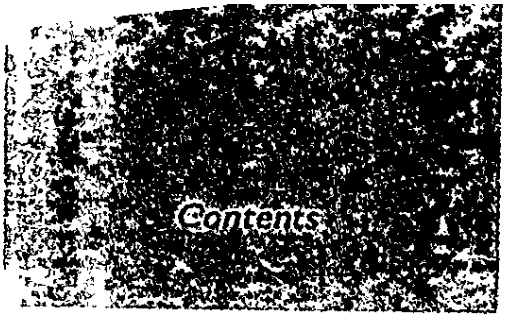
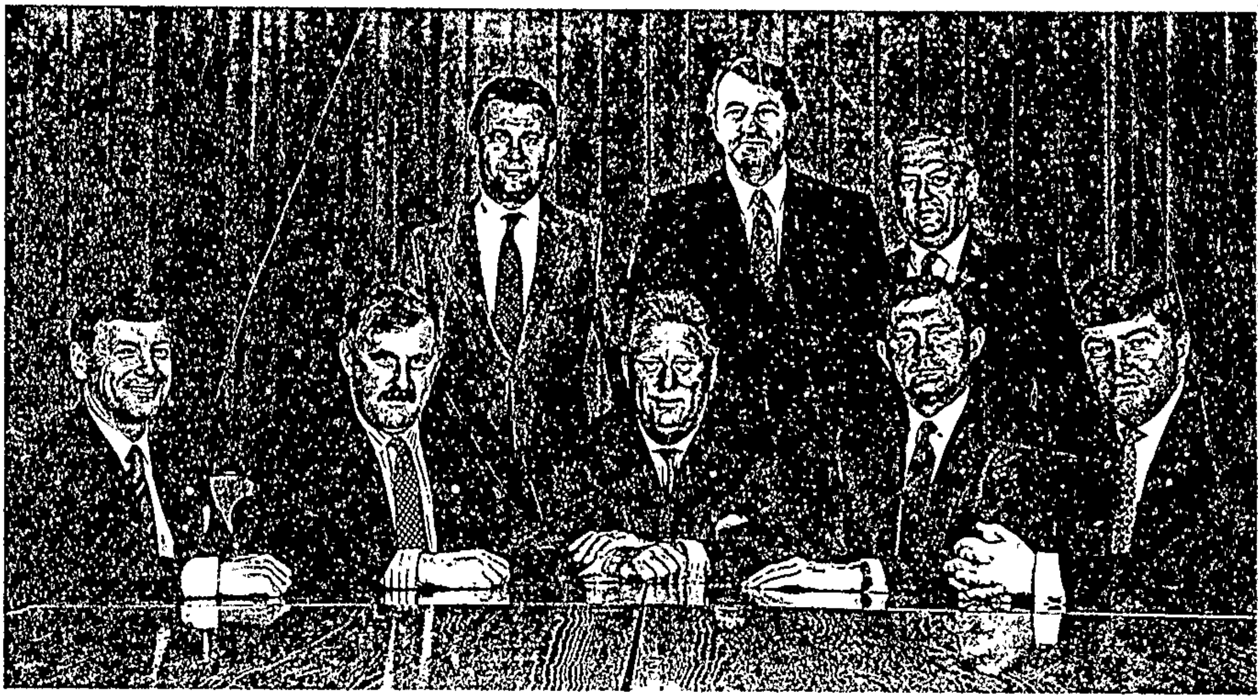
ANNUAL REPORT & ACCOUNTS 1991

MFI FURNITURE GROUP LIMITED



Contents

Directors and Professional Advisors



Left to Right. Seated. David Brock, John O'Connell, Derek Hunt, John Randall and Trevor Tellett. *Standing:* David Love, John Dick, Mike Goodhew.

Directors:
D S Hunt (Chairman)
J J O'Connell
J D Randall (Secretary)
D M Brock
J Dick
M Goodhew
D G Love
T J Tellett
E G Cox (Non-Executive)
P A Lait (Non-Executive)
R D Scott (Non-Executive)
R H Smith (Non-Executive)
P M Whitney (Non-Executive)

Auditors:
KPMG Peat Marwick McLintock
1 Puddle Dock
Blackfriars
London
EC4V 3PD

Registered Office:
Southon House
333 The Hyde
Edgware Road
Colindale
London
NW9 6TD

Bankers:
National Westminster Bank plc
15 Bridge Road
Wembley Park
Middlesex
HA9 9AE

Solicitors:
Clifford Chance
Royex House
Aldermanbury Square
London
EC2V 7LD

Chairman's Statement

These are the results of the Group for the 52 weeks ended 27 April 1991.

Turnover was £620.7m which is 4.3% up on £594.9m for the previous year. Trading profit (as shown in note 2 to the accounts) was £48.6m compared to £50.9m which is down 4.5%. However Operating profit after property disposals was £46.8m compared to £55.0m which is down 14.9%. This was disappointing but due to inevitable increases in space related costs partially offset by margin improvements.

Net interest costs rose to £69.5m compared to £56.1m. The reasons for this are explained in more detail in the business review.

For MFI the recession began early in 1989. In its early stages its effect was to reduce cash flow and profits. The impact of the recession was compounded by our need to service over £500m of debt. Immediate corrective action was taken to enable the business to survive. We then focused on a total review of our business operations, closely allied to a significant cost saving effort. Every single aspect of the business has been examined and considered. No area has been left undisturbed and no question has been left unasked.

In particular great emphasis has been given to the development and enhancement of our internal systems to give greater control and efficiency in all parts of the business. We are already seeing the benefits of this work but huge potential still exists and we will continue to exploit it.

The link between our manufacturing, distribution and retail operations has matured so that the business continues to become more integrated.

During the year we manufactured 55% of our retail sales at our own Hygena and Schreiber factories and as a result we have been able to guarantee improved quality and service.

At the same time our short production lead times mean we can adjust manufacturing more rapidly to changes in demand. Where we use outside suppliers we search for quality, reliability of supply and value for money. I am pleased that in most cases this means British suppliers, and as a result over 85% of our product is now manufactured in the UK.

During the year we also targeted areas of growth for the future. This included developing new and improved store formats, developing our product range and the introduction of our new Pronto self service concept.

I believe that the business has developed beyond all recognition. Our market share has increased in all core products and our operational efficiency continues to improve.

