THE DIRECTORS HAVE PLEASURE IN SUBMITTING THEIR REPORT AND THE AUDITED FINANCIAL STATEMENTS FOR THE 52 WEEK PERIOD TO 29 DECEMBER 2001. COMPARATIVE FIGURES RELATE TO THE 52 WEEKS TO 30 DECEMBER 2000.

PRINCIPAL GROUP ACTIVITIES

The principal activities of MFI Furniture Group Plc and its subsidiaries are the manufacture and sale of household furniture.

A detailed review of the development and activities of the Group's business is contained in the Company Statement, Business Review and Financial Review on pages 4 to 33.

The full results for the period are shown in the Financial Statements on pages 50 to 73.

SHARE CAPITAL

The total number of ordinary shares of 10 pence each in issue at the period end stood at 599,474,590. Details of the Company's share capital are given on page 67. Details of share options granted and exercised during the period are given on pages 68 and 69.

DIVIDENDS

The Board recommends a final dividend of 1.3 pence per share (2000 – 1.0p) payable on 14 June 2002 to shareholders on the register on 31 May 2002. The shares will be quoted ex-dividend on 29 May 2002. An interim dividend of 1.2 pence per share (2000 - 0.9p per share) was paid on 26 October 2001. The total dividend for the period will therefore be 2.5 pence per share (2000 – 1.9p per share).

SUBSTANTIAL SHAREHOLDINGS

The following substantial interests (3% or more) in the Company's share capital have been notified to the Company:

Shareholder	Ordinary shares	% holding
Deutsche Bank AG	78,433,617	13.08
Amvescap	67,117,036	11.19
Schroder Investment Management	59,752,368	9.96
Silchester International	28,232,354	4.71
Fidelity International Management	22,899,237	3.82
Computershare Trustees (CI)	21,140,734	3.52

DONATIONS

The Company made charitable donations during the period amounting to £153,489 (2000 – £120,484). The Group made no political donations during the current and previous period.

SUPPLIERS' PAYMENT TERMS

The Group and Company's policy, in relation to all its suppliers, is to settle its terms of payment when agreeing the terms of the transaction and to abide by those terms provided that it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. The Group and Company does not follow any code or standard on payment practice, but it is the Group and Company's policy to pay all its suppliers within 30 days of the end of the month in which it receives the goods or services.

The number of days' purchases outstanding for payment by the Group at the period end was 35. (2000 – 33) and nil (2000 – nil) for the Company.

EMPLOYEES

The average number of employees and their remuneration are shown in note 3 to the Financial Statements.

The Group seeks to engage all employees in both its short and long term goals and has over 10,500 employees throughout the United Kingdom and overseas. The Group achieves this by communicating information on its performance and other significant issues affecting the business at staff briefings, through intranet technology and the publication of a quarterly staff magazine "Frontline". The Board remains committed to ensuring that the working environment within the Group is one where employees are valued and recognised for their contributions and employees' involvement in the Group's performance is encouraged with employee incentive plans and share schemes.

The Group promotes the importance of diversity and adopts an Equal Opportunities Policy under which training and career development opportunities are available to all employees, regardless of gender, religion or race. The Group aims to do all that is practicable to meet its responsibility towards the employment and training of disabled people and welcomes and considers fully applications by disabled persons, having regard to their particular aptitudes and abilities. It is also the Group's policy to retain employees who may become disabled while in service and to provide appropriate training. The Group is a member of the Employers' Forum on Disability and of Opportunity NOW.

AUDITORS

In accordance with section 384 of the Companies Act 1985, a resolution to reappoint KPMG Audit Plc as auditors to the Company is to be proposed at the forthcoming Annual General Meeting.

ANNUAL GENERAL MEETING

The Annual General Meeting is to be held at The Lincoln Centre, 18 Lincolns Inn Fields, London WC2A 3ED on Wednesday 22 May 2002. The following items of special business will be considered:

Resolution 9. Authority to repurchase shares of the Company

The existing authority for the Company to purchase its own shares expires at the conclusion of the Annual General Meeting. No purchases have been made to the date of this Annual Report and there are no outstanding contracts to purchase shares as of this date. It is proposed to seek a renewal of this authority at the forthcoming Annual General Meeting. If passed, Resolution 9 will enable the Company to purchase up to 59,980,961 ordinary shares (10% of the current issued ordinary share capital).

The maximum price at which any share may be purchased is the price equal to 105% of the average middle market quotations of such shares as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the date of such purchase and the minimum price at which any share may be purchased is the par value of such share. The number of options for ordinary shares which are outstanding for new issue shares at 28 February 2002, was 39,415,394 (6.57% of the current issued ordinary share capital). No warrants to acquire ordinary shares were outstanding as at that date. If the proposed authority for the Company to purchase its own shares is used in full, the total number of such options will represent 7.3% of the issued ordinary share capital. If granted, the directors will exercise the authority only if in their judgement it is in the best interests of shareholders generally and where exercise should result in an improvement in earnings per share for the remaining shareholders.

Resolution 10. Adoption of the MFI Share Incentive Plan

Authority is sought for the operation of the MFI Share Incentive Plan. This Plan will ensure that all employees hold shares in the Company and have the opportunity to increase their stake on an annual basis. Full details of the Plan are provided in the notes to the Notice of Annual General Meeting circulated with this Report.

Resolution 11. Adoption of the MFI 2002 Sharesave Plan

Authority is sought for the operation of the MFI 2002 Sharesave Plan. The authority to operate the current Sharesave Plan expires in 2002 and the Company would like the flexibility to operate an Inland Revenue Approved save as you earn plan. Full details of the Plan are provided in the notes to the Notice of Annual General Meeting circulated with this Report.

Resolution 12. Adoption of the MFI Executive Co-investment Plan

Authority is sought for the operation of the MFI Executive Co-investment Plan. This Plan is designed to encourage executive directors and senior executives to invest in the company's shares and thereby further align the reward strategy with long term objectives of the Company. Full details of the Plan are provided in the notes to the Notice of Annual General Meeting circulated with this Report.

DIRECTORS AND THEIR INTERESTS

Details of the directors in office on 29 December 2001 are shown on pages 34 and 35.

John Hancock (age 52), Mark Horgan (age 35) and Gordon MacDonald (age 44) retire by rotation at the Annual General Meeting and in accordance with Article 72 of the Articles of Association offer themselves for reappointment.

Lesley Knox (age 48) was appointed to the Board as a non-executive director on 23 May 2001. In accordance with Article 72 of the Articles of Association she holds office only until the conclusion of the Annual General Meeting and, being eligible, offers herself for reappointment.

Ian Smith (age 48) was appointed to the Board as a non-executive director on 11 September 2001. In accordance with Article 72 of the Articles of Association he holds office only until the conclusion of the Annual General Meeting and, being eligible, offers himself for reappointment.

Denise Kingsmill was a director until her retirement on 23 May 2001.

Information on the directors' service agreements and interests of the directors and their families in the share capital of the Company, are set out in the separate Directors' Report on Remuneration on pages 38 to 44.

By order of the Board
28 February 2002
GERARD HUGHES
Secretary

1. COMPOSITION OF THE REMUNERATION COMMITTEE

The Remuneration Committee determines the remuneration of the executive directors after taking external advice from the independent remuneration consultants Andersen. All the members of the Committee are non-executive directors of the Company and their *names are listed on page 77.*

2. POLICY ON REMUNERATION OF EXECUTIVE DIRECTORS

The total remuneration package is designed to ensure business success through the recruitment, retention and motivation of a team of talented executives.

Base salaries are positioned at the median level and are then supplemented by variable rewards and incentives which can raise the total value of the package into the upper quartile if superior performance and returns for shareholders are generated.

The remuneration package is designed to align the executive directors' interest with shareholders' interests through an annual incentive plan which includes a one third deferral into shares; a share performance plan which is based on total shareholder return relative to comparable companies and through the provision of share options including performance options which only become exercisable if particularly stretching performance targets are met.

The Committee reviews the remuneration policy on an annual basis and, following the review in December 2001, it was decided to recommend to shareholders that a Co-investment Plan be introduced whereby executive directors and senior executives are *encouraged to invest in the Company's shares. If introduced*, this Plan would operate as an alternative to the Performance Option Section of the Share Option Plan Portfolio. Full details of this proposal are set out in the Notice for the Annual General Meeting.

