Furniture Village Limited

Report and Financial Statements

For the 52 weeks ended 2 April 2006

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Directors' Report

The Directors present their report and financial statements for the 52 weeks ended 2 April 2006.

Strategy Overview

The Furniture Village strategy is to position itself at the upper end of the volume furniture retail market in the UK. The significant increase in the concentration of retailers at the 'price-lead' end of the market reinforces this stance and the anticipated changes in demographics in the coming years further support our view that we are well placed for the future.

Our Mission:

To provide our customers with an unrivalled shopping experience: An Awesome Experience.

Statement of Intent:

To continue to grow and develop our business and reputation, on the basis of sustainable competitive advantage through the levels of service we offer, the passion and skill of the people who provide it and the range, quality and value of our products.

Financial Highlights

Turnover for the 52 weeks to 2 April 2006 was £138m, 1% higher than the previous year in total on a comparable basis and whilst 1% lower on a like for like basis a healthy margin performance resulted in gross profit being ahead of last year.

Investments in the business in the year that will contribute to the delivery of the strategy include increased training and development, additional marketing and promotions, store infrastructure, a new transactional website and quality control.

Against this backdrop of strong investment in the business and challenging trading conditions the reported operating profit of £5.1m for the year compares well with the previous year at £5.4m on a 52 week basis (£6.2m on 53 week basis).

Performance Management

The business operates an industry-leading suite of reporting tools that provide real time understanding of all aspects of the business. This allows formalised weekly performance reporting that can be analysed by store and by product group and this information is shared across the Group and with all members.

The business makes a concerted effort to share relevant information with all employees and will continue to do so. During the year, the policy of providing employees with information about the Group has been continued. Regular meetings are held between local management and employees to allow a free flow of information and ideas. Employees participate directly in the success of the business through the various incentive arrangements, which cover everyone employed within the business.

Risk

The size of our business necessitates a lean management structure, which in turn dictates the amount of resource that can be allocated to managing risk as a unique 'subject'.

Instead we segment risk and manage it accordingly:

- Strategic risk.
- Financial risk.
- Operational risk.
- Health & Safety risk.

Directors' Report

Strategic Risk:

The competitive landscape as outlined above indicates that our strategy to continue to move away from price-focused end of the volume market is the correct one. The decisions taken in recent years in terms of service and quality, together with further advances in the coming year will ensure that we maintain our momentum.

Financial Risk:

The business has always been focused on effective management of cash. The cash generative nature of the operation has enabled us to comfortably meet our financial obligations to landlords, suppliers and other stakeholders, aided by the flexibility we have over capital expenditure commitments.

In addition, we have a very effective finance operation that provides budgetary and forecast benchmarks through the year, allowing strong predictive capabilities.

One of the key areas of focus for financial risk management includes that of exchange rate movements. As an element of our product is sourced in US dollars we attempt to provide a degree of certainty around this area by adopting a hedging strategy which could include forward contracts, options and spot purchases.

Derivatives – Fair Value

The fair value at 2 April 2006 of derivatives held by the Company was as follows:

Forward foreign exchange contracts	£38,966 (unrealised gain)

Operational Risk:

Store managers, supported by regional management who ensure operational standards, manage our stores at a local level. Our concentration on quality stores, systems and infrastructure ensure consistency of performance. Our supplier base is managed in an open, honest and constructive fashion, with quality of service being of huge significance to us.

Health & Safety:

The business takes its health and safety responsibilities very seriously. We ensure in all areas that we seek to comply with all relevant legislation and allocate management time to this subject at the highest level. The result of this focus is an exemplary record for a business of this size.

Review of the business

Turnover has increased by 1% compared to last year on a 52-week basis to £138,134,000 (2005: 52-week £136,313,000, 53-week £138,453,000) with the profit before interest and tax increasing by 20% to £4,852,000 (2005: 52-week £4,050,000, 53-week £4,784,000).

No new outlets were opened during the year due to limited number of sites with our desired criteria for new stores. There was one closure, bringing the number of physical trading outlets to thirty-five. Our Southampton store was fully refurbished and a mezzanine level added during the year. In addition, our internet site has been redesigned and is now transactional, giving us a "virtual" trading outlet.