"I believe that the business has developed beyond all recognition"

In the second half of the year it became increasingly apparent that the recession was likely to continue for some time and it was appropriate to retain funds within the business. As a result we reached agreement with our banks in April to reschedule debt repayments on our Management Buyout funding so that no debt repayments will now fall due before April 1992.

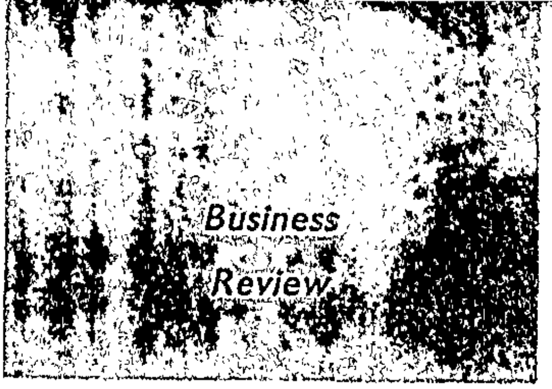
The period since early 1989 has been a time of major change and it is greatly to the credit of all our employees that the business has succeeded in moving forward. Staff morale is strong, there is a high level of optimism and great expectations within the Group. I am both proud and grateful for the continued support and enthusiasm of a totally dedicated workforce. Together with our strong and dedicated management team we will meet the challenges of the future.

D S Hunt

D S Hunt
Chairman 10 July 1991

Business Review

> "The combined force of recession and our debt burden was the catalyst for producing new operating solutions and stimulating trading developments"



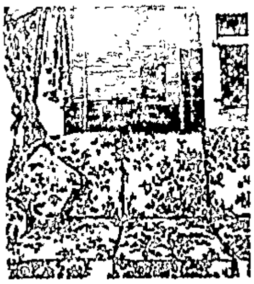
The combined force of recession and our debt burden was the catalyst for producing new operating solutions and stimulating trading developments. We have sought new solutions to maintain and improve the business and we have also established the foundations for future growth. This is an ongoing process which even today uncovers new opportunities.

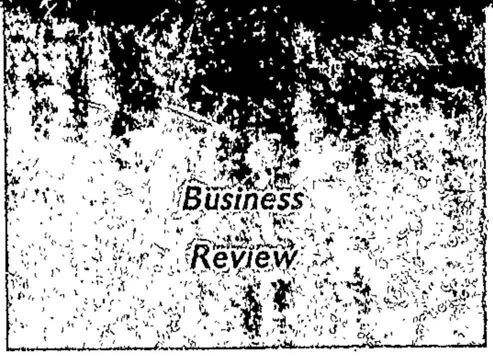
RECESSION AND DEBT

The challenge facing management was created by a special set of circumstances:

- The impact of the economic recession
- A sharp decline in consumer purchasing confidence, with the furniture market under particularly strong pressure
- High interest commitments increased by:
  - £50m element of our debt becoming interest bearing
  - £155m of debt converting from fixed rates to higher floating rates
  - The expiry of £85m of favourable interest hedging

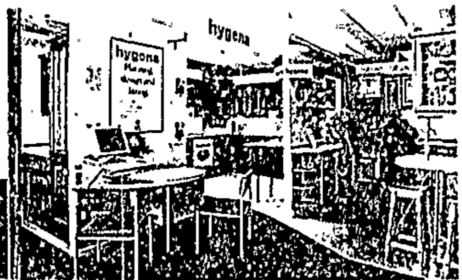
This was an environment which endangered the very existence of the Group.





NEW OPERATING SOLUTIONS

The first step in meeting this challenge involved a much tighter focus on our business operations and targets. All our decisions were therefore aimed at maintaining the necessary infrastructure to achieve our goals and to allow a controlled reduction of our cost base.



"All the decisions were therefore aimed at maintaining the necessary infrastructure"

The key elements involved:

- **Cost Control**

  The store opening programme, committed to at the time of the Management Buyout, has resulted in increased space related costs.
  This programme was completed during the period and all further store openings are now discretionary. A rigorous cost control exercise has reduced variable costs.

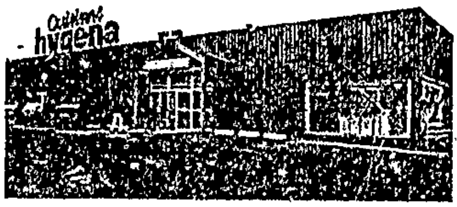
Business Review

- **Human Resources**
  A thorough review of manning levels throughout all areas was undertaken resulting in major redeployment of staff from less efficient and declining operations to key areas of development.

- **Operations Review**
  The controlled closure of loss making elements of the business, notably the directly owned Hygena boutiques in 58 WH Smith Do It All Stores and the turn round of marginally performing operations will improve the trading performance of the Group.

- **Control of Capital Expenditure**
  Capital expenditure has been minimised throughout the year, whilst maintaining the store network and the manufacturing operation.

- **Control of Cash Flow**
  More frequent and accurate cash flow forecasting has led to more efficient use of working capital resources.



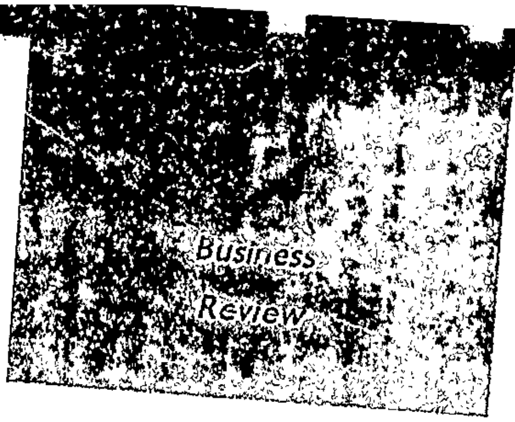
TRADING DEVELOPMENTS

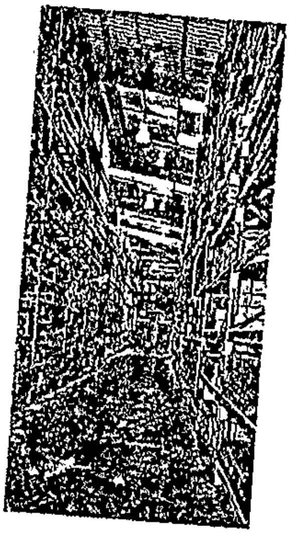
Having ensured our survival it was then necessary to turn our attention to the structure of the business to enable it to prosper in the future. It was recognised that major trading developments were required to maximise our potential and these have taken a number of forms throughout the business:

> "Major trading developments were required to maximise our potential"

- **Improved Space Utilisation**

  We have introduced new store formats incorporating many new features which show higher sales per square foot compared to the rest of the network. The success of this format, which includes a much superior store presentation in line with customer expectations and the self service Pronto concept, provides a basis for future store developments including the revitalisation of some of our older stores.