3. COMPONENTS OF EXECUTIVE DIRECTORS' REMUNERATION

i Basic salary

Basic salary for each director is determined by the Committee taking into account the performance of the individual and information from independent sources on the rates of salary for similar jobs in a selected group of comparable companies. These companies are chosen having regard to:

- i the size of the company - its turnover, profits and market capitalisation;
- ii the diversity and complexity of its businesses;
- iii the geographical spread of its businesses; and
- iv its growth, expansion and change profile.

ii Annual Incentive and Deferred Incentive Plan

This Plan sets challenging group targets which take into account internal and external factors and provides for a bonus ranging from 0-100% of salary for the chief executive officer and 0-75% for the other executive directors. To align the executive directors' interests with that of the shareholders, one third of the incentive is deferred into ordinary shares of the company and held in trust for three years before release to the executive director. At the discretion of the Committee, cash bonuses may also be paid in exceptional circumstances, for example for recruitment or retention of key executive directors or for the achievement of personal performance targets. Bonuses are non-pensionable.

iii Share Performance Plan

This Plan provides a direct link between the pay of executive directors and the creation of value for shareholders. Conditional awards of shares equivalent to one years' salary in value are made to executive directors at the discretion of the Committee and are released subject to the achievement of company performance targets. Company performance is measured over rolling, three-year cycles, in terms of Total Shareholder Return relative to a peer group of other companies. In addition, no award shall vest unless the earnings per share of the company increases over the performance period by a percentage amount that is equal to or greater than the percentage change in the retail prices index plus 9% over the same period. Transitional performance cycles began on 25 April 1999 with an initial performance cycle ending in December 2001 and the first three-year cycle ending in December 2002. The peer group is reviewed before each performance cycle to maintain its relevance.

The amount of shares released depends upon the company's comparative performance against its peer group. If the company's Total Shareholder Return is at the median level, 40% of the shares, the subject of the award, will vest. If the company is ranked in the top quartile of the list, 100% of the shares will vest. Proportional vesting on a straight-line basis will take place *for performance between the median and the top quartile* positions.

iv Share Option Plan Portfolio

The company operates a share plan portfolio which has three sections. Under sections 1 and 2 the Inland Revenue Approved and Unapproved sections of the Plan, at the discretion of the Committee, executive directors can receive annual grants of options up to two times salary. However, unless there are exceptional circumstances, executive directors cannot receive options under these sections of the Plan if they receive a grant under Section 3 of the Plan in the same year.

Share options under Sections 1 and 2 become exercisable only if a performance condition is satisfied. The current condition is that the growth in earnings per share of the company must meet or exceed the growth in the Retail Price Index by 9% over a three-year period. Options will lapse if this target has not been satisfied.

Under Section 3 of the Plan the Committee has discretion to grant Performance Options to executive directors up to four times salary subject to the achievement of certain demanding and challenging performance targets, which if achieved, will demonstrate superior performance. Details of these targets are set out under the table of directors share options.

Executive directors may participate in the Sharesave Scheme on the same terms as all other eligible employees. The Scheme is offered to all employees contracted to work a minimum of eight hours per week. Under the Scheme, participants make regular *savings with the Nationwide Building Society up to a current* Inland Revenue limit of £250 per month. At the end of the three year contract period participants may use all or part of their savings and bonus to purchase shares at the option price which was set at a 20% discount to the market price at the start of the savings plan.

v **Pensions**

Executive directors participate in the MFI Group Pension Plan on a similar basis to senior executives with the exception that, with the consent of the Company, executive directors may retire at age 55 and draw a pension without any early retirement reduction factor being applied.

The Plan is a funded, Inland Revenue approved, final salary, occupational pension plan. Its main features are:

a) pension at normal pension age of two thirds of final pensionable salary, subject to completion of 20 years service; post-retirement increases are expected to be in line with inflation, guaranteed up to the level of 5% and discretionary above that level;
b) life assurance cover of four times pensionable salary;
c) pension payable in the event of ill health; and
d) spouse's pension on death (2/3 of deceased's pension).

Pensionable salary is the member's basic salary including any value relating to benefits in kind. All plan benefits are subject to Inland Revenue limits.

vi **Pension supplements**

To recognise that pension entitlement will be limited for those members who joined the MFI Group Pension Plan after 14 March 1989 and whose final pensionable salary exceeds the Earnings Cap, a pensions supplement system has been introduced. The pensions supplement is based on "excess salary". The excess salary is the basic salary as at 6 April each year less the Earnings Cap for the following tax year. For executive directors the supplement will be a percentage of excess salary, calculated according to age on 6 April. Below age 45 the supplement is 40%. Above age 45 the supplement is 45%. The supplement is paid in arrears and in two instalments, in September and March.

vii **Service Contracts**

The notice period for termination of executive directors' service contracts is 12 months. Liquidated damages are applied to any payment of compensation on termination.

viii **External appointments**

It is recognised that executive directors may be invited to become non-executive directors of other companies and that exposure to such duties can broaden experience and knowledge, which will benefit the Company. Executive directors are allowed to accept a maximum of two non-executive appointments, unless otherwise agreed by the Remuneration Committee, provided these are not with competing companies and are not likely to lead to conflicts of interest. Executive directors are allowed to retain the fees paid to them in respect of their non-executive duties.

4. NON-EXECUTIVE DIRECTORS' REMUNERATION

The remuneration of the non-executive directors is determined by the Board on the recommendation of the Chairman after taking advice from the independent external consultants Andersen who review the fee payments of non-executive directors in similar organisations.

Non-executive directors' remuneration consists of an annual fee of £28,000 for their service as members of the Board and of the Committees of the Board. Lesley Knox and Tony De Nunzio each receive an additional fee of £4,000 for their services as chair of the Remuneration Committee and Audit Committee respectively. Non-executive directors do not have service agreements, but instead have letters of appointment and are appointed by the Board for an initial period of three years subject to retirement by rotation and re-appointment by shareholders.

Ian Peacock was appointed Chairman on 18 May 2000 for a period of three years subject to the provisions of the Company's Articles of Association. Mr Peacock receives a fee of £130,000 per annum in consideration for his services as Chairman and non-executive director. In the first year of his appointment Mr Peacock agreed to apply £20,000 of this fee towards the purchase of shares in the Company and to hold these shares until the earlier of 17 May 2003 and his ceasing to be Chairman and non-executive director. Under this arrangement Mr Peacock purchased 31,740 ordinary shares at 63 pence per share on 16 June 2000.

5. DIRECTORS' REMUNERATION

The following table sets out the directors' emoluments for the 52 weeks to 29 December 2001.

	Basic Salary £000	Fees £000	Benefits £000	Annual Cash Incentive £000	Pension Supplements £000	52 Weeks to 29 Dec 2001 £000	52 Weeks to 30 Dec 2000 £000
Non-executive Chairman							
Ian Peacock		114	-	-	-	114	92
Executive directors							
John Hancock	350	-	34	210	114	708	565
Martin Clifford-King	200	-	18	90	38	346	5
Mark Horgan	200	-	19	90	40	349	253
Matthew Ingle	225	-	17	101	56	399	324
Gordon MacDonald	215	-	24	97	46	382	270
Bob Wilson	200	-	20	90	-	310	256
Derek Hunt[1]	-	-	-	-	-	[illegible]	107
Michael Williamson[2]	-	-	-	-	-	[illegible]	393
	1,390	**114**	**132**	**678**	**294**	**2,608**	**2,265**
Non-executive							
Tony De Nunzio	-	26	-	-	-	26	7
Lesley Knox[3]	-	16	-	-	-	16	-
Ian Smith[4]	-	8	-	-	-	8	-
Peter Wallis	-	24	-	-	-	24	-
Mary Baker[5]	-	-	-	-	-	-	25
Denise Kingsmill[6]	-	24	-	-	-	24	60
Sir Robert Smith[7]	-	-	-	-	-	-	8
Total	**1,390**	**212**	**132**	**678**	**294**	**2,706**	**2,365**

1 Resigned 18 May 2000.
2 Resigned 18 August 2000.
3 Appointed non-executive director on 23 May 2001.
4 Appointed non-executive director on 11 September 2001.
5 Resigned 31 December 2000.
6 Resigned 23 May 2001. Following her decision not to seek re-election as a non-executive director at the Annual General Meeting held on 23 May 2001, Mrs Kingsmill was engaged by the Company as a consultant in the areas of design and product development. Under the terms of this consultancy agreement, which expires on 30 September 2003, Mrs Kingsmill receives a fee of £80,000 per annum and on 24 May 2001 Mrs Kingsmill received a payment of £110,000 in respect of the period from the commencement of the consultancy agreement on 24 May 2001 to 30 September 2002.
7 Resigned 18 May 2000.
8 On 28 February 2002 John Hancock became entitled to an award under the Annual Incentive Plan of £315,000 for the 52 weeks ended 29 December 2001. Two thirds of this award is payable in cash and is disclosed in column for the Annual Incentive. One third of the award will be made in shares under the terms of the Deferred Incentive Plan.
9 On 28 February 2002 Martin Clifford-King, Mark Horgan, Matthew Ingle, Gordon MacDonald and Bob Wilson have become entitled to an award under the Annual Incentive Plan of £135,000, £135,000, £151,875, £145,125, and £135,000 respectively for the 52 weeks to 29 December 2001. Two thirds of this award is normally payable in cash as disclosed in the column for the Annual Incentive Plan. Prior to this becoming an entitlement the entire cash element of these awards was surrendered in full, with the exception of Mark Horgan who surrendered £41,000. The Company intends to request that the Trustee of the MFI Employee Share Trust uses these funds to purchase shares which will be conditionally awarded to the aforementioned directors subject to continued employment. The remaining third of the award will be made in shares under the terms of the Deferred Incentive Plan.
10 The Benefits column incorporates benefits in kind which relate in the main to the provision of a fully expensed car or cash equivalent and private medical cover.
11 Pension Supplements are paid every six months in arrears and the next payment is due in March 2002. The table above includes an accrued amount for the period from 1 October 2001 to 29 December 2001. Further details of the Pension Supplement Plan are given on page 39.

