from discontinued operations	–				(2,138)	(2,138)	(2,138)
Loss for the period	(28,741)	4,736	143	(60)	–	4,819	(23,922)
Earnings per share from continuing and discontinued operations							
Basic and fully diluted	(44.0)p						(36.6)p

Notes to the accounts

30. Explanation of transition to IFRS (continued)

Reconciliation of net assets

At 30 April 2005

	UK GAAP £000	Goodwill IFRS 3 £000	Lease incentives IAS 17 £000	Employee benefits IAS 19 £000	Share based payments IFRS 2 £000	Effect of transition to IFRS £000	Restated under IFRS £000
Non-current assets							
Goodwill	85,918	4,736				4,736	90,654
Other intangible assets	137					-	137
Property, plant and equipment	51,968					-	51,968
Deferred tax assets	3,900			5,244		5,244	9,144
	141,923	4,736	-	5,244	-	9,980	151,903
Current assets							
Inventories	38,422					-	38,422
Trade and other receivables	31,502					-	31,502
Cash and cash equivalents	2,032					-	2,032
	71,956	-	-	-	-	-	71,956
Total assets	213,879	4,736	-	5,244	-	9,980	223,859
Current liabilities							
Trade and other payables	(100,710)		519			519	(100,191)
Retirement benefit obligation	(1,572)					-	(1,572)
Tax liabilities	(27,271)					-	(27,271)
Obligations under finance leases	(1,017)					-	(1,017)
Bank overdrafts and loans	(68,488)					-	(68,488)
Loan notes	(2,050)					-	(2,050)
Short term provisions	(3,587)					-	(3,587)
	(204,695)	-	519	-	-	519	(204,176)
Net current assets/(liabilities)	(132,739)	-	519	-	-	519	(132,220)

Notes to the accounts

30. Explanation of transition to IFRS (continued)

	UK GAAP	Goodwill IFRS 3	Lease incentives IAS 17	Employee benefits IAS 19	Share based payments IFRS 2	Effect of transition to IFRS	Restated under IFRS
	£000	£000	£000	£000	£000	£000	£000
Non-current liabilities							
Trade and other payables	–		(4,166)			(4,166)	(4,166)
Retirement benefit obligation	(10,663)			(5,244)		(5,244)	(15,907)
Tax liabilities	(1,875)					–	(1,875)
Obligations under finance leases	(313)					–	(313)
Loan notes	(414)					–	(414)
Long term provisions	(11,162)					–	(11,162)
	(24,427)	–	(4,166)	(5,244)	–	(9,410)	(33,837)
Total liabilities	(229,122)	–	(3,647)	(5,244)	–	(8,891)	(238,013)
Net liabilities	(15,243)	4,736	(3,647)	–	–	1,089	(14,154)
Equity							
Share capital	17,037					–	17,037
Share premium account	79,229					–	79,229
Merger reserve	38,649					–	38,649
Capital redemption reserve	288					–	288
Other reserve	1,731					–	1,731
Reserve for treasury shares	(5,150)				240	240	(4,910)
Retained earnings	(147,027)	4,736	(3,647)		(240)	849	(146,178)
Total equity	(15,243)	4,736	(3,647)	–	–	1,089	(14,154)

Impact on 2005 reported balances

Reconciliation of equity at 30 April 2005 (date of last GAAP financial statements)

On 26 January 2006, the group published financial information for the year ended 30 April 2005 restated for the adoption of IFRS. A copy of that release is available on the group's website at www.homestylegroup.com

Since the publication of that information, a reclassification has been made to remove the effect of IAS 32 and IAS 39 "Financial Derivatives" from the period ended 30 April 2005 and restated the adjustment at the beginning of the current period. The change, in respect of the period ended 30 April 2005, comprises an increase in retained earnings of £821,000.