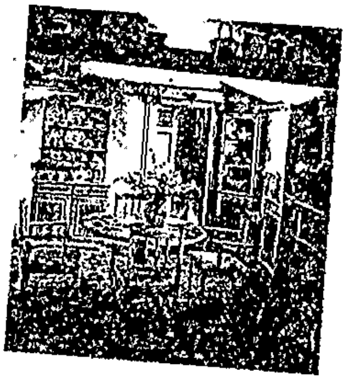


Product Development

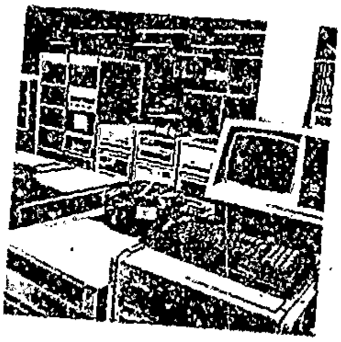
We have continued to improve the quality and style of our traditional core product areas, Kitchens and Bedrooms, as well as our other furniture sectors, notably beds, rigid upholstery and office furniture.

Significant market share gains have been achieved in all of these areas and, where beds and upholstery are concerned, in an extremely short period of time. Our development of self-service, high volume, occasional furniture through our new Pronto format and our continued expansion into co-ordinated textiles provides great potential.

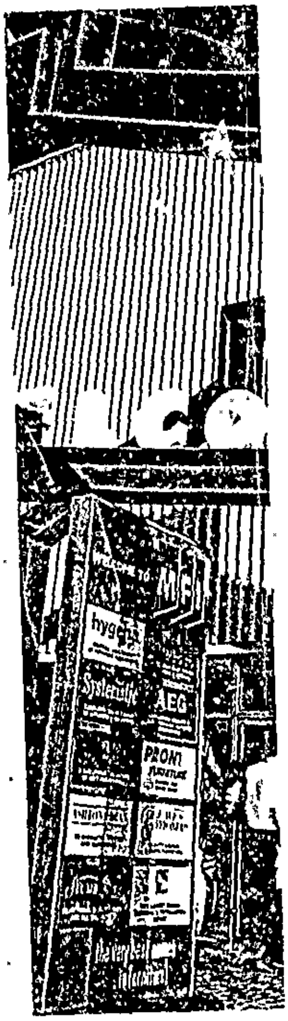
Systems Development



Continuing improvements throughout the year have enabled the Group to provide a more efficient cost-effective service to all areas of the business and ultimately to the customer. This has been particularly advantageous in inventory management and in ensuring more efficient control throughout the supply chain.



Business Review



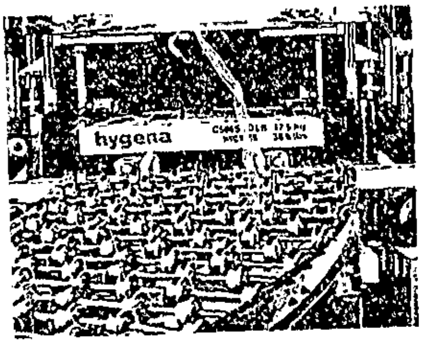
- **Marketing**

The development and implementation of a branding strategy where Hygena and Schreiber are supported by complementary brands has resulted in our customers having a greater awareness of our product range. External market research supports the current developments and highlights opportunities for the improvement of product ranges, brands and their in-store presentation.

- **Personnel Development**

Training throughout all sectors of the business is given a high priority. This supports our staff product knowledge, management development and customer service.

- **Manufacturing**



The manufacturing operations of the business continue to demonstrate their adaptability and this has been a major strength during the recession. Despite the need to contain costs there were continued advances in product development, with both Hygena and Schreiber having now attained the BS 5750 mark of excellence for their quality management systems. These advances have enabled the Group to pursue its desire to improve sales by providing the quality and complexity of merchandise required by the customer. We have continued to increase the participation of Group manufacturing in our retail sales. This has not only led to improved confidence in quality but also greater control over the supply chain.
The successful integration of our retail and manufacturing operations will continue to provide advantages in the future.

Distribution

Significant improvements in our distribution network have led to reductions in product supply lead times. Further improvements are now being achieved which in turn will give better service to MFI customers.

"Good management and sound financial control have enabled us to trade successfully through the recession"

All these developments have been implemented throughout the year within a trading climate which is more severe than ever previously experienced. Whilst MFI management continue to pursue solutions to problems caused by the current economic conditions, the trading developments already implemented are our investment for the future. Good management and sound financial control have enabled us to trade successfully through the recession.

Directors' Report

The directors present their report and audited accounts for the 52 weeks ended 27 April 1991.

Principal Group Activities, Business Review and Results

The principal activity of MFI Furniture Group Limited and its subsidiary undertakings is the manufacture and sale of furniture.

A review of the development and activities of the business of the Group is contained in the Chairman's Statement and Business Review on pages 2 to 11.

The results of the Group are set out in detail on page 16 and in the accompanying notes.

Directors

The directors of the Company at the date of this report are shown on page 1.

P A Lait is a director of Philip Lait & Co Limited and has a minority interest in the share capital of that company. During the period ended 27 April 1991 purchases of stock in the ordinary course of business of £9.9m were made from Philip Lait & Co Limited.

With this exception, no director of MFI Furniture Group Limited has a material interest in any contract or arrangement entered into by MFI Furniture Group Limited or any of its subsidiary undertakings.

Directors' Interests

Beneficial interests of the directors, including family interests, in the share capital of the Company at 27 April 1991 and 28 April 1990 are set out below.