6. DIRECTORS' SHAREHOLDINGS

The beneficial interests of the directors in office on 29 December 2001 and their families in the share capital of the Company are shown below:

	Ordinary shares of 10p each 29 December 2001*	Ordinary shares of 10p each 30 December 2000*
John Hancock	605,939	445,224
Martin Clifford-King	10,000	-
Mark Horgan	25,668	20,000
Matthew Ingle	15,000	15,000
Bob Wilson	44,169	36,293
Tony De Nunzio	16,000	16,000
Lesley Knox	8,000	8,000
Ian Smith	10,000	-
Ian Peacock	91,740	91,740

*As at the date of appointment if later.

There have been no changes to the directors' interests shown above between 29 December 2001 and the date of this report.

Gordon MacDonald is a director of MFI Employee Ownership Trustee Company Limited which is the corporate trustee of the MFI Employee Benefit Trust and therefore has a non-beneficial interest in the 190,000 ordinary shares (2000 - 190,000 ordinary shares) held by the trust.

7. DEFERRED INCENTIVE PLAN - SHARES HELD IN TRUST

Details of shares held in trust under the terms of the Deferred Incentive Plan.

Executive	Deferred Shares (52 weeks ended April 2000)*	Date Awarded	Release Date	Deferred Shares (36 weeks ended Dec 2000)**	Date Awarded	Release Date
John Hancock	132,967	19.05.00	18.05.03	40,574	22.03.01	21.03.04
Mark Horgan	54,396	19.05.00	18.05.03	15,918	22.03.01	21.03.04
Matthew Ingle	69,082	19.05.00	18.05.03	18,727	22.03.01	21.03.04
Gordon MacDonald	54,396	19.05.00	18.05.03	16,854	22.03.01	21.03.04
Bob Wilson	57,877	19.05.00	18.05.03	17,790	22.03.01	21.03.04

*Shares were acquired by the Trustee on 19 May 2000 at 69 pence per share.

** Shares were acquired by the Trustee on 22 March 2001 at 89 pence per share.

8. DIRECTORS' CONDITIONAL AWARDS OF SHARES - SHARE PERFORMANCE PLAN

Details of the conditional awards of shares made to the executive directors under the Share Performance Plan.

Executive	**29 Dec 01**	30 Dec 00	Initial Share Price (pence)	Performance Period
John Hancock	**393,258**	-	89.00	01.01.01 – 01.01.04
	476,190	476,190	68.25	02.01.00 – 01.01.03
	648,279	648,279	42.50	25.04.99 – 01.01.02
	1,517,727	1,124,469		
Martin Clifford-King	**224,719**	-	89.00	01.01.01 – 01.01.04
	224,719	-		
Mark Horgan	**224,719**	-	89.00	01.01.01 – 01.01.04
	249,084	249,084	68.25	02.01.00 – 01.01.03
	471,475	471,475	42.50	25.04.99 – 01.01.02
	945,278	720,559		
Matthew Ingle	**252,809**	-	89.00	01.01.01 – 01.01.04
	5,904	5,904	64.10	02.01.00 – 01.01.03
	287,495	287,495	68.25	02.01.00 – 01.01.03
	449,080	449,080	42.50	25.04.99 – 01.01.02
	995,288	742,479		
Gordon MacDonald	**241,573**	-	89.00	01.01.01 – 01.01.04
	263,736	263,736	68.25	02.01.00 – 01.01.03
	353,606	353,606	42.50	25.04.99 – 01.01.02
	858,915	617,342		
Bob Wilson	**224,719**	-	89.00	01.01.01 – 01.01.04
	278,388	278,388	68.25	02.01.00 – 01.01.03
	376,237	376,237	42.50	25.04.99 – 01.02.02
	879,344	654,625		

1 Awards disclosed assume 100% vesting.

2 Vesting targets and further details of the Plan are explained on page 38.

3 As part of the terms of John Hancock's appointment as Chief Executive on 1 March 1999 he received a conditional award of ordinary shares to the value of £50,000 (142,857 shares). This award vested subject to the condition that Mr Hancock remained a director of the company for a period of two years from the date of his appointment. On 19 March 2001 the award vested and the Trustee sold 57,142 shares in the market to fund Mr Hancock's income tax liability under the award and transferred the remaining 85,715 shares to Mr Hancock.

9. DIRECTORS' SHARE OPTIONS

The interests of executive directors in options to acquire ordinary shares in the Company are as follows:

	30 Dec 00	Granted during period	Exercised during period	29 Dec 01	Exercise Price (pence)	Earliest date for exercise	Latest date for exercise
John Hancock							
Executive Scheme	785,000	-	-	785,000	35	06.03.02	05.03.06
Executive Scheme	705,000	-	-	705,000	39	07.09.02	06.09.06
2000 Share Option Plan Portfolio (Section 3)	1,904,762	-	-	1,904,762	68.25	19.05.03	18.05.10
2000 Share Option Plan Portfolio (Section 3)	-	701,403	-	701,403	124.75	30.05.04	29.05.11
Sharesave Scheme	6,458	-	-	6,458	30	01.11.02	01.05.03
Martin Clifford-King							
2000 Share Option Plan Portfolio (Section 1)	43,795	-	-	43,795	68.50	22.12.03	21.12.10
2000 Share Option Plan Portfolio (Section 2)	540,146	-	-	540,146	68.50	22.12.03	21.12.10
2000 Share Option Plan Portfolio (Section 3)	1,167,883	-	-	1,167,883	68.50	22.12.03	21.12.10
2000 Share Option Plan Portfolio (Section 3)	-	400,802	-	400,802	124.75	30.05.04	29.05.11
Mark Horgan							
Executive Scheme	714,200	-	-	714,200	42	27.09.02	26.09.09
2000 Share Option Plan Portfolio (Section 3)	996,337	-	-	996,337	68.25	19.05.03	18.05.10
2000 Share Option Plan Portfolio (Section 3)	-	400,802	-	400,802	124.75	30.05.04	29.05.11
Matthew Ingle							
Executive Scheme	44,400	-	-	44,400	180	02.07.99	01.07.03
Executive Scheme	754,000	-	-	754,000	63	02.07.01	01.07.05
2000 Share Option Plan Portfolio (Section 3)	1,149,978	-	-	1,149,978	68.25	19.05.03	18.05.10
2000 Share Option Plan Portfolio (Section 3)	23,619	-	-	23,619	64.10	08.06.03	07.06.10
2000 Share Option Plan Portfolio (Section 3)	-	450,902	-	450,902	124.75	30.05.04	29.05.11
Sharesave Scheme	6,458	-	-	6,458	30	01.11.02	01.05.03
Gordon MacDonald							
Executive Scheme	714,200	-	-	714,200	42	27.09.02	26.09.09
2000 Share Option Plan Portfolio (Section 3)	1,054,945	-	-	1,054,945	68.25	19.05.03	18.05.10
2000 Share Option Plan Portfolio (Section 3)	-	430,862	-	430,862	124.75	30.05.04	29.05.11

9. DIRECTORS' SHARE OPTIONS (CONTINUED)

The interests of executive directors in options to acquire ordinary shares in the Company are as follows:

	30 Dec 00	Granted during period	Exercised during period	29 Dec 01	Exercise Price (pence)	Earliest date for exercise	Latest date for exercise
Bob Wilson							
Executive Scheme	126,200	-	-	126,200	115	03.07.98	02.07.02
Executive Scheme	37,100	-	-	37,100	180	02.07.99	01.07.03
Executive Scheme	158,900	-	-	158,900	63	02.07.01	01.07.05
2000 Share Option Plan Portfolio (Section 3)	1,113,553	-	-	1,113,553	68.25	19.05.03	18.05.10
2000 Share Option Plan Portfolio (Section 3)	-	400,802	-	400,802	124.75	30.05.04	29.05.11
Sharesave Scheme	7,876	-	(7,876)	-	51	01.11.01	01.05.02
Sharesave Scheme	6,458	-	-	6,458	30	01.11.02	01.05.03
Total	12,061,268	2,785,573	(7,876)	14,838,965			

1. Bob Wilson exercised options over 7,876 shares under the Sharesave Scheme on 1 November 2001. The middle market price on 31 October 2001 was 112 pence per share generating a gain of £4,804.
2. The options outstanding are exercisable at prices between 30p and £1.80. In the period the highest middle market price was 144 pence per share and the lowest middle market price was 69 pence per share. The middle market price on 28 December 2001 was 140 pence per share.
3. Options granted under the Executive Scheme (which was replaced with the approval of shareholders on 18 May 2000 by the Share Option Plan Portfolio) are not normally exercisable unless growth in earnings per share, as determined under the scheme, has exceeded the growth in the Retail Prices Index over a three-year period.
4. Options granted under Section 2 of the 2000 Share Option Plan Portfolio are not normally exercisable unless growth in earnings per share, as determined under the Plan, meets or exceeds the growth in the Retail Price Index by 9% over a three-year period. Options will lapse if this target is not satisfied.
5. Options granted under Section 3 of the 2000 Share Option Plan Portfolio are not normally exercisable unless challenging targets are met. For Section 3 options granted in 2000 50% of an option becomes exercisable subject to growth in earnings per share being equal to 100% over three years; increasing on a straight line basis up to 100% of an option becoming exercisable where earnings per share growth equals or exceeds 150%. For Section 3 options granted in 2001 50 % of an option becomes exercisable subject to growth in earnings per share being equal to 60 % over three years; increasing on a straight line basis up to 100% of an option becoming exercisable where earnings per share growth equals or exceeds 120%. Options will lapse if this target is not satisfied.

10. DIRECTORS' PENSIONS

The table below shows the accrued pension should the director leave employment as at the financial period end.

Name	Age	Years of pensionable service	Scale pension accrued to 29 Dec 2001 £000	Scale pension accrued to 30 Dec 2000 £000	Increase in scale pension over year to 29 Dec 2001 (excluding inflation) £000	Transfer value of increase in pension (less member contributions) £000
John Hancock	52	3	9	5	3	52
Martin Clifford-King	38	1	3	-	3	26
Mark Horgan	35	2	7	4	3	24
Matthew Ingle	47	7	21	17	3	46
Gordon MacDonald	44	2	7	4	3	39
Bob Wilson	47	24	96	82	12	169

1. The increase in scale pension shown is the increase in excess of inflation, taken to be 1.7% (consistent with SSA90 revaluation orders).
2. In the cases of John Hancock, Martin Clifford-King, Mark Horgan, Matthew Ingle and Gordon MacDonald, the benefits accruing are limited by the earnings cap imposed by the Finance Act 1989.
3. The aggregate pension costs paid by the Company in respect of the directors' qualifying services were £43,040 (2000 – £41,639). The amount paid in respect of the highest paid director was £6,315 (2000 – £6,129).

By order of the Board
28 February 2002
GERARD HUGHES
Secretary

CORPORATE GOVERNANCE REPORT

The Group recognises the importance of, and is committed to, high standards of corporate governance.

The listing rules of the UK Listing Authority (the "Listing Rules") require listed companies to disclose, in relation to Section 1 of the principles of good governance and code of best practice produced by the Committee on Corporate Governance and appended to the Listing Rules (the "Combined Code"), how they have applied its principles and whether or not they have complied with its provisions throughout the financial year. Consequently this report describes how the Group applies the principles and complies with the provisions of the Combined Code.

ORGANISATIONAL STRUCTURE

The Group has an appropriate organisational structure for planning, executing, controlling and monitoring the business in a manner, which seeks to achieve the Group's objectives taking into account the interests of all stakeholders. The Board comprises the non-executive Chairman, six executive directors and four other non-executive directors. Appropriate training is available to all directors. Biographical details of the directors are given on page 35. The separate roles of the Chairman and Chief Executive are clearly defined. The Chairman is responsible primarily for the management of the Board and the Group Chief Executive for the management and development of the Group's businesses supported by the Chief Operating Officer and the Executive Committee.

The Board holds regular meetings and concentrates mainly on providing an aligned context for the management of the business, strategic issues and financial performance. The Board also aims to ensure that the Company operates in an ethical and socially responsible manner towards its stakeholders and the wider community. The Board has a schedule of matters reserved for its approval and is supplied in a timely manner with information which enables it to discharge its duties. The Executive Committee meets regularly to allow prompt decision making and communication of business issues.

The Executive Committee operates within a framework of delegated authorities and reserved powers which seek to ensure that certain transactions, significant in terms of their size, type or impact on the Group are referred to the Board for prior approval.

There is a procedure for all directors to take independent external advice, at the Company's expense, in the course of their duties via the Company Secretary. The Company Secretary is responsible for ensuring that Board procedures are followed and all directors have access to his advice and services.

The Board considers all of its non-executive directors to be independent, Tony De Nunzio being identified as the Senior Independent director.

The Board has reviewed the meaning of independence in the context of the available guidance and considers an independent director to be one who has no relationship with any party which may undermine independence and who is not dependent on the Company for his or her primary source of income or paid by the Company, other than on a one off basis for a specific service, in any capacity other than as non executive director.

The executive directors are selected for their broad range of skills and experience and this ensures that matters referred to the Board are thoroughly debated. Non-executive directors are appointed for an initial term of three years, subject to reappointment by shareholders, and all directors are subject to reappointment by shareholders at the first annual general meeting following their appointment by the Board and thereafter no more than every three years by rotation under the articles of association.

The Board has established Audit, Remuneration and Nominations Committees each with defined terms of reference. The terms of reference of these committees are reviewed regularly. Membership of these Committees is shown on page 77.

AUDIT COMMITTEE

The Audit Committee consists of the five non-executive directors and is chaired by Tony De Nunzio. It assists the Board in ensuring that the Group's financial systems provide accurate and up to date information on its financial position and that the Group's published financial statements represent a true and fair reflection of this position. It also assists the Board in ensuring that appropriate accounting policies, internal controls and compliance procedures are in place and monitors the management of Risk. The auditors attend its meetings, as does the head of the Group's internal audit function.

REMUNERATION COMMITTEE

The Remuneration Committee consists of the five non-executive directors and is chaired by Lesley Knox. It is responsible for advising on the remuneration packages needed to attract, retain and motivate executive directors of the required quality. The Remuneration Committee is responsible for developing strategy and policy on executive remuneration and for deciding on the remuneration packages of individual executive directors. The Directors' Report on Remuneration on pages 38 to 44 includes details on remuneration policy, terms of appointment, and the remuneration of executive directors.

NOMINATIONS COMMITTEE

The Nominations Committee consists of the five non-executive directors and is chaired by Ian Peacock. The committee keeps under review the composition of the Board and makes recommendations to the Board for all new appointments and re-appointments.

RELATIONS WITH SHAREHOLDERS

The Company considers its relationship with both institutional and private investors to be important and readily enters into dialogue with investors. An investor relations website, www.mfigroup.co.uk, provides an ideal channel for communication with existing and potential investors. The Annual General Meeting provides an opportunity for shareholders to put their questions to the directors.

At the Annual General Meeting the company proposes separate resolutions on each substantially separate issue and, except where a poll is called, the numbers of proxy votes cast for and against each resolution is reported after each resolution has been taken. The notice of the Annual General Meeting is sent to shareholders at least twenty working days before the meeting.

RISK AND INTERNAL CONTROL

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness, whilst the role of management is to implement Board policies on risk and control. Such a system is, however, designed to manage rather than eliminate the risks of failure to achieve business objectives. In pursuing these objectives, internal controls can only provide reasonable assurance against mis-statement or loss.

The Combined Code recommends that the Board at least annually reviews the effectiveness of the Group's system of internal controls, including financial, operational and compliance controls and risk management. Subsequently the Institute of Chartered Accountants in England and Wales produced further guidance on the wider aspects of internal control in September 1999 (the Turnbull Guidance).

i) Risk

Following the introduction of the Turnbull Guidance the Board enhanced the Group's existing risk management procedures. The Board can confirm that, for the 2001 financial year, and up to the date of approval of the annual report and financial statements, there has been an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, that is reviewed regularly by the Board and accords with the Turnbull Guidance.