Reconciliation of company net assets at 30 April 2005 (date of last GAAP financial statements)

There was no net effect on the net assets of the company from the transition to IFRS other than a transfer of £240,000 (May 2004: £180,000) between the reserve for treasury shares and retained earnings in respect of share options.

Notes to the accounts

Unaudited segmental information proforma

The following unaudited segmental analysis is provided to illustrate the comparable twelve month period to the group's new accounting year end for continuing activities. The figures have been extracted from the group's statutory accounting period as adjusted by the results for the two month period from management accounts.

52 weeks
to 1 July
2006
(unaudited)
£000s

Analysis of revenue

Furniture retailing	262,210
Bed retailing	188,889
Total	451,099

Analysis of operating loss before reorganisation costs

Furniture retailing	(10,396)
Bed retailing	5,598
	(4,798)
Finance costs – net	(236)
Pre-tax loss before reorganisation costs	(5,034)
Reorganisation costs	(4,030)
Loss before tax	(9,064)

Store profile

	Number of Stores						Rentalised Square Footage (000)		Average Size (sq.ft.)	
	At Acquisitions/ Start	(Disposals)	Opened	Transfers	Closed	At End	At Start	At End	At Start	At End
Bensons for Beds	274	–	8	1	(61)	222	674	555	2,460	2,500
Sleepmasters	121	–	17	–	(21)	117	333	344	2,754	2,940
Bed Shed	41	–	16	1	(5)	53	216	315	5,268	5,943
Bed Division	436	–	41	2	(87)	392	1,223	1,214	2,805	3,097
Harveys	177	–	2	(2)	(7)	170	2,026	1,875	11,446	11,028
Total	613	–	43	–	(94)	562	3,249	3,089	5,300	5,496
Jointly occupied stores	(133)	–	–	–	15	(118)				
Rented properties	480	–	43	–	(79)	444	3,249	3,089	6,769	6,957

Note: Harveys Stores – 2005/06 start position for rentalised square footage restated to include Mezzanine concession space.

Five year summary

	IFRS 2005/06 £000 61 weeks	IFRS 2004/05* ¹ £000 52 weeks	UK GAAP 2003/04 £000 53 weeks	UK GAAP 2002/03* ² £000 60 weeks	UK GAAP 2001/02* ³ £000 52 weeks
Results					
Turnover	507,286	453,573	588,733	732,434	601,366
Operating (loss)/profit – continuing operations – before one-off items	(19,377)	15,110	18,305	33,462	43,325
Goodwill amortisation	–	–	(9,548)	(12,333)	(10,321)
Interest payable	(1,196)	(4,411)	(6,579)	(6,563)	(7,858)
Non-recurring items	(4,030)	(36,243)	(49,351)	(23,664)	(3,510)
(Loss)/profit on ordinary activities before taxation	(24,603)	(25,544)	(47,173)	(9,098)	21,636
Taxation	(378)	3,760	6,232	(4,900)	(7,391)
Discontinued operations	–	(2,138)	(60,608)	(711)	(5,616)
(Loss)/profit on ordinary activities after taxation	(24,981)	(23,922)	(101,549)	(14,709)	8,629
Assets employed					
Goodwill	90,654	90,654	90,654	161,285	186,657
Other intangible assets	129	137	2,994	144	455
Property, plant and equipment	43,829	51,968	80,750	97,318	91,239
Deferred tax assets	7,182	9,144	4,831	5,636	–
Net current liabilities excluding pension liability	(60,126)	(130,648)	(85,049)	(58,021)	(101,527)
Non-current liabilities excluding pension liability	(8,243)	(17,930)	(64,911)	(73,006)	(20,727)
Pension liability (gross)	(10,942)	(17,479)	(16,107)	(18,786)	–
Net assets	62,483	(14,154)	13,162	114,570	156,097
Financed by					
Shareholders' Funds	62,483	(14,154)	13,162	114,570	156,097
Key statistics					
Basic (loss)/earnings per share	(10.6)p	(33.3)p	(156.2)p	(22.1)p	13.2p
Dividends per share	–	–	–	11.65p	20.0p