	"A" Ordinary Shares of 1 pence	Convertible Preferred Ordinary Shares of 1 pence	Deferred Shares of 1 pence	Convertible Subordinated Unsecured Loan stock 1997 (£)
D S Hunt	3,949,800	—	6,319,680	—
J J O'Connell	2,966,700	—	4,746,720	—
J D Randall	2,966,700	—	4,746,720	—
D M Brock	2,966,700	—	4,746,720	—
J Dick	2,966,700	—	4,746,720	—
M Goodhew	2,966,700	—	4,746,720	—
D G Love	2,966,700	—	4,746,720	—
T J Tellett	175,906	19,026	324,440	1,140

In addition Philip Lait (International) Ltd, of which P A Lait is a director and majority shareholder, holds 34,840 "A" Ordinary Shares of 1 pence each, 731,800 Convertible Preferred Ordinary Shares of 1 pence each, 1,535,360 Deferred Shares of 1 pence each, 203,750 Redeemable Convertible Cumulative Preference Shares of £1 each and £39,672 Convertible Subordinated Unsecured Loan Stock 1997.

There have been no changes in directors' holdings since 27 April 1991.

D S Hunt, J J O'Connell, D M Brock and J D Randall are trustees for the MFI Share Trust of 827,500 "A" Ordinary Shares of 1 pence each and 1,324,000 Deferred Shares of 1 pence each.

Dividends and Transfers to Reserves

Shareholders' approval was obtained to defer payment of dividends due on 31 October 1989, 30 April 1990 and arising for the period from 1 May 1990 to 6 August 1990 in respect of the Redeemable Convertible Cumulative Preference Shares until the earlier of 31 October 1993 or the sale or flotation of the company. Dividends not paid are increased at a rate of 7.828% per annum (net of any associated witholding tax) compounded on 30 April and 31 October of each year.
The amount charged to reserves in respect of these dividends was £4.4m (1990 - £12.3m).
No dividends were declared or paid in respect of the "A" Ordinary, Deferred and Convertible Preferred Ordinary Shares.

Articles of Association

New Articles of Association were adopted on 17 August 1990 which changed the entitlement of Redeemable Convertible Cumulative Preference Shareholders to receive dividends after 6 August 1990. Dividends in respect of the period beginning on 7 August 1990 may only be declared by the Board of Directors when certain conditions are met, namely, that the Company has met the financial covenants as set out in the syndicated Secured Credit Facility Agreement, as amended by the Supplemental Agreement dated

Continued on next page

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15 August 1989, and would have met such covenants had the dividends been paid or the Company has repaid all amounts due and discharged all obligations under that Agreement (as amended from time to time), the £50m Secured Loan to the Company and the loan to the trustees of the MFI Group Employee Benefit Trust. Under certain other circumstances the dividend may not be declared without the consent of the Banking Syndicate.

Debt Rescheduling

On 26 April 1991 agreement was reached with the Banking Syndicate to defer all term debt repayments under the syndicated Secured Credit Facility Agreement for 12 months with the exception of the last 2 instalments which will fall due on 30 April 1996, the maturity date of the loan. In addition the Revolving Credit and Overdraft facilities under that syndicated Secured Credit Facility Agreement, the £50m Secured Loan to the Company and the loan to the trustees of the MFI Group Employee Benefit Trust were extended for 12 months.

Employees

The average number of employees and their remuneration are shown in note 4 to the accounts.

It is the Group's policy to actively encourage employee involvement as the directors consider that this is essential for the successful running of the business. The Group has therefore maintained its established system of keeping employees informed of performance, development and progress by way of the in-house newspaper, MFI Group News, and has widely distributed information bulletins.

The Group's aim is to meet the objectives of the code of practice on the employment of disabled people. Full and fair consideration is given to disabled applicants for employment and training and career development opportunities are available to all employees. It remains policy to retain employees who may have become disabled whilst in service and to provide appropriate training.

Fixed Assets

Particulars of changes in the fixed assets of the Group are shown in note 13 to the accounts.

Research and Development

It is the Group's policy to invest in product innovation and process improvements so as to enable it to retain and enhance its market position.

Donations

Donations to charitable organisations during the period amounted to £127,000 (1990 - £52,000).

Close Company

MFI Furniture Group Limited is not a close company for taxation purposes under the Income and Corporation Taxes Act 1988 and there has been no change in this respect since 27 April 1991.

Auditors

KPMG Peat Marwick McLintock have indicated their willingness to continue in office and, in accordance with section 385 of the Companies Act 1985, a resolution will be proposed at the annual general meeting of the Company to re-appoint them and to authorise the directors to fix their remuneration.

By Order of the Board
10 July 1991

J D Randall
Secretary

Consolidated Profit and Loss Account

For the 52 Weeks ended 27 April 1991

	Notes	1991 £m	1990 £m
Turnover	2	620.7	594.9
Change in stocks		0.2	(33.7)
Other operating income	3	6.6	13.1
		627.5	574.3
Raw materials and consumables		262.8	236.5
Staff costs	4	131.2	118.1
Depreciation of tangible fixed assets		29.7	31.3
Other operating charges		157.0	133.4
		580.7	519.3
Operating profit	5	46.8	55.0
Interest receivable and similar income	7	9.3	10.1
Interest payable and similar charges	8	(78.8)	(66.2)
Amounts written off fixed asset investment		—	(0.8)
Loss before tax and share scheme		(22.7)	(1.9)
Share scheme	9	1.5	1.6
Loss on ordinary activities before taxation		(24.2)	(3.5)
Taxation (credit)/charge	10	(2.6)	4.1
Loss on ordinary activities after taxation		(21.6)	(7.6)
Extraordinary items	11	2.9	1.6
Loss for the financial period		(24.5)	(9.2)

	Notes	1991 £m	1990 £m
Profit and loss account at beginning of period		20.3	43.8
Loss for the financial period		(24.5)	(9.2)
Dividends deferred	12	(4.4)	(12.3)
Translation differences		(0.6)	0.5
Transfers of reserves	22	(2.6)	(2.5)
Profit and loss account at end of period		(11.8)	20.3

The notes on pages 20 to 34 form an integral part of these Financial Statements.