Results and Dividends

The profit for the year, after taxation but before dividends, amounted to £3,607,000 (2005 restated: £3,944,000). The Directors have authorised and paid a dividend to Furniture Village Group Limited, the parent company, of £5,134,000 (2005: £10,922,000) during the year. Preference dividends of £222,000 (2005: £222,000) were also paid to Furniture Village Group Limited during the year. These preference dividends have been reclassified as interest paid in accordance with our adoption of FRS 25 - Financial Instruments: Disclosure and Presentation.

Future Developments

We are pleased to announce that our next new store will be opening in Bolton in the summer of 2006, with Solihull planning to open in spring 2007 and three further sites at an advanced stage of negotiation.

Directors' Report

Directors and their Interests

The current Directors, who are listed on page 1, all served throughout the year covered by this report.

With Furniture Village Limited being the trading company, no Director held any "A" ordinary shares, any "B" ordinary shares nor any beneficial interest in the preference shares of the Company at 4 April 2005 or throughout the year ended 2 April 2006, and hence received no dividends.

Directors' statement as to disclosure of information to Auditors

The Directors who were members of the Board at the time of approving the Directors' Report are listed on page 1. Having made enquiries of fellow Directors and of the Company's auditors, each of these Directors confirms that:

- To the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditors are unaware; and
- Each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

Directors' liabilities

The Company has indemnified the Directors of the Company against liability in respect of proceedings brought about by third parties, subject to the conditions set out in the Companies Act 1985. Such qualifying third party indemnity provision was in force throughout the year.

Disabled Employees

The Company gives full consideration to applications for employment from disabled persons where requirements of the job can be adequately fulfilled by a handicapped or disabled person.

Where existing employees become disabled, it is the Company's policy, wherever practicable, to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

Charitable Contributions

The Company's charitable donations for the period were £28,680 (2005: £23,349).

Events Subsequent to the Balance Sheet Date

On 14 May 2006, our London Bed Company concession within the Selfridges store in the Trafford Centre, Manchester, closed.

Elective Resolution and Auditors

The Company has passed Elective Resolutions to dispense with the laying of the financial statements before the Company in General Meeting, the appointment of auditors annually and the holding of the Annual General Meetings, pursuant to sections 252, 386 and 366A of the Companies Act.

By order of the Board

Secretary

24 October 2006

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

to the members of Furniture Village Limited

We have audited the Company's financial statements for the 52 weeks ended 2 April 2006 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet, Statement of Cash Flows and the related notes 1 to 24. These financial statements have been prepared under the accounting policies set out therein.

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 are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant 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, are properly prepared in accordance with the Companies Act 1985 and that the information given in the Directors' Report is consistent with the financial statements.

We also report to you if, in our opinion, 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.

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. 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 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.

Independent auditors' report

to the members of Furniture Village Limited (continued)

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 2 April 2006 and of its profit for the 52 weeks then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Ernst & Young LLP
Registered Auditor
Reading

25 October 2006.

Profit and Loss Account

For the 52 weeks ended 2 April 2006

	Note	*52 weeks to 2 April 2006 £'000*	*53 weeks to 3 April 2005 (restated *) £'000*
Turnover	2	138,134	138,453
Cost of sales		(73,843)	(74,853)
Gross Profit		64,291	63,600
Distribution costs		(32,647)	(31,577)
Administrative expenses		(26,435)	(25,415)
Profit before cost of New Store Openings		5,209	6,608
New store pre-trading costs		(125)	(433)
Operating Profit		5,084	6,175
Profits and losses on disposal of fixed assets and leasehold interests	3	(232)	(1,391)
Profit Before Interest and Tax	4	4,852	4,784
Interest receivable	7	153	281
Interest payable	8	(229)	(225)
Profit on Ordinary Activities Before Tax		4,776	4,840
Tax on profit on ordinary activities	9	(1,169)	(896)
Profit for the Financial Year		3,607	3,944
Ordinary dividends on equity shares to parent company	10	(5,134)	(10,922)
Loss Retained for the Financial Year	18	(1,527)	(6,978)

STATEMENT OF RECOGNISED GAINS AND LOSSES

For the 52 weeks ended 2 April 2006 there are no recognised gains and losses other than the profit of £3,607,000 (2005: restated profit of £3,944,000).

* Restated for FRS 25 – see note 15.