The Risk Committee is chaired by the Chief Operating Officer, Gordon MacDonald and is comprised of seven senior executives from the key areas of the business. It is the responsibility of the Risk Committee to review the effectiveness of the risk management process and internal controls, on behalf of the Board. The Risk Committee reports to the Board three times a year, on how risks are being managed. In addition there is a mechanism in place to report significant control breakdowns or risk occurrences to the Executive Committee.

An ongoing process for the effective management of risk has been defined by the Risk Committee and is operated in the following stages:

- Risks raised by all areas of the business, through the adoption of both a 'bottom-up' and 'top-down' process are regularly reviewed. The key risks to each business area's objectives are identified and scored for probability and impact. The key controls to manage the risks to the desired level are identified.
- A database of all risks and controls is utilised, and the information filtered to produce a number of generic risk areas, forming a key risk register for the Group.
- The Risk Committee reviews the risks to assess the effectiveness of the risk management strategies.
- All controls, which mitigate or minimise high level risks, are confirmed as operated via a self-certification process completed by the relevant operational employees.
- The Internal Audit Department conduct Compliance Audits on controls upon which the Group rely upon most to mitigate significant risks.
- Key management are nominated in each business area, and are responsible for reviewing their functions' risk register. Regular reporting on internal and external changes that affect the risks or their importance to the business, and any risk occurrences, are received from these managers.
- The generic risks and their management are regularly reported to and discussed at the Executive Committee.
- An ongoing programme to further embed the risk process into the culture of the business is being adhered to. This includes ongoing communication to the Group's employees through such mediums as the introduction of an Intranet Site designed to heighten awareness of risk issues and to communicate fully all aspects of the Group's risk process. Open communication is encouraged between staff, management and the Risk Committee on matters relating to risk and control.

ii) Internal Control

The Group has an established framework of internal controls, which includes the following key elements:

- Members of the Board have responsibility for monitoring the conduct and operations of individual businesses and functions within the Group. The Group reviews the strategies of the individual businesses and the executive management of each business is accountable for their conduct and performance within the agreed strategies.
- The Group and its subsidiaries operate control procedures designed to ensure complete and accurate accounting of financial transactions, and to limit exposure to loss of assets or fraud. Measures taken include physical controls, segregation of duties in key areas and periodic Internal Audit reviews.
- The Audit Committee meets two times a year and its responsibilities are set out above. It receives reports from the Internal Audit function on the results of work carried out under a semi-annually agreed audit programme. The Audit Committee has independent access to the internal and external auditors.
- Internal Audit facilitates a process whereby businesses provide certified statements of compliance with internal financial controls, which are supported by the operation of key controls during the period.

GOING CONCERN

After reviewing current performance and detailed forecasts, taking into account available bank facilities and making further enquiries as considered appropriate, the directors are satisfied that the Group has adequate resources to enable it to continue in business for the foreseeable future. For this reason the Board believes it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

COMPLIANCE WITH THE COMBINED CODE

The Group has complied with the requirements of the Financial Services Authority relating to the provisions of the Combined Code and with the Turnbull Guidance throughout the period ended on 29 December 2001 and up to the date of approval of the annual report and financial statements.

Ian Peacock
Chairman

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss for that period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and Group and to enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MFI FURNITURE GROUP PLC

We have audited the financial statements on pages 50 to 73.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the Annual Report. As described on page 48 this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, 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 or the Listing Rules regarding directors' remuneration and transactions with the Group is not disclosed.

We review whether the statements on pages 45 to 47 reflect the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, 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 corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with the Auditing Standards 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 Group'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.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 29 December 2001 and of the profit of the Group for the 52 week period then ended and have been properly prepared in accordance with the Companies Act 1985.

28 February 2002

KPMG Audit Plc

KPMG Audit Plc

Chartered Accountants
Registered Auditor
London

For the 52 weeks to 29 December 2001

	Notes	52 Weeks to 29 December 2001 Total operations Pre-exceptional £m	Exceptional items (note 7) £m	Total £m	52 Weeks to 30 December 2000 Total operations Pre-exceptional £m	Exceptional items (note 7) £m	Total £m
Turnover							
Group and share of joint venture	2	1,078.2		1,078.2	900.6	-	900.6
Less: Share of joint venture		(0.2)		(0.2)	-	-	-
Group turnover		1,078.0		1,078.0	900.6	-	900.6
Cost of sales		(539.3)	(4.7)	(544.0)	(453.7)	-	(453.7)
Gross profit		538.7	(4.7)	534.0	446.9	-	446.9
Selling and distribution costs		(419.7)		(419.7)	(350.5)	12.2	(338.3)
Administration costs		(57.1)		(57.1)	(55.5)	(4.0)	(59.5)
Operating profit/(loss)	2 & 4	61.9	(4.7)	57.2	40.9	8.2	49.1
Share of operating loss of joint venture		(0.9)		(0.9)	-	-	-
Total operating profit/(loss) - Group and share of joint venture		61.0	(4.7)	56.3	40.9	8.2	49.1
Net profit/(loss) on disposal of fixed assets		0.5	(1.2)	(0.7)	0.5	-	0.5
Profit on disposal of discontinued operations					-	11.2	11.2
Profit/(loss) on ordinary activities before interest		61.5	(5.9)	55.6	41.4	19.4	60.8
Interest receivable and similar income	5	4.2	-	4.2	4.8	-	4.8
Interest payable and similar charges	6	(1.0)		(1.0)	(0.8)	-	(0.8)
Profit/(loss) on ordinary activities before taxation		64.7	(5.9)	58.8	45.4	19.4	64.8
Tax	8	(18.7)	1.8	(16.9)	(12.7)	(2.6)	(15.3)
Profit/(loss) for the financial period		46.0	(4.1)	41.9	32.7	16.8	49.5
Dividends	9	(14.7)		(14.7)	(11.2)	-	(11.2)
Amount transferred to reserves	21	31.3	(4.1)	27.2	21.5	16.8	38.3
Earnings per share							
Basic earnings per 10p ordinary share	10	7.7p	(0.7)p	7.0p	5.5p	2.8p	8.3p
Diluted earnings per 10p ordinary share	10	7.4p	(0.7)p	6.7p	5.4p	2.8p	8.2p

CONSOLIDATED BALANCE SHEET MFI 2001

As at 29 December 2001

	Notes	29 Dec 2001 £m	30 Dec 2000 £m
FIXED ASSETS			
Tangible assets	11	**300.6**	275.9
Investments			
Investment in own shares		**18.8**	2.6
Other investments		**8.0**	8.0
Share of joint venture net assets		**0.9**	-
Total investments	12	**27.7**	10.6
Total fixed assets		**328.3**	286.5
CURRENT ASSETS			
Stocks	13	**128.7**	127.2
Debtors	14	**111.0**	86.9
Investments	15	**0.2**	0.3
Cash at bank and in hand		**52.1**	39.6
		292.0	254.0
CREDITORS			
Amounts falling due within one year	16	**229.5**	184.2
Net current assets		**62.5**	69.8
Total assets less current liabilities		**390.8**	356.3
CREDITORS			
Amounts falling due after more than one year	17	**0.1**	1.3
PROVISIONS FOR LIABILITIES AND CHARGES	19	**15.2**	8.4
Net assets		**375.5**	346.6
CAPITAL AND RESERVES			
Called up share capital	20	**59.9**	59.5
Share premium account	21	**48.6**	43.9
Revaluation reserve	21	**42.1**	42.1
Other reserves	21	**21.9**	19.4
Profit and loss account	21	**203.0**	181.7
Equity shareholders' funds		**375.5**	346.6

These Financial Statements were approved by the Board of Directors on 28 February 2002 and were signed on its behalf by Martin Clifford-King, Director

M K Clifford-King

As at 29 December 2001

	Notes	29 Dec 2001 £m	30 Dec 2000 £m
FIXED ASSETS			
Investments			
Long term loan to subsidiary		727.2	687.2
Investment in own shares		16.9	0.9
Investment in subsidiaries		2.5	0.2
Investment in joint ventures		1.8	-
	12	748.4	688.3
CURRENT ASSETS			
Debtors	14	131.8	437.5
Cash at bank and in hand		35.4	24.6
		167.2	462.1
CREDITORS			
Amounts falling due within one year	16	47.5	487.0
Net current assets/(liabilities)		119.7	(24.9)
Net assets		868.1	663.4
CAPITAL AND RESERVES			
Called up share capital	20	59.9	59.5
Share premium account	21	48.6	43.9
Special reserve	21	482.6	482.6
Profit and loss account	21	277.0	77.4
Equity shareholders' funds		868.1	663.4