Consolidated Balance Sheet

At 27 April 1991

	Notes	1991 £m	1990 £m
Fixed assets			
Tangible assets	13	224.0	240.8
Investments	14	—	—
		224.0	240.8
Current assets			
Stock	15	71.5	72.8
Debtors	16	36.0	43.3
Cash at bank and in hand		28.8	14.5
		136.3	130.6
Creditors			
Amounts falling due within one year	17	152.7	136.0
Net current liabilities		(16.4)	(5.4)
Total assets less current liabilities		207.6	235.4
Creditors			
Amounts falling due after more than one year	18	526.7	523.1
Provisions for liabilities and charges	20	2.1	4.0
Net liabilities		(321.2)	(291.7)
Capital and reserves			
Called up share capital	21	174.3	174.3
Share premium account	22	4.2	4.2
Other reserves	22	(487.9)	(490.5)
Profit and loss account		(11.8)	20.3
		(321.2)	(291.7)

D S Hunt **Directors**
J D Randall

D. S. Hunt

Randall

Approved by the Board
10 July 1991

The notes on pages 20 to 34 form an integral part of these Financial Statements.

Company Balance Sheet

At 27 April 1991

	Notes	1991 £m	1990 £m
Fixed assets			
Investments	14	712.1	712.1
Current assets			
Debtors	16	69.0	204.1
Cash at bank and in hand		17.2	11.5
		86.2	215.6
Creditors			
Amounts falling due within one year	17	110.8	232.4
Net current liabilities		(24.6)	(16.8)
Total assets less current liabilities		687.5	695.3
Creditors			
Amounts falling due after more than one year	18	520.8	515.1
Net assets		166.7	180.2
Capital and reserves			
Called up share capital	21	174.3	174.3
Share premium account	22	4.2	4.2
Profit and loss account	22	(11.8)	1.7
		166.7	180.2

D S Hunt
J D Randall **Directors**

Approved by the Board
10 July 1991

The notes on pages 20 to 34 form an integral part of these Financial Statements.

Consolidated Statement of Source and Application of Funds

For the 52 Weeks ended 27 April 1991

	1991		1990	
	£m	£m	£m	£m
Source of funds				
Loss on ordinary activities before taxation		(24.2)		(3.5)
Items not involving movement of funds.				
Depreciation	29.7		31.3	
Loss/(Profit) on disposal of assets	1.8		(4.1)	
Currency translation differences	0.1		(0.7)	
Amounts written off fixed asset investment	—	31.6	0.8	27.3
Total generated from operations		7.4		23.8
Extraordinary items		(2.7)		(2.4)
Funds from other sources				
Proceeds on disposal of fixed assets	1.3		31.9	
Proceeds from issue of CSL Loan Stock	—		31.9	
New Loans	—		5.5	
Proceeds from share issues	—	1.3	3.3	72.6
		6.0		94.0
Application of funds				
Purchase of fixed assets	17.8		24.4	
Taxation paid	5.0		16.3	
Loans repaid	3.1		29.1	
Dividends paid	—	(25.9)	6.6	(76.4)
		(19.9)		17.6
(Decrease)/Increase in working capital:				
(Decrease) in stocks		(1.3)		(33.7)
(Decrease)/Increase in debtors		(7.3)		8.1
(Increase)/Decrease in creditors		(25.6)		38.7
Movement in net liquid funds:				
Increase in cash at bank and in hand		14.3		4.5
		(19.9)		17.6

The notes on pages 20 to 34 form an integral part of these Financial Statements.

Notes to the Financial Statements

1. ACCOUNTING POLICIES

Accounting convention

These Financial Statements are prepared in accordance with applicable accounting standards under the historical cost convention.

Basis of preparation

The Consolidated Financial Statements incorporate the financial statements of the Company and its undertakings for the 52 week period ended 27 April 1991. The comparative figures are for the 52 week period ended 28 April 1990.

Turnover

Turnover represents the net value of goods sold and services provided to customers outside the Group excluding value added tax.

Goodwill

Purchased goodwill, arising on the acquisition of the assets and business now conducted by MFI Furniture Centres Limited, was written off to Goodwill reserve in the period of acquisition and will be transferred to the profit and loss account over a period of 40 years.

Goodwill arising on consolidation, representing the amount by which the consideration paid for new acquisitions exceeds the fair value of their net tangible assets, is written off directly against Goodwill reserve in the period of acquisition.

Investments in associated undertakings

Investments in associated undertakings are dealt with under the equity method of accounting in the Consolidated Financial Statements.

In the Company's Financial Statements investments in associated undertakings are stated at cost less any amounts written off for permanent diminution in value.

Depreciation

Depreciation is provided to write off the cost of tangible fixed assets, excluding freehold land, over their estimated useful lives. The estimated useful lives of certain items of plant and machinery were revised during the period. The current range of useful lives is as follows:

Freehold buildings and long leasehold property	50-66 years
Short leasehold property	over period of lease
Fixtures and fittings	3-4 years
Plant and equipment	3-10 years
Motor vehicles	4-5 years

Stock

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

Loan note interest

Loan note interest is charged to the profit and loss account on a straight line basis over the expected period of the loan notes notwithstanding that the notes have an initial interest free period.

Deferred tax

Deferred taxation is provided using the liability method in respect of the taxation effect of all timing differences to the extent that it is probable that an asset or a liability will crystalise in the foreseeable future.

Foreign currency

Transactions denominated in foreign currencies are translated into sterling and recorded at the rate of exchange ruling at the date of the transaction.

Assets and liabilities denominated in foreign currencies are translated into sterling at rates ruling at the balance sheet date. Foreign exchange profits and losses arising during the period are included in profit on ordinary activities before taxation.

Leased assets

Assets held under finance leases are capitalised as tangible fixed assets and depreciated over the shorter of their estimated useful lives or the period of the lease. Rentals are apportioned between reductions in the capital obligations included in creditors and finance charges which are charged to the profit and loss account at a constant periodic rate of charge.

Expenditure under operating leases is charged to the profit and loss account as it is incurred

Pensions

Contributions are paid to the Group's pension schemes to secure and enhance the benefits for personnel under the schemes in accordance with the recommendations of independent actuaries. Contributions are charged to the consolidated profit and loss account so as to spread the cost of the provisions over the employees' working lives. Pension scheme surpluses are amortised over the expected remaining service lives of employees.

Investments

Investments are stated at cost le.. any permanent diminution in value.

Notes to the Financial Statements

2. TURNOVER & PROFIT

The turnover of the Group substantially relates to UK retail sales and accordingly no analysis of turnover is shown.