Balance Sheet

At 2 April 2006

	Note	2 April 2006 £'000	3 April 2005 (restated *) £'000
Fixed Assets			
Tangible assets	11	20,621	21,959
Current Assets			
Stocks	12	9,470	8,998
Debtors	13	7,670	7,913
Cash at bank and in hand	19(c)	5,378	6,613
		22,518	23,524
Creditors: amounts falling due within one year	14	(31,054)	(31,887)
Net Current Liabilities		(8,536)	(8,363)
Total Assets Less Current Liabilities		12,085	13,596
Preference shares	15	(3,150)	(3,150)
Provisions for Liabilities and Charges			
Deferred tax	16	(3,839)	(3,823)
		5,096	6,623
Capital and Reserves			
Called up share capital	17	650	650
Share premium account	18	274	274
Profit and loss account	18	4,172	5,699
Shareholders' Funds	18	5,096	6,623

* Restated for FRS 25 – see note 15.

Approved by the Board on 24 October 2006

Director

Director

Statement of Cash Flows

For the 52 weeks ended 2 April 2006

	Note	*52 weeks to 2 April 2006 £'000*	*53 weeks to 3 April 2005 £'000*
Net Cash Inflow from Continuing Operating Activities	19(a)	5,677	14,196
Returns on Investments and Servicing of Finance	19(b)	(76)	56
Taxation	19(b)	(660)	(1,228)
Capital Expenditure and Financial Investment	19(b)	(1,042)	(2,337)
Equity Dividends Paid	19(b)	(5,134)	(10,922)
Decrease in Cash		(1,235)	(235)

The net cash inflow from continuing operating activities and the returns on investments, servicing of finance and equity dividends paid have been affected by the dividend paid to Furniture Village Group Limited and the consequent intercompany creditor balance. See note 19(a).

The dividend payment made to Furniture Village Group Limited for the ordinary shares was £5,134,000 in 2005/06 compared to £10,922,000 in 2004/05. The prior year dividend was an accumulation of two years worth of ordinary dividends, paid in one year. No ordinary dividend was paid in 2003/04.

Ordinary and preference dividends are paid solely to the parent company, Furniture Village Group Limited, which holds 100% of the ordinary share capital of Furniture Village Limited.

Reconciliation of Net Cash Flow to Movement in Net Funds

	Note	*52 weeks to 2 April 2006 £'000*	*53 weeks to 3 April 2005 £'000*
Decrease in cash		(1,235)	(235)
Movement in Net Funds		(1,235)	(235)
Net Funds at beginning of financial year	19(c)	6,613	6,848
Net Funds at end of financial year	19(c)	5,378	6,613

Notes to the Financial Statements

For the 52 weeks ended 2 April 2006

1. Accounting Policies

Accounting Convention

The financial statements are prepared under the historical cost convention, and in accordance with applicable accounting standards.

In preparing the financial statements for the current year, the Company has adopted FRS 17 'Retirement Benefits', FRS 21 'Events after the balance sheet date' and the presentation requirements of FRS 25 'Financial instruments: Disclosure and presentation'. Adoption of FRS 17 and FRS 21 has not required any revisions to the financial statements in either the current or prior years.

The adoption of the presentation requirements of FRS 25 'Financial instruments: Disclosure and presentation' has resulted in the reclassification of the preference share capital to debt. The Company has chosen to adopt FRS 25 retrospectively and therefore the comparative figures have been restated. The effect of the new accounting standard is included in note 15 to the accounts.

The accounting policies used in preparing the financial statements are in all other respects consistent with those of the previous financial year.

Fixed assets

All fixed assets are initially recorded at cost. The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost or valuation, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Short leasehold property	-	over the lease term
Fixtures, fittings and equipment	-	over 4-10 years
Motor vehicles	-	over 3-5 years

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is determined on a first in, first out basis and net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Deferred taxation

Deferred taxation is provided on all timing differences, arising from the different treatment for financial statements and taxation purposes of transactions and events recognised in the financial statements of the current and previous years. Deferred taxation is measured on an undiscounted basis at rates that are expected to apply in the periods in which the timing differences reverse, based on tax rates and laws enacted at the balance sheet date. Deferred taxation assets are only recognised to the extent that it is more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted.

Pension costs

The Company operates a defined contribution pension scheme for eligible employees. Eligibility is defined by length of service. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the scheme.