These Financial Statements were approved by the Board of Directors on 28 February 2002 and were signed on its behalf by Martin Clifford-King, Director

CONSOLIDATED CASH FLOW STATEMENT

For the 52 weeks to 29 December 2001

	Notes	52 weeks to 29 Dec 2001 £m	52 weeks to 30 Dec 2000 £m
Net cash inflow from operating activities	23	102.8	25.4
Returns on investments and servicing of finance	23	3.2	3.9
Taxation		(11.9)	1.4
Capital expenditure and financial investment	23	(68.3)	(2.9)
Proceeds from sale of subsidiary			13.7
Equity dividends paid		(12.7)	(13.6)
Cash inflow before use of liquid resources and financing		13.1	27.9
Management of liquid resources		0.1	0.1
Financing	23	(0.6)	(18.6)
Increase in cash in the period	23	12.6	9.4

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET CASH

For the 52 weeks to 29 December 2001

	Notes	52 weeks to 29 Dec 2001 £m	52 weeks to 30 Dec 2000 £m
Increase in cash in the period	23	12.6	9.4
Cash movement on:			
debt and lease financing	23	3.2	18.6
cash flow from decrease in liquid resources		(0.1)	(0.1)
Change in net cash resulting from cash flows		15.7	27.9
Effect of foreign exchange rate changes	23	(0.1)	-
Movement in net cash in the period		15.6	27.9
Net cash at the beginning of the period	23	35.5	7.6
Net cash at the end of the period	23	51.1	35.5

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the 52 weeks to 29 December 2001

	Group 52 weeks to 29 Dec 2001 £m	Group 52 weeks to 30 Dec 2000 £m	Company 52 weeks to 29 Dec 2001 £m	Company 52 weeks to 30 Dec 2000 £m
Profit for the financial period	**41.9**	49.5	**214.3**	47.8
Translation differences on foreign currency denominated net investments	**(0.9)**	(0.9)	**-**	-
Total recognised gains and losses relating to the period	**41.0**	48.6	**214.3**	47.8
Prior period adjustment	**-**	1.0	**-**	-
Total recognised gains and losses	**41.0**	49.6	**214.3**	47.8

RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

For the 52 weeks to 29 December 2001

	Group 52 weeks to 29 Dec 2001 £m	Group 52 weeks to 30 Dec 2000 £m	Company 52 weeks to 29 Dec 2001 £m	Company 52 weeks to 30 Dec 2000 £m
Total recognised gains and losses for the financial period	**41.0**	48.6	**214.3**	47.8
Dividends	**(14.7)**	(11.2)	**(14.7)**	(11.2)
Net addition to equity shareholders' funds	**26.3**	37.4	**199.6**	36.6
Equity shareholders' funds at the beginning of the period	**346.6**	309.2	**663.4**	626.8
Share issues	**2.6**	-	**5.1**	-
Equity shareholders' funds at the end of the period	**375.5**	346.6	**868.1**	663.4

NOTE OF HISTORICAL COST PROFITS AND LOSSES

For the 52 weeks to 29 December 2001

	Group 52 weeks to 29 Dec 2001 £m	Group 52 weeks to 30 Dec 2000 £m
Reported profit on ordinary activities before taxation	**58.8**	64.8
Realisation of property revaluation gains	**-**	2.2
Historical cost profit on ordinary activities before taxation	**58.8**	67.0
Historical cost profit for the period retained after taxation and dividends	**27.2**	40.5

1 ACCOUNTING POLICIES

ACCOUNTING CONVENTION
These Financial Statements have been prepared in accordance with applicable Accounting Standards under the historical cost convention as modified by the revaluation of certain land and buildings. The following principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements.

The transitional disclosures associated with the adoption of FRS17 'Retirement Benefits' have been applied. The adoption will not be required until the reporting period ended December 2003 for the Group.

BASIS OF PREPARATION
The Consolidated Financial Statements include the Financial Statements of MFI Furniture Group Plc and all its subsidiary undertakings for the 52 week period ended 29 December 2001, being the Saturday nearest to the Company's accounting reference date of 31 December.

TURNOVER
Turnover represents the net value of goods sold, based on despatch, or services provided to customers outside the Group excluding value added tax.

GOODWILL
Purchased goodwill, arising on the acquisition in 1987 of the assets and business now conducted by MFI UK Limited, is being transferred from other reserves to the profit and loss account reserve over a period of 40 years.

Goodwill arising on all acquisitions prior to 24 April 1999 (MFI's former accounting period) remains eliminated against reserves. This goodwill will be charged to the profit and loss account on subsequent disposal of the business to which it relates.

JOINT VENTURES AND FIXED ASSET INVESTMENTS
Joint ventures are accounted for in the Financial Statements of the Group under the equity method of accounting. Investments are stated at cost less any provision for impairment.

INTEREST IN SHARES OF MFI FURNITURE GROUP PLC
Shares held by the employee share ownership trusts are recorded in the balance sheet within fixed asset investments at cost, including expenses, less amounts written off.

REVALUATION OF FIXED ASSETS
FRS15 'Tangible fixed assets' has been adopted and the directors have decided that, as permitted by the transitional provisions of the standard, properties at valuation have been retained on the basis of their valuation at 1 January 2000. Freehold and long leasehold properties are included in fixed assets at their latest valuation at that date plus subsequent additions at cost, less depreciation. Surpluses on revaluation are included in the revaluation reserve and deficits are realised in the profit and loss account.

DEPRECIATION
Depreciation is provided to reflect the difference between the cost or valuation of tangible fixed assets, excluding freehold land, and their residual value over their estimated useful lives. The current range of useful lives is as follows:

Freehold buildings	50 years
Long leasehold property	over period of lease
Short leasehold property	over period of lease
Fixtures and fittings	1 - 10 years
Plant and machinery	3 - 10 years
Motor vehicles	4 - 5 years

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

DEFERRED TAXATION

Deferred taxation is provided on a full provision basis, without discounting, on all timing differences which have arisen but not reversed at the balance sheet date.

Except where otherwise required by Accounting Standards no timing differences are recognised in respect of:

(a) property revaluation surpluses where there is no commitment to sell the asset
(b) gains on sale of assets where those assets have been rolled over into replacement assets
(c) additional tax which would arise if profits of overseas subsidiaries were distributed.

FINANCIAL INSTRUMENTS

The Group uses derivative financial instruments to manage its exposure to interest rate and foreign exchange risks. These include interest rate swaps and forward currency contracts. Amounts payable or receivable in respect of interest rate derivatives are accrued with net interest payable over the period of the contract. Accounting for foreign currency transactions is described in the foreign currency policy set out below. Note 18 includes disclosures required under FRS13 'Derivatives and other financial instruments'.

FOREIGN CURRENCY

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account. Gains or losses arising from foreign exchange hedged contracts are taken to the profit and loss account in line with the transactions which they are hedging.

For consolidation purposes, the assets and liabilities of overseas subsidiary undertakings are translated at the closing exchange rates, with the profit and loss account being translated at the average exchange rate during the period in which the transactions took place. Exchange differences arising on these translations are taken to reserves.

LEASED ASSETS

Assets held under finance leases are capitalised as tangible fixed assets and depreciated over the shorter of their estimated useful lives and 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 effective rate of interest.

Benefits receivable as incentives to enter into property leases, being reverse premiums and post-opening rent-free periods, are spread evenly over the period to the first rent review date. Pre-opening expenses are charged to the profit and loss account as incurred.

PENSIONS

The Group operates two defined benefit funded pension schemes for employees. The pension costs are assessed in accordance with the advice of an independent qualified actuary and are charged to the profit and loss account so as to spread the costs over the expected service lives of participating employees. The pension scheme is subject to actuarial valuation every three years.

The accounting policy follows the funding policy except where an actuarial valuation indicates a surplus or deficiency. Such surpluses or deficiencies are, for funding purposes, dealt with as advised by the actuary. For accounting purposes they are spread over the expected remaining service lives of the participating employees.