Profits are analysed as follows:

	1991 £m	1990 £m
Trading profit	48.6	50.9
(Loss)/Profit on disposal of assets	(1.8)	4.1
Operating profit	46.8	55.0

3. OTHER OPERATING INCOME

	1991 £m	1990 £m
Profit on disposal of assets	—	4.1
Rents received	6.3	8.4
Other	0.3	0.6
	6.6	13.1

4. STAFF COSTS

The aggregate payroll costs were as follows:	1991 £m	1990 £m
Wages and salaries	116.5	104.0
Social security costs	9.3	8.7
Other pension costs	5.4	5.4
	131.2	118.1

The average number of persons (full time equivalent) employed by the Group (including directors) during the year was as follows:

	1991	1990
Manufacturing	2,231	2,113
Retail	5,991	5,912
	8,222	8,025

5. OPERATING PROFIT

Operating profit is stated after charging:	1991 £m	1990 £m
Loss on disposal of assets	1.8	—
Operating lease payments		
- Hire of plant and equipment	3.3	2.1
- Other	39.3	35.7
Auditors' remuneration	0.2	0.2
and after crediting:		
Profit on disposal of assets	—	4.1

6. DIRECTORS

The emoluments of the directors were as follows:

	1991 £'000	1990 £'000
Consideration paid to third parties for making available the services of directors	40	40
Management remuneration	1,302	1,067
	1,342	1,107

Additional information in respect of emoluments of directors, excluding pension contributions, is disclosed as follows:

	1991 £'000	1990 £'000
Chairman and highest paid director	220	198

Other directors	No. of directors	No. of directors
£ 0 to £ 5,000	5	7
£ 70,001 to £ 75,000	—	1
£ 90,001 to £ 95,000	—	2
£105,001 to £110,000	1	1
£110,001 to £115,000	2	—
£115,001 to £120,000	—	1
£130,001 to £135,000	1	—
£140,001 to £145,000	—	1
£150,001 to £155,000	1	1
£175,001 to £180,000	2	—

7. INTEREST RECEIVABLE AND SIMILAR INCOME

	1991 £m	1990 £m
Interest receivable	5.7	6.9
Sundry income	3.6	3.2
	9.3	10.1

8. INTEREST PAYABLE AND SIMILAR CHARGES

	1991 £m	1990 £m
Bank loans and other loans repayable within five years	62.8	47.0
Loan notes	6.8	12.5
Finance leases	0.9	1.0
Fees and commissions	2.6	2.1
Convertible Subordinated Unsecured Loan Stock	5.7	3.6
	78.8	66.2

9. SHARE SCHEME

	1991 £m	1990 £m
Financing costs of Employee Share Ownership Plan	1.5	1.6

10. TAXATION

	1991 £m	1990 £m
Taxation on profits of the year comprises:		
UK corporation tax at 33.92% (1990-35%)	2.5	4.0
Deferred taxation	(1.9)	4.0
	0.6	8.0
Adjustments relating to prior periods	(3.5)	(3.9)
Overseas taxation	0.3	—
	(2.5)	4.1

11. EXTRAORDINARY ITEMS

	1991 £m	1990 £m
Closure of business operations	3.8	—
Refinancing costs	—	2.4
Taxation	(0.9)	(0.8)
	2.9	1.6

During the period the Group decided to withdraw from its loss making concession operations. Where possible concession outlets were closed or transferred to third parties and the remaining outlets will be closed as soon as the concession agreements permit. The extraordinary item reflects the write down of display stock (£1.5m) and fixtures and fittings (£1.1m) associated with the concessions and trading losses (£1.2m) incurred since the decision was implemented.

12. DIVIDENDS

Shareholders' approval has been obtained to defer dividends declared or accrued but not payable in respect of the Redeemable Convertible Cumulative Preference Shares for the period to 6 August 1990 until the earlier of 31 October 1993 or the flotation or sale of the Company.
Dividends not paid at 6 August 1990 are increased at a rate of 7.828% per annum (net of any witholding tax) compounded half yearly. In addition the rights of the Redeemable Convertible Cumulative Preference Shares were amended such that from 7 August 1990 the right to dividend does not arise automatically (Note 25).
The declaration or distribution of dividends in respect of the "A" Ordinary, Deferred and Convertible Preferred Ordinary Shares is not initially permitted under the terms of the Management Buyout.

13. TANGIBLE FIXED ASSETS

GROUP

	Payments on account and assets in the course of construction	Freehold properties	Leasehold properties over 50 years	Leasehold properties under 50 years	Plant and machinery	TOTAL
Cost	£m	£m	£m	£m	£m	£m
At 29 April 1990	1.0	107.2	40.7	27.7	163.9	340.5
Exchange adjustments	—	(0.5)	—	—	(0.5)	(1.0)
Additions	5.4	0.3	0.3	—	11.8	17.8
Transfers	(5.1)	0.8	—	4.3	—	—
Disposals	—	(0.5)	—	(0.7)	(9.1)	(10.3)
At 27 April 1991	1.3	107.3	41.0	31.3	166.1	347.0

	Payments on account and assets in the course of construction	Freehold properties	Leasehold properties over 50 years	Leasehold properties under 50 years	Plant and machinery	TOTAL
Depreciation	£m	£m	£m	£m	£m	£m
At 29 April 1990	—	4.6	1.7	2.3	91.1	99.7
Exchange adjustments	—	—	—	—	(0.3)	(0.3)
Charge for the year	—	3.6	0.6	1.4	24.1	29.7
Disposals	—	(0.1)	—	(0.1)	(5.9)	(6.1)
At 27 April 1991	—	8.1	2.3	3.6	109.0	123.0
Net book value at 27 April 1991	**1.3**	**99.2**	**38.7**	**27.7**	**57.1**	**224.0**
Net book value at 28 April 1990	1.0	102.6	39.0	25.4	72.8	240.8

Included in plant and machinery at 27 April 1991 were capitalised leases comprising cost of £20.0m (1990- £20.0m), depreciation of £9.7m (1990- £8.4m) and net book amount of £10.3m (1990- £11.6m). Depreciation charged during the period in respect of these assets amounted to £1.3m (1990- £2.9m).

Notes to the Financial Statements

14. FIXED ASSET INVESTMENTS

GROUP

The investment in the associated undertaking of the Group was stated at £nil (1990 - £nil).

COMPANY

	Shares in Group Undertakings		Shares in Associated Undertaking	
	1991	1990	1991	1990
	£m	£m	£m	£m
Balance brought forward	587.2	586.3	—	1.0
Additions	—	4.9	—	—
Taxation	—	(4.0)	—	—
Provision for diminution in value	—	—	—	(1.0)
Balance carried forward	587.2	587.2	—	—
[illegible]ns	124.9	124.9		
	712.1	712.1		

Details of the principal undertakings of the Group and the associated undertaking are given on page 34.