New stores pre-trading costs

The costs associated with the pre-trading period of new stores are written off in the year in which they are incurred.

Rent free periods and reverse premiums

During the course of opening new stores, operating leases are negotiated which may include rent-free periods and/or reverse premiums. Rent free periods and net reverse premiums are amortised from the date of trading on a straight-line basis over the period to the next open market rent review.

Notes to the Financial Statements

For the 52 weeks ended 2 April 2006

1. Accounting Policies (continued)

Leasing commitments

Rentals payable under operating leases are charged in the profit and loss account on a straight-line basis over the lease term.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward foreign currency contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or, if appropriate, at the forward contract rate. All differences are taken to the profit and loss account.

2. Turnover

Turnover, which is stated net of value added tax, represents the value of goods delivered and invoiced to customers. Turnover relates to one continuing activity, the retailing of household furniture within the United Kingdom.

3. Profits and Losses on Disposal of Fixed Assets and Leasehold Interests

	52 weeks to 2 April 2006 £'000	*53 weeks to 3 April 2005 £'000*
Proceeds on disposal of leasehold interests	-	800
Loss on disposal of fixed assets	(168)	(461)
Provision for loss on disposal of fixed assets	(64)	(1,695)
Other costs relating to disposals	-	(35)
	(232)	(1,391)

The effect on the taxation charge for the year of the exceptional items recognised below operating profit is disclosed in note 9.

4. Profit Before Interest and Tax

	52 weeks to 2 April 2006 £'000	*53 weeks to 3 April 2005 £'000*
This is stated after charging:		
Auditors' remuneration		
- audit services	46	48
- non-audit services	62	69
Depreciation of owned assets	2,243	2,512
Operating lease rentals - property	12,901	12,344
- other	875	588

Notes to the Financial Statements

For the 52 weeks ended 2 April 2006

5. Directors' Emoluments

	52 weeks to 2 April 2006 £'000	*53 weeks to 3 April 2005 £'000*
Emoluments	944	867
Company contributions paid to money purchase pension schemes	21	12

	2006 No.	*2005 No.*
Members of money purchase pension scheme	4	3

The amounts in respect of the highest paid Director were emoluments of £254,000 (2005: £248,000) and Company contributions paid to pension schemes of £5,000 (2005: £4,000). Directors' emoluments include bonuses relating to the period in which they accrue, although these may be paid after the year end.

Directors' emoluments for 2005/06 included an additional Director for a full year. In 2004/05 this Director had been employed for 3 months.

6. Staff Costs

	52 weeks to 2 April 2006 £'000	*53 weeks to 3 April 2005 £'000*
Wages and salaries	19,088	17,366
Social security costs	2,094	1,912
Pension costs	545	384
	21,727	19,662

The average monthly number of employees during the period was as follows:

	52 weeks to 2 April 2006 No.	*53 weeks to 3 April 2005 No.*
Office and management	78	73
Retailing and distribution	555	493
	633	566

Staff costs in 2005/06 have been impacted by a full trading year of the four new stores opened part way through 2004/05 and the full impact of the introduction of our 'own' distribution service and in-house service technicians.

Notes to the Financial Statements

For the 52 weeks ended 2 April 2006

7. Interest Receivable

	52 weeks to 2 April 2006 £'000	*53 weeks to 3 April 2005 £'000*
Bank interest	124	216
Other interest	29	65
	153	281

8. Interest Payable

	52 weeks to 2 April 2006 £'000	*53 weeks to 3 April 2005 (restated *) £'000*
Dividends paid on non-equity preference shares to parent company	222	222
Other interest	7	3
	229	225

Preference dividends are paid solely to the parent company Furniture Village Group Limited, which holds 100% of the ordinary share capital of Furniture Village Limited.

* Restated for FRS 25 – see note 15.

9. Tax on Profit on Ordinary Activities

	52 weeks to 2 April 2006 £'000	*53 weeks to 3 April 2005 £'000*
UK Corporation Tax		
Tax on profits in the period	1,218	913
Tax over provided in previous years	(65)	(96)
Total current tax	1,153	817
Deferred Tax		
Originated and reversal of timing differences (note 16)	16	79
	1,169	896

The tax effect in the profit and loss account relating to exceptional items recognised below operating profit is £nil (2005: debit of £227,000).