SEGMENTAL ANALYSIS

	Before exceptional items £m	Exceptional items £m	52 weeks to 29 Dec 2001 £m	Before exceptional items £m	Exceptional items £m	52 weeks to 30 Dec 2000 £m
TURNOVER[1]						
UK Retail			765.9			671.4
Howden Joinery			224.5			145.2
France			84.2			79.7
Other operations			3.4			4.3
			1,078.0			900.6
Joint venture operations			0.2			-
Total			1,078.2			900.6
PROFIT BEFORE TAXATION						
UK Retail	34.9	(4.7)	30.2	20.6	8.7	29.3
Howden Joinery	24.5	-	24.5	15.3	-	15.3
France	3.0	-	3.0	5.4	(0.5)	4.9
Other operations	(0.5)	-	(0.5)	(0.4)	-	(0.4)
	61.9	(4.7)	57.2	40.9	8.2	49.1
Joint venture operations	(0.9)	-	(0.9)	-	-	-
Operating profit/(loss)	61.0	(4.7)	56.3	40.9	8.2	49.1
Profit on disposal of a subsidiary[2]				-	11.2	11.2
Profit/(loss) on disposal of fixed assets	0.5	(1.2)	(0.7)	0.5	-	0.5
Net interest receivable	3.2	-	3.2	4.0	-	4.0
Profit/(loss) before taxation	64.7	(5.9)	58.8	45.4	19.4	64.8
NET ASSETS						
UK Retail			219.4			233.4
Howden Joinery			74.3			58.5
France			17.9			23.5
Other operations			0.6			1.1
Joint venture			0.9			-
			313.1			316.5
Unallocated net assets[3]			62.4			30.1
Total			375.5			346.6

1. The analysis of turnover by destination is not materially different to the analysis of turnover by origin.
2. The sale of Hygena Packaging Limited was completed on 4 January 2000. Accordingly no turnover or operating profit is reflected above.
3. Unallocated net assets comprise balances in respect of dividends, cash and borrowings, and investment in own shares.

3 STAFF COSTS

The aggregate payroll costs of employees, including directors, were:

	52 weeks to 29 Dec 2001 £m	52 weeks to 30 Dec 2000 £m
Wages and salaries	211.1	183.1
Social security costs	19.1	16.4
Other pension costs (note 22)	10.4	8.7
Redundancy costs	1.8	0.4
	242.4	208.6

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

	52 weeks to 29 Dec 2001 Number	52 weeks to 30 Dec 2000 Number
UK Retail	5,009	4,941
Howden Joinery	1,378	958
France	728	670
Manufacturing	2,762	2,737
Other operations	50	57
	9,927	9,363

Details of directors' remuneration including pension entitlements and share option interests are disclosed in the Directors' Report on Remuneration on pages 38 to 44.

4 OPERATING PROFIT

Operating profit from continuing activities is stated after charging:

	52 weeks to 29 Dec 2001 £m	52 weeks to 30 Dec 2000 £m
Operating lease payments		
- Hire of plant and equipment	8.4	10.8
- Land and buildings	77.0	64.7
Auditors' remuneration		
- Audit work	0.3	0.4
- Other fees paid to the auditor and its associates*	2.0	7.9
And after crediting:		
Rent receivable	16.4	16.4

Auditors' remuneration in respect of the statutory audit of the Company was £2,000 (2000 - £2,000).
*For the period ended 30 December 2000, £2.9m has been charged to exceptional costs.

5 INTEREST RECEIVABLE AND SIMILAR INCOME

	52 weeks to 29 Dec 2001 £m	52 weeks to 30 Dec 2000 £m
Bank interest receivable	4.2	4.3
Other sundry income		0.5
	4.2	4.8

6 INTEREST PAYABLE AND SIMILAR CHARGES

	52 weeks to 29 Dec 2001 £m	52 weeks to 30 Dec 2000 £m
Bank loans	1.0	0.8

7 EXCEPTIONAL ITEMS

The exceptional items charged in the consolidated profit and loss account for the 52 weeks to 29 December 2001 arose from the closure of the manufacturing business at Hull and the partial relocation to other manufacturing sites. The exceptional credit for the 52 weeks to 30 December 2000 relates principally to the restructuring of the UK retail business and the sale of the Hygena Packaging Limited subsidiary on 4 January 2000. They are analysed as follows:

	52 weeks to 29 Dec 2001 £m	52 weeks to 30 Dec 2000 £m
Reorganisation of manufacturing division	(5.9)	-
Re-occupation of Northampton Distribution Centre	-	12.7
Reorganisation of supply chain and structural change costs		(4.0)
Disposal of Spanish operations		(0.5)
Total operating exceptionals	(5.9)	8.2
Sale of Hygena Packaging Limited		11.2
	(5.9)	**19.4**

8 TAX

	Pre Exceptional £m	Exceptionals £m	52 weeks to 29 Dec 2001 £m	Pre Exceptional £m	Exceptionals £m	52 weeks to 30 Dec 2000 £m
Taxation on profit for the period comprises:						
Corporation tax						
UK corporation tax at 30.0% (2000 – 30.0%)	18.4	(0.5)	17.9	9.2	2.6	11.8
Adjustments relating to prior periods	(1.3)	-	(1.3)	1.5	-	1.5
Deferred taxation						
Origination and reversal of timing differences	1.6	(1.3)	0.3	2.0	-	2.0
	18.7	(1.8)	16.9	12.7	2.6	15.3

The effective taxation rate is 28.9% (2000 – 28.0%) on profits before exceptional items.

Factors affecting current period corporation tax

The current period corporation tax assessed for the period is lower than the standard rate of corporation tax of 30% (2000 – 30%) for the following reasons:

	52 weeks to 29 Dec 2001 £m	52 weeks to 30 Dec 2000 £m
Profit before tax for the period	58.8	64.8
Corporation tax at the standard rate	17.6	19.4
Tax effect arising from the following:		
Non tax deductable expenditure (including depreciation)	2.6	2.9
Net profits covered by available losses	(0.2)	(8.5)
Provision for prior taxation matters – Corporation tax	(1.3)	1.5
– Deferred taxation	0.7	-
Tax effect of sharesave accrual	(2.5)	-
	16.9	15.3

Factors that may affect future tax charges

The effective rate of tax is likely to rise to nearer the current rate of UK corporation tax of 30%.

9 EQUITY DIVIDENDS

	52 weeks to 29 Dec 2001 £m	52 weeks to 30 Dec 2000 £m
Interim paid – 1.2 pence per share (2000 – 0.9 pence per share)	6.9	5.3
Final proposed – 1.3 pence per share (2000 – 1.0 pence per share)	7.8	5.9
Total dividend – 2.5 pence per share (2000 – 1.9 pence per share)	14.7	11.2

10 EARNINGS PER SHARE

	52 weeks to 29 December 2001			52 weeks to 30 December 2000		
	Earnings £m	Weighted average number of shares m	Earnings per share p	Earnings £m	Weighted average number of shares m	Earnings per share p
Basic earnings per share						
Earnings attributable to ordinary shares	41.9	599.5	7.0	49.5	594.9	8.3
Effect of dilutive share options	-	21.8	(0.3)	-	9.8	(0.1)
Diluted earnings per share	**41.9**	**621.3**	**6.7**	49.5	604.7	8.2
Reconciliation of earnings per share to exclude exceptional items						
Basic earnings per share	41.9	599.5	7.0	49.5	594.9	8.3
Exceptional items net of tax	4.1	-	0.7	(16.8)	-	(2.8)
Basic earnings per share before exceptional items	**46.0**	**599.5**	**7.7**	32.7	594.9	5.5
Diluted earnings per share	41.9	621.3	6.7	49.5	604.7	8.2
Exceptional items net of tax	4.1	-	0.7	(16.8)	-	(2.8)
Diluted earnings per share before exceptional items	**46.0**	**621.3**	**7.4**	32.7	604.7	5.4

11 TANGIBLE FIXED ASSETS

	Freehold properties £m	Leasehold properties Over 50 years £m	Leasehold properties under 50 years £m	Plant and machinery £m	Fixtures and fittings £m	Total £m
GROUP						
Cost or valuation						
At 30 December 2000	122.4	46.3	49.5	201.7	101.8	521.7
Exchange adjustments	(0.2)	-	(0.1)	-	(0.6)	(0.9)
Additions	0.6	0.1	7.5	17.0	32.8	58.0
Disposals	(1.1)	-	(1.7)	(2.3)	(4.0)	(9.1)
Reclassifications	(1.7)	1.6	(0.3)	(9.0)	9.4	-
At 29 December 2001	120.0	48.0	54.9	207.4	139.4	569.7
Depreciation						
At 30 December 2000	3.9	1.2	17.3	148.8	74.6	245.8
Exchange adjustments	-	-	-	-	(0.6)	(0.6)
Charge for the period	1.4	0.9	2.7	12.6	13.3	30.9
Disposals	(0.5)	-	(0.9)	(1.9)	(3.7)	(7.0)
Reclassifications	(0.2)	(0.1)	-	(6.0)	6.3	-
At 29 December 2001	4.6	2.0	19.1	153.5	89.9	269.1
Net book value at 29 December 2001	**115.4**	**46.0**	**35.8**	**53.9**	**49.5**	**300.6**
Net book value at 30 December 2000	118.5	45.1	32.2	52.9	27.2	275.9

Included in plant and machinery at 29 December 2001 were capitalised leases with a cost of £3.3m (2000 - £4.1m), depreciation of £0.6m (2000 - £1.1m) and net book value of £2.7m (2000 - £3.0m). Depreciation charged during the period in respect of these assets amounted to £0.2m (2000 - £0.2m).