15. STOCK

	Group	
	1991	1990
	£m	£m
Raw materials	7.8	9.3
Work in progress	2.5	2.6
Finished goods and goods for resale	61.2	60.9
	71.5	72.8

16. DEBTORS

	Group 1991 £m	Group 1990 £m	Company 1991 £m	Company 1990 £m
Amounts falling due within one year:				
Trade debtors	**21.9**	32.4	**—**	—
Other debtors	**3.5**	1.9	**—**	—
Prepayments and accrued income	**10.5**	8.3	**—**	0.1
Debtors on deferred terms	**—**	0.4	**—**	—
Amounts due from group undertakings	**—**	—	**69.0**	204.0
Amounts due from associated undertaking	**—**	0.1	**—**	—
	35.9	43.1	**69.0**	204.1
Amounts falling due after more than one year:				
Other debtors	**0.1**	0.2	**—**	—
	36.0	43.3	**69.0**	204.1

17. CREDITORS
AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 1991 £m	Group 1990 £m	Company 1991 £m	Company 1990 £m
Borrowings (Note 19)	**2.4**	5.0	**—**	—
Trade creditors	**45.7**	39.7	**—**	—
Amounts owed to group undertakings	**—**	—	**69.1**	212.7
Bills of exchange	**0.7**	0.3	**—**	—
Corporation tax	**3.8**	10.4	**2.7**	—
Other taxes and social security	**9.9**	9.5	**—**	—
Obligations under finance leases (Note 24)	**1.8**	2.3	**—**	—
Other creditors	**5.7**	5.2	**—**	—
Accruals and deferred income	**82.7**	63.6	**39.0**	19.7
	152.7	136.0	**110.8**	232.4

18. CREDITORS

AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	1991	1990	1991	1990
	£m	£m	£m	£m
Deferred dividends (Note 12)	16.7	12.3	16.7	12.3
Obligations under finance leases (Note 24)	5.8	7.3	—	—
Other creditors	1.4	0.2	1.3	—
Borrowings (Note 19)	502.8	503.3	502.8	502.8
	526.7	523.1	520.8	515.1

19. BORROWINGS

	Group		Company	
	1991	1990	1991	1990
Total borrowings comprise:	£m	£m	£m	£m
Bank loans	470.9	315.9	470.9	315.9
Loan notes	—	155.0	—	155.0
Other secured loan	2.4	5.5	—	—
£31,920,000 17% Convertible Subordinated Unsecured Loan Stock 1997	31.9	31.9	31.9	31.9
	505.2	508.3	502.8	502.8

Amounts falling due within one year	2.4	5.0	—	—
Amounts falling due after more than one year				
Between one and two years	39.9	40.5	39.9	40.0
Between two and five years	254.2	255.0	254.2	255.0
Over five years				
- Loans repayable by instalments	176.8	175.9	176.8	175.9
- £31,920,000 17% Convertible Subordinated Unsecured Loan Stock 1997	31.9	31.9	31.9	31.9
	502.8	503.3	502.8	502.8
	505.2	508.3	502.8	502.8

19. BORROWINGS *Continued from previous page*

The bank loans bear interest at rates between 1.375% and 2.1% over LIBOR. £50m was non-interest bearing until May 1990 and is repayable in full in 1995 or, if earlier, on the sale or listing of the Company. The other bank loans are repayable by instalments over the period to April 1996.

The borrowings of the Company are secured by a composite guarantee and debenture over the assets of the Group.

The £31,920,000 17 per cent Convertible Subordinated Unsecured Loan Stock 1997 ("CSL Stock") is redeemable on 30 April 1997 or the date of a sale or flotation if earlier. Upon redemption the Company shall allot 100 new "A" Ordinary Shares and 2,100 new Convertible Preferred Ordinary Shares in exchange for and in satisfaction of £22 of each £456 of nominal amount of CSL Stock outstanding and redeem the balance in cash at par. The CSL Stock carries interest at a rate of 17% per annum. Of this interest 5% is payable semi-annually in April and October of each year provided the Company is not in breach of the syndicated Secured Credit Facility Agreement. The balance of 12% is only payable annually in August in respect of the previous financial year provided that there is sufficient Available Cash Flow as defined in the Instrument constituting the CSL Stock. Any of the 5% or 12% interest accrued but not paid on the CSL Stock will become payable on redemption.

20. PROVISIONS FOR LIABILITIES AND CHARGES

Deferred taxation
GROUP

Movements in deferred taxation during the year were as follows:

	1991 £m	1990 £m
Balance brought forward	4.0	—
(Credit)/Charge for the year	(1.9)	4.0
Balance carried forward	2.1	4.0

The deferred taxation balance comprises:

	Provided in the Accounts		Not provided in the Accounts	
	1991 £m	1990 £m	1991 £m	1990 £m
Accelerated capital allowances	2.1	4.0	4.8	—
Capital gains rolled over	—	—	9.0	9.9
Other timing differences	—	—	(5.1)	(6.9)
	2.1	4.0	8.7	3.0

In the opinion of the directors, the existing revalued properties in group undertakings will be retained for use in the business and the likelihood of any taxation liability arising is remote. Accordingly the potential deferred tax in respect of these properties has not been quantified.

21. CALLED UP SHARE CAPITAL.

Authorised, allotted and fully paid share capital at 27 April 1991 and 28 April 1990:

	Authorised £	Allotted & Fully Paid £	Number of Shares
"A" Ordinary Shares of 1p each	650,000	580,000	58,000,020
Convertible Preferred Ordinary Shares of 1p each	7,350,000	5,880,000	588,000,000
Redeemable Convertible Cumulative Preference Shares of £1 each	155,000,000	155,000,000	155,000,000
Deferred Shares of 1p each	12,800,001	12,800,001	1,280,000,080
	175,800,001	174,260,001	

The company will redeem for cash at par on the following dates the following amounts in nominal amount of the Redeemable Convertible Cumulative Preference Shares then outstanding:

30 April 1998	£60m
30 April 1999	£65m
30 April 2000	the balance

22. RESERVES

a) **Share premium account**
GROUP AND COMPANY

The share premium account as at 27 April 1991 was £4.2m (1990 - £4.2m). There were no movements on the share premium account during the period.

b) **Other reserves**
GROUP

Other reserves comprise the Goodwill reserve.