*1 restated for adoption of IFRS

*2 restated for adoption of FRS 17 (for pension costs) and UITF 38 (for Treasury shares)

*3 restated for adoption of FRS 18 for advertising costs

Notice of annual general meeting

Notice is hereby given that the seventeenth Annual General Meeting of Homestyle Group Plc will be held at the offices of Hudson Sandler, 29 Cloth Fair, London EC1A 7NN at 12.00 noon on Friday 17 November 2006 to transact the following business.

Ordinary business

To consider and, if thought fit, pass the following resolutions as ordinary resolutions:

- 1 To receive the reports of the directors and the auditors and the financial statements for the period ended 1 July 2006.
- 2 To approve the directors' remuneration report for the period ended 1 July 2006.
- 3 To re-elect Donald Macpherson as a director of the company (retiring by rotation) (see note (i) below)
- 4 To re-elect Tim Kowalski as a director of the company (retiring by rotation)
- 5 To re-appoint David Sussman as a director of the company (appointed since last AGM)
- 6 To re-appoint Deloitte & Touche LLP as auditors, to act as such until the conclusion of the next general meeting of the company at which accounts are laid.
- 7 To authorise the directors to determine the auditors' remuneration.

Special business

To consider and, if thought fit, pass the following resolutions of which resolutions 8 and 11 will be proposed as ordinary resolutions and resolutions 9 and 10 will be proposed as special resolutions:

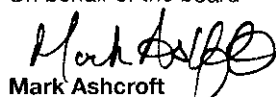
- 8 That the directors be and they are generally and unconditionally authorised for the purpose of section 80 of the Companies Act 1985 (the "Act") to exercise all the powers of the company to allot relevant securities (within the meaning of that section) up to an aggregate nominal value of £25,231,288 provided that this authority shall expire on the earlier of the date falling 15 months from the passing of this resolution and the conclusion of the next annual general meeting of the company following the date of this resolution save that the directors may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offer or agreement as if the authority conferred by this resolution had not expired.
9. That subject to the passing of resolution 8, the directors be and they are empowered pursuant to section 95 of the Act, to allot equity securities (within the meaning of section 94(2) of the Act) for cash pursuant to the authority conferred by resolution 8 as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities
 - (a) in connection with an offer of such securities by way of rights to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings of such shares, on a record date fixed by the directors of the company, but subject to such exclusions or other arrangements as the directors deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any territory, or the requirements of any regulatory body or stock exchange or otherwise howsoever; and
 - (b) otherwise than pursuant to sub-paragraph (a) up to an aggregate nominal amount of £9,715,305 being equivalent to approximately 15% of the issued ordinary share capital of the company, and unless previously renewed, revoked or varied, such power shall expire on the earlier of the date falling 15 months from the passing of this resolution and the conclusion of the next annual general meeting of the company following the date of this resolution save that the company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of any such offer or agreement as if the power conferred by this resolution had not expired.

This power applies in relation to a sale of shares which is an allotment of equity securities by virtue of section 94(3A) of the Act as if in the first paragraph of this resolution the words "pursuant to the authority conferred by resolution 8 above" were omitted.