Freehold properties at cost or valuation includes land of £55.1m (2000 – £56.5m) on which depreciation is not provided.

The directors have decided that, as permitted by FRS15 'Tangible Fixed Assets', properties at valuation will be retained on the basis of their valuation at 1 January 2000. The last revaluation performed was in April 1999 when the Group's UK freehold land and buildings together with the UK long leasehold properties were valued by Fisher Wilson Property Consultants and King Sturge & Co who are both external qualified valuers and members of the Royal Institute of Chartered Surveyors ('RICS'). Properties were valued on an open market value for existing use or depreciated replacement cost bases, as appropriate, in accordance with the 'RICS' Appraisal and Valuation Manual. Vacant properties were valued on an open market value basis.

Freehold and long leasehold properties at 29 December 2001 comprise:

	Freehold properties £m	Leasehold properties over 50 years £m	Overseas freehold and long leasehold £m	Total £m
Cost	107.4	34.3	9.1	150.8
Accumulated depreciation	(13.6)	(8.5)	(2.2)	(24.3)
Historical book value	93.8	25.8	6.9	126.5
1999 revaluation surplus	20.3	21.8	-	42.1
1999 revaluation deficits	(5.6)	(1.6)	-	(7.2)
Net book value at 29 December 2001	**108.5**	**46.0**	**6.9**	**161.4**

12 FIXED ASSET INVESTMENTS

Group	Investment in own shares (note 20) £m	Shares in subsidiary undertakings at cost £m	Long term loans to subsidiary undertakings £m	Other unlisted investments £m	Share of joint venture[1] Gross assets £m	Share of joint venture[1] Gross liabilities £m	Total £m
At 30 December 2000	2.6	-	-	8.0	-	-	10.6
Additions	18.0	-	-	-	1.1	(0.2)	18.9
Amortised	(1.8)	-	-	-	-	-	(1.8)
At 29 December 2001	**18.8**	**-**	**-**	**8.0**	**1.1**	**(0.2)**	**27.7**
Company							
At 30 December 2000	0.9	0.2	687.2	-	-	-	688.3
Additions	16.1	2.3	40.0	1.8	-	-	60.2
Amortised	(0.1)	-	-	-	-	-	(0.1)
At 29 December 2001	**16.9**	**2.5**	**727.2**	**1.8**	[illegible]	[illegible]	**748.4**

[1] The joint venture net assets have not been grossed up on the face of the balance sheet as the amounts are not yet material.
Details of principal subsidiary undertakings are given on page 76.

13 STOCKS

	Group 29 Dec 2001 £m	Group 30 Dec 2000 £m
Raw materials	15.4	10.7
Work in progress	6.3	6.8
Finished goods and goods for resale	107.0	109.7
	128.7	127.2

14 DEBTORS

	Group 29 Dec 2001 £m	Group 30 Dec 2000 £m	Company 29 Dec 2001 £m	Company 30 Dec 2000 £m
Trade debtors	63.7	39.4	[illegible]	-
Amounts owed by subsidiary undertakings	-	-	131.8	437.5
Other debtors	5.1	0.4	-	-
Prepayments and accrued income	41.3	46.2	-	-
Total amounts falling due within one year	**110.1**	86.0	**131.8**	437.5
Other debtors	**0.9**	0.9	-	-
Total amounts falling due after more than one year	**0.9**	0.9	-	-
Total debtors	**111.0**	86.9	**131.8**	437.5

15 CURRENT ASSET INVESTMENTS

	Group 29 Dec 2001 £m	Group 30 Dec 2000 £m
Money fund deposits	0.2	0.3

16 CREDITORS

Amounts falling due within one year	Group 29 Dec 2001 £m	Group 30 Dec 2000 £m	Company 29 Dec 2001 £m	Company 30 Dec 2000 £m
Borrowings (note 18)	0.8	3.1	-	-
Trade creditors	84.2	66.7	[illegible]	-
Amounts owed to subsidiary undertakings	[illegible]	-	39.6	480.4
Corporation tax	15.7	10.9	-	0.7
Other taxes and social security	15.0	9.4	[illegible]	-
Obligations under finance leases (note 25)	0.4	0.3	[illegible]	-
Proposed dividends	7.9	5.9	7.9	5.9
Other creditors	10.6	4.7	-	-
Accruals and deferred income	94.9	83.2	-	-
	229.5	184.2	47.5	487.0

17 CREDITORS

Amounts falling due after more than one year	Group 29 Dec 2001 £m	Group 30 Dec 2000 £m
Borrowings (note 18)	-	0.8
Obligations under finance leases – within five years (note 25)	-	0.2
Other creditors	0.1	0.3
	0.1	1.3

18 FINANCIAL INSTRUMENTS

A discussion of treasury policy is given in the Financial review on pages 30 to 33. Short term debtors and creditors have been excluded from all the following disclosures, other than currency risk disclosures.

Borrowings	Group 29 Dec 2001 £m	Group 30 Dec 2000 £m
Loans or instalments due within one year	**0.8**	3.1
Loans or instalments payable between one and two years	**-**	0.8
Total borrowings	**0.8**	3.9

All borrowings are unsecured.

Maturity of other financial liabilities

Amounts falling due:	Group 29 Dec 2001 £m	Group 30 Dec 2000 £m
In one year or less or on demand	**0.4**	0.3
In more than one year but not more than two years	**0.1**	0.2
In more than two years but not more than five years	**-**	0.3
	0.5	0.8

Other financial liabilities include finance leases and other creditors due after one year. Included in other financial liabilities are finance leases of £0.1m (2000 - £0.3m) which are denominated in Euros and £0.3m (2000 - £0.2m) in Sterling bearing a fixed interest rate.

Currency and interest rate risk profile of borrowings in Sterling

	Borrowings £m	Total at variable rate £m	Total at fixed rate £m	Weighted average interest rate %	Weighted average period for which rate is fixed Years
At 30 December 2000	3.9	-	3.9	7.0	1.0
At 29 December 2001	**0.8**	**-**	**0.8**	**7.0**	**0.3**

18 FINANCIAL INSTRUMENTS (continued)

The following summary shows the Group's currency exposures that give rise to currency gains and losses recognised in the profit and loss account, arising from exposures where monetary assets and liabilities of the Group are not denominated in the operating currency of the subsidiary company concerned.

Net foreign monetary (liabilities)/assets

				29 Dec 2001				30 Dec 2000
Functional currency of entity	Sterling £m	Euro £m	Others £m	Total £m	Sterling £m	Euro £m	Others £m	Total £m
Sterling	-	(10.8)	(1.7)	(12.5)	-	(7.1)	(2.4)	(9.5)
Euro	(11.3)	-	-	(11.3)	(10.6)	-	-	(10.6)

Currency and interest rate risk profile of financial assets	Cash at bank and in hand £m	Short term deposits £m	29 Dec 2001 Total £m	Cash at bank and in hand £m	Short term deposits £m	30 Dec 2000 Total £m
Sterling	47.1	0.2	47.3	34.7	0.3	35.0
Euro	5.0	-	5.0	4.9	-	4.9
	52.1	0.2	52.3	39.6	0.3	39.9

All cash and deposits earn floating rate interest based on relevant national LIBID equivalents.

	29 Dec 2001		30 Dec 2000	
Primary financial instruments held or issued to finance the Group's operations	Book Value £m	Fair Value £m	Book Value £m	Fair Value £m
Cash at bank in hand *	52.1	52.1	39.6	39.6
Short term deposits	0.2	0.2	0.3	0.3
Short term borrowings	(0.8)	(0.8)	(3.1)	(3.1)
Medium and long term borrowings	-	-	(0.8)	(0.8)
Other financial liabilities	(0.5)	(0.5)	(0.8)	(0.8)

*Cash at bank and in hand is the result of netting off cash book overdrafts with cash book balances held at the same bank.

	29 Dec 2001		30 Dec 2000	
Derivative financial instruments held to manage the interest rate and currency profile	Book Value £m	Fair Value £m	Book Value £m	Fair Value £m
Foreign currency forward contracts			-	0.7

Other financial liabilities, short term borrowings, cash at bank and in hand and short term deposits: the fair value approximates to the carrying value due to the short maturity periods of these financial instruments. Medium and long term borrowings: the fair value is based on market values or where these are not available, on the quoted market price of comparable debt issued by other companies.

The unrecognised profit on forward foreign exchange contracts as at