	Goodwill reserve £m
As at 29 April 1990	(490.5)
Transfers to profit and loss account	2.6
As at 27 April 1991	(487.9)

c) **Profit and loss account**
COMPANY

	£m
As at 29 April 1990	1.7
Loss for the period after appropriations	(13.5)
As at 27 April 1991	(11.8)

These Financial Statements do not include a separate profit and loss account for MFI Furniture Group Limited (the parent Company) as permitted by Section 228(7) of the Companies Act 1985. The loss for the financial period dealt with in the accounts of the Company was £9.1m (1990 - profit £7.0m).

23. PENSIONS

The Group operates four pension schemes providing benefits based on final pensionable pay. The assets of the schemes are held separately from those of the Group being invested with independent fund managers. Contributions are charged to the consolidated profit and loss account so as to spread the cost of pensions over employees' working lives with the Group. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent reviews of the schemes were as at 6 April 1990 for the MFI Pension Plan, the Schreiber Furniture Limited Pension Fund and the Hygena Pension Plan and as at 6 April 1991 for the Greens Components (RSC) Limited Group Pension Scheme.

The main actuarial assumptions used include an investment return of 9.0% per annum, rates of salary increase of 7% and 8% per annum, and rates of dividend growth of 4% and 5% per annum.

The total pension charge for the period was £5.4m (1990-£5.4m).

Contribution rates below funding rates have resulted in a provision in the balance sheet of £1.9m (1990 - £1.5m).

The most recent actuarial review showed that the four schemes had an aggregate market value of assets of £52m and that the actuarial value of those assets represented 122% of the benefits which accrued to members, after allowing for future expected increases in earnings.

It is possible that pension costs will increase in future years as a result of the Barber decision, a recent European Court judgement requiring pension schemes to offer equal benefits to men and women. The increase is currently not expected to be material.

24. FINANCIAL COMMITMENTS

GROUP

Capital commitments

The estimated amount of capital expenditure at 27 April 1991 authorised by the Board for which no provision has been made in the Financial Statements is as follows:

	1991 £m	1990 £m
Contracted for	2.9	10.4
Not contracted for	9.5	10.2

Leasing commitments

Obligations entered into in respect of finance leases, net of interest, are payable over the following periods:

	1991 £m	1990 £m
Within one year (Note 17)	1.8	2.3
After more than one year (Note 18)		
Between one and five years	5.0	6.2
Over five years	0.8	1.1
	5.8	7.3
	7.6	9.6

At 27 April 1991 the annual commitments under operating leases were as set out below:

	Land & Buildings		Other Assets	
	1991 £m	1990 £m	1991 £m	1990 £m
Operating leases which expire				
Within one year	0.2	0.6	—	—
Between one and five years	0.5	2.3	0.1	0.8
Over five years	34.8	31.8	—	0.6
	35.5	34.7	0.1	1.4

COMPANY

The company had no capital or leasing commitments at 27 April 1991.

25. CONTINGENT LIABILITIES

	Group		Company	
	1991	1990	1991	1990
	£m	£m	£m	£m
Employee Share Ownership Plan Loan Guarantee	9.8	9.8	9.8	9.8
Dividends not declared (see note below)	8.9	—	8.9	—
Amounts outstanding against letters of credit and counter-indemnities	3.2	1.9	—	—

The Articles of Association adopted on 17 August 1990 confer on the Redeemable Convertible Cumulative Preference Shareholders the right to receive dividends from 6 August 1990. Such dividends may only be declared by the Board of Directors when certain conditions are met, namely, that the Company has met the financial covenants as set out in the syndicated Secured Credit Facility Agreement, as amended by the Supplemental Agreement dated 15 August 1989, and that such covenants would have been met had the dividend been paid or the Company has repaid all amounts due and discharged all obligations under the banking arrangements. These covenants were not met on 27 April 1991 and the dividends entitlement not declared as at 27 April 1991 amounted to £8.9m (1990 - £nil).

Principal and Associated Undertakings

At 27 April 1991

	Country of registration or incorporation
PARENT COMPANY	
MFI Furniture Group Limited	England
PRINCIPAL GROUP UNDERTAKINGS	
Manufacturing:	
* Hygena Limited	England
Hygena Packaging Limited	England
Schreiber Furniture Limited	England
Greens Components (RSC) Limited	England
Sale of household furniture:	
* MFI Furniture Centres Limited	England
Furniture Fitting Services Limited	England
Hygena Cuisines SARL	France
* Carpetright of London Limited	England (22% Ordinary Shares 50% "B" Preference Shares)
Property Management:	
* MFI Properties Limited	England
Management Services:	
MFI Services Limited	England
Finance:	
* Homeplan Finance Limited	England

Unless otherwise indicated the Company owns 100% of the equity share capital of the above mentioned companies. The investments in those companies marked with an asterisk are owned directly by the Company. Companies operate in their country of incorporation.

KPMG Peat Marwick McLintock

Report of the auditors, KPMG Peat Marwick McLintock, to the members of MFI Furniture Group Limited

We have audited the Financial Statements set out on pages 16 to 34 in accordance with Auditing Standards.

In our opinion the Financial Statements give a true and fair view of the state of affairs of the Company and the Group at 27 April 1991 and of the loss and source and application of funds of the Group for the 52 week period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Peat Marwick McLintock

KPMG Peat Marwick McLintock
Chartered Accountants
10 July 1991
London

Five Year Record

	1991 £m	1990 £m	1989 £m	1988• £m	1987• £m
Turnover	**620.7**	594.9	601.7	491.8	427.4
Trading profit	**48.6**	50.9	91.4	77.1	56.5
Operating profit	**46.8**	55.0	91.8	79.0	60.3
Average number of employees (full-time equivalent)	**8,222**	8,025	7,610	6,245	5,707
Sales per square foot (£) *	**95.98**	97.33	110.03	95.08	86.78
Retail area at April (000's square fee)	**6,231**	5,978	5,709	4,994	5,072
Capital expenditure (£m)	**17.8**	24.4	107.6	54.6	54.8
Stock (£m)	**71.5**	72.8	106.5	61.4	60.7

* Note. All retail sales excluding VAT divided by the weighted average square footage during the period.
• These results are on a pro forma 52 week basis.