Notes to the Financial Statements

For the 52 weeks ended 2 April 2006

9. Tax on Profit on Ordinary Activities (continued)

Factors Affecting the Tax Charge for the Period

The tax assessed on the profit on ordinary activities for the period is lower than the standard rate of corporation tax in the UK. The differences are explained below:

	52 weeks to 2 April 2006 £'000	*53 weeks to 3 April 2005 (restated *) £'000*
Profit on ordinary activities	4,776	4,840
Expected tax charge on profit on ordinary activities calculated *At the standard rate of tax in the UK of 30% (2005: 30%)*	1,433	1,452
Effect of:		
Disallowed expenses and non-taxable income	526	630
(Capital allowances in excess of depreciation) / Depreciation in excess of capital allowances	(129)	72
Short term timing differences	8	(63)
Tax over provided in previous years	(65)	(96)
Accounting profit on chargeable assets	-	454
Capital gains	106	(227)
Group relief	(726)	(1,405)
Current tax charge for the period	1,153	817

* Restated for FRS 25 – see note 15.

10. Ordinary Dividends on Equity Shares to Parent Company

	52 weeks to 2 April 2006 £'000	*53 weeks to 3 April 2005 £'000*
Dividends paid on ordinary shares to parent company	5,134	10,922

The dividend payment made to Furniture Village Group Limited for the ordinary shares was £5,134,000 in 2005/06 compared to £10,922,000 in 2004/05. The prior year dividend was an accumulation of two years worth of ordinary dividends, paid in one year. No ordinary dividend was paid in 2003/04.

Ordinary dividends are paid solely to the parent company Furniture Village Group Limited, which holds 100% of the ordinary share capital of Furniture Village Limited.

Notes to the Financial Statements

For the 52 weeks ended 2 April 2006

11. Tangible Fixed Assets

	Short leasehold property £'000	*Fixtures fittings equipment & vehicles £'000*	*Total £'000*
Cost:			
At 4 April 2005	27,684	7,459	35,143
Additions	1,108	529	1,637
Disposals	(2,896)	(498)	(3,394)
At 2 April 2006	25,896	7,490	33,386
Depreciation:			
At 4 April 2005	8,938	4,246	13,184
Provided during the year	1,488	755	2,243
Provision for loss on disposal of fixed assets	62	2	64
Disposals	(2,257)	(469)	(2,726)
At 2 April 2006	8,231	4,534	12,765
Net Book Value:			
At 2 April 2006	17,665	2,956	20,621
At 4 April 2005	18,746	3,213	21,959

12. Stocks

	2 April 2006 £'000	*3 April 2005 £'000*
Goods for resale	9,470	8,998

13. Debtors

	2 April 2006 £'000	*3 April 2005 £'000*
Trade debtors	1,067	1,532
Other debtors	1,975	1,917
Prepayments and accrued income	4,628	4,464
	7,670	7,913

Notes to the Financial Statements

For the 52 weeks ended 2 April 2006

14. Creditors: *amounts falling due within one year*

	2 April 2006 £'000	*3 April 2005 £'000*
Deposits on goods not yet delivered	5,598	6,361
Trade creditors	10,740	10,464
Corporation tax	729	236
Other taxes and social security costs	3,204	2,532
Other creditors and accruals	5,951	7,684
Owed to parent company	4,832	4,610
	31,054	31,887

15. Preference shares

	2 April 2006 £'000	*3 April 2005 £'000*
Authorised:		
Cumulative preference shares of £1 (on which a total dividend of £96,000 is payable)		
Number of shares – 1,400,000 (2005 – 1,400,000)	1,400	1,400
7.2% Cumulative redeemable preference shares of £1 each		
Number of shares – 3,000,000 (2005 – 3,000,000)	3,000	3,000
	4,400	4,400
Allotted, called up and fully paid:		
Cumulative preference of shares of £1 (on which a total dividend of £96,000 is payable)		
Number of shares – 1,400,000 (2005 – 1,400,000)	1,400	1,400
7.2% Cumulative redeemable preference shares of £1 each		
Number of shares – 1,750,000 (2005 – 1,750,000)	1,750	1,750
	3,150	3,150

The cumulative redeemable preference shares were due to be redeemed by 31 December 2003. However, the parent company has exercised the right to roll this redemption date forward and has not specified a future redemption date. Dividends on preference shares are payable quarterly in arrears to the parent company. Furniture Village Group Limited has the right to redeem these preference shares and they are redeemable at par. Furniture Village Group Limited has stated it will not redeem these preference shares within the next year.