Notice of annual general meeting

10. That the company be and is generally and unconditionally authorised for the purpose of section 166 of the Act to make one or more market purchases (within the meaning of section 163(3) of the Act) on the London Stock Exchange of ordinary shares of 25 pence each ("shares") in the capital of the company provided that:
- (a) the maximum number of shares authorised by this resolution to be purchased is 25,907,484 representing approximately 10% of the company's issued ordinary share capital;
 - (b) the minimum price which may be paid for such shares is 25 pence per share (exclusive of expenses);
 - (c) the maximum price (exclusive of expenses) which may be paid for a share shall not be more than the higher of:
 - (i) 5% above the average middle market quotations for a share, as derived from the London Stock Exchange Daily Official List, for the five business days immediately preceding the date of purchase; and
 - (ii) that stipulated by article (5)1 of the Buy-back and Stabilisation Regulation;
 - (d) unless previously renewed, varied or revoked the authority conferred by this resolution shall expire on the earlier of the date falling 15 months from the passing of this resolution and the conclusion of the next annual general meeting following the date of this resolution of the company save that the company may make a contract or contracts to purchase shares before this authority (as varied or renewed) expires, notwithstanding that it may be executed wholly or partly after it expires, and the company may purchase shares pursuant to any such contract or contracts;
11. That the maximum aggregate remuneration of the non-executive directors for their services as officers of the company, authorised pursuant to Article 30 of the company's Articles of Association, be increased with immediate effect to £350,000 per year.

On behalf of the board



Mark Ashcroft

Group Company Secretary

13 October 2006

Notice of annual general meeting

Notes

- (i) Notice is hereby given pursuant to Article 35.1 of the company's Articles of Association that Donald Macpherson, who is standing for re-election at the annual general meeting of the company on 17 November 2006, has attained the age of seventy years.
- (ii) A member entitled to attend and vote at the meeting may appoint a proxy (who need not be a member of the company) to attend and, on a poll, to vote in his place. The instrument appointing a proxy should be returned by post, by courier or by hand to the company's registrars, Capita IRG Plc, Bourne House, 34 Beckenham Road, Beckenham, Kent, BR3 4TU not less than 48 hours before the time of the meeting.
- (iii) To have the right to attend and vote at the meeting (and also for the purposes of calculating how many votes a person may cast), a person must have his/her name entered on the register of members by no later than 48 hours before the time of the meeting. Changes to entries on the register after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting.
- (iv) Shareholders whose shares are held in CREST may use the CREST electronic appointment service in accordance with the following procedure:

CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so by following the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it relates to the appointment of a proxy or to an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) by the latest time for receipt of proxy appointments specified in the notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. The company may treat as invalid a CREST Proxy instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001. CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service provider(s) are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

- (v) Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, the company gives notice that only those shareholders entered on the register of members of the company at close of business on 15 November 2006 will be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries on the register after close of business on 15 November 2006 will be disregarded in determining the rights of any person to attend or vote at the meeting.
- (vi) The memorandum and articles of association of the company, the register of directors' interests in shares in the company or its subsidiaries and copies of the directors' service contracts will be available for inspection at the registered office of the company during business hours only on any weekday (excluding Saturdays and public holidays) up to and including the date of the annual general meeting and on the day at the meeting from 11.45am until the conclusion of the meeting.

Shareholder information

2006

Annual results announcement
Annual general meeting

30 August 2006
17 November 2006

2007

Interim results announcement
Financial year end
Annual results announcement

February 2007
30 June 2007
September 2007

Company information

Secretary and Registered Office

Mark Ashcroft
520 Europa Boulevard
Westbrook
Warrington WA5 7TP

Registered Number

2287644

Website

www.homestylegroup.com

Advisors

Auditors

Deloitte & Touche
201 Deansgate
Manchester
M60 2AT

Financial Advisor

Hawkpoint Partners Limited
4 Great St. Helens
London
EC3A 6HA

Stockbroker

Investec
2 Gresham Street
London
EC2V 7QP

Bankers

Royal Bank of Scotland plc
Castlegate House
Tower Hill
Bristol
BS2 0JA

Registrar

Capita IRG PLC
Bourne House
34 Beckenham Road
Beckenham, Kent
BR3 4TU

Solicitors

Walker Morris
Kings Court
12 King Street
Leeds
LS1 2HL

520 Europa Boulevard, Westbrook, Warrington, Cheshire WA5 7TP
Tel: 01925 647200 Fax: 01925 647218

www.homestylegroup.com