During the year, the Company has adopted the presentation requirements of FRS 25 "Financial Instruments: Disclosure and Presentation". This requires that preference shares are required to be shown as liabilities, rather than as part of shareholders' funds. A consequence of this is that dividends on preference shares shown as liabilities are treated as part of the interest expense; therefore the profit on ordinary activities before tax for the 53 weeks ended 3 April 2005 has been restated from £5,062,000 to £4,840,000 to reflect the £222,000 preference dividend being reclassified as an interest expense. The effect of the introducing this accounting standard during the year has been that the profit on ordinary activities before tax for the 52 weeks ended 2 April 2006 is £4,776,000, rather than £4,998,000 had the accounting standard not been adopted.

The profit for the financial year reduces by £222,000 to £3,607,000 for this accounting period (2005: £222,000) due to the adoption of FRS 25, with the loss retained for the financial year not being affected for either year.

Notes to the Financial Statements

For the 52 weeks ended 2 April 2006

16. Provisions for Liabilities and Charges

Provision for deferred tax:

	£'000
At 4 April 2005	3,823
Provided during the current year	15
Prior period underprovision	1
At 2 April 2006	3,839

The deferred tax consists of:

	2 April 2006 £'000	*3 April 2005 £'000*
Accelerated capital allowances	1,439	1,302
Other timing differences	(25)	(10)
Capital gains	2,425	2,531
Total deferred tax liability	3,839	3,823

17. Share Capital

	2 April 2006 £'000	*3 April 2005 (restated *) £'000*
Authorised:		
Equity interest		
"A" Ordinary shares of £1 each		
Number of shares – 150,000 (2005 – 150,000)	150	150
"B" Ordinary shares of £1 each		
Number of shares – 550,000 (2005 – 550,000)	550	550
	700	700
Allotted, called up and fully paid:		
Equity interest		
"A" Ordinary shares of £1 each		
Number of shares – 150,000 (2005 – 150,000)	150	150
"B" Ordinary shares of £1 each		
Number of shares – 500,340 (2005 – 500,340)	500	500
	650	650

All of the ordinary shares rank pari passu.

* Restated for FRS 25 – see note 15.

Notes to the Financial Statements

For the 52 weeks ended 2 April 2006

18. Reconciliation of Shareholders Funds and Movements on Reserves

	*Share capital (restated *)*	*Share premium*	*Profit and loss account (restated *)*	*Total (restated *)*
	£'000	*£'000*	*£'000*	*£'000*
At 29 March 2004 as previously reported	3,800	274	12,677	16,751
Reclassification of preference shares	(3,150)	-	-	(3,150)
At 29 March 2004 as restated	650	274	12,677	13,601
Profit for the financial year	-	-	3,944	4,166
Ordinary dividends paid to parent company	-	-	(10,922)	(10,922)
At 4 April 2005	650	274	5,699	6,623
Profit for the financial year	-	-	3,607	3,607
Ordinary dividends paid to parent company	-	-	(5,134)	(5,134)
At 2 April 2006	650	274	4,172	5,096

* Restated for FRS 25 – see note 15.

19. Notes to the Statement of Cash Flows

(a) Reconciliation of operating profit to net cash inflow from operating activities

	52 weeks to 2 April 2006 £'000	*53 weeks to 3 April 2005 £'000*
Operating profit	5,084	6,175
Depreciation	2,243	2,512
(Increase) / Decrease in stocks	(472)	200
Decrease / (Increase) in debtors	243	(643)
(Decrease) / Increase in non-intercompany creditors	(1,643)	1,498
	5,455	9,742
Increase in intercompany creditors	222	4,454
Net cash inflow from operating activities	5,677	14,196

The net cash inflow from continuing operating activities has been affected by the dividend paid to Furniture Village Group Limited and the consequent intercompany creditor balance.

The dividend payment made to Furniture Village Group Limited for the ordinary shares was £5,134,000 in 2005/06 compared to £10,922,000 in 2004/05. The prior year dividend was an accumulation of two years worth of ordinary dividends, paid in one year. No ordinary dividend was paid in 2003/04.

Ordinary and preference dividends are paid solely to the parent company, Furniture Village Group Limited, which holds 100% of the ordinary share capital of Furniture Village Limited.

Notes to the Financial Statements

For the 52 weeks ended 2 April 2006

19. Notes to the Statement of Cash Flows (continued)

(b) Analysis of cash flows for heading netted in the statement of cash flows

	52 weeks to 2 April 2006 £'000	*53 weeks to 3 April 2005 £'000*
Returns on investments and servicing of finance:		
Interest received	153	281
Interest paid excluding preference dividends	(7)	(3)
Intercompany preference dividend paid to parent company	(222)	(222)
	(76)	56

Preference dividends are paid solely to the parent company, Furniture Village Group Limited, which holds 100% of the ordinary share capital of Furniture Village Limited.

Taxation:		
Corporation Tax paid	(660)	(1,228)
Capital expenditure and financial investment:		
Proceeds from disposal of leasehold interests	-	800
Proceeds from disposal of other assets	500	-
Payments relating to disposal of leasehold interests	-	(35)
Payments to acquire tangible fixed assets	(1,542)	(3,102)
	(1,042)	(2,337)
Equity Dividends Paid:		
Intercompany ordinary dividend paid to parent company	(5,134)	(10,922)

The dividend payment made to Furniture Village Group Limited for the ordinary shares was £5,134,000 in 2005/06 compared to £10,922,000 in 2004/05. The prior year dividend was an accumulation of two years worth of ordinary dividends, paid in one year. No ordinary dividend was paid in 2003/04.

Ordinary dividends are paid solely to the parent company, Furniture Village Group Limited, which holds 100% of the ordinary share capital of Furniture Village Limited.

(c) Analysis of changes in net cash

	At 3 April 2005 £'000	*Cash flow £'000*	*At 2 April 2006 £'000*
Cash at bank and in hand	6,613	(1,235)	5,378
	6,613	(1,235)	5,378

Cash flows relating to non-operating exceptionals

Capital expenditure and financial investment cash flows include £nil (2005: £800,000) from the disposal of leasehold interests and £500,000 (2005: £nil) from the disposal of fixed assets.

Notes to the Financial Statements

For the 52 weeks ended 2 April 2006

20. Capital Commitments

Due to the timing of new store and refurbishment commitments, future capital expenditure not otherwise included in these financial statements is as follows:

	2 April 2006 £'000	*3 April 2005 £'000*
Authorised by the Directors and contracted for	-	-
Authorised by the Directors but not yet contracted for	-	20
	-	20

Whilst no capital was committed to at the year end, a programme of increasing trading space in existing stores is planned, which will drive capital expenditure early in 2006/07. In addition, we are at an advanced stage of negotiation for several new sites.

21. Operating Lease Commitments

In respect of leases the following annual commitments existed at 2 April 2006 in respect of non-cancellable operating leases:

	Land and buildings 2 April 2006 £'000	*Land and buildings 3 April 2005 £'000*	*Other 2 April 2006 £'000*	*Other 3 April 2005 £'000*
Operating leases which expire:				
Within one year	-	-	72	67
In two to five years	172	-	734	731
In over five years	12,804	13,056	-	21
	12,976	13,056	806	819

22. Related Parties

As part of their employment the Directors and employees can purchase goods from the Company at a discount. The amount of goods purchased by the Directors is not considered to be material either to the Company or to the individuals. The discounts for the Directors are on the same terms as those of all other employees. The Company has taken advantage of the exemption allowed under FRS 8: Related party disclosures, from disclosing transactions with related parties that are part of the Furniture Village Group, as the Company is a 100% subsidiary of a Group whose financial statements are publicly available.

23. Pension Arrangements

The Company operated a defined contribution pension scheme for eligible employees. The assets of the scheme are held separately from those of the Company in an independently administered fund. Prepaid contributions at the year end amounted to £12,000 (2005: £28,000).

24. Parent Undertaking and Controlling Party

In the Directors' opinion, the Company's ultimate parent undertaking and controlling party is Furniture Village Group Limited, registered in England and Wales. Group financial statements are prepared by Furniture Village Group Limited and are available from the registered office at 258 Bath Road, Slough, SL1 4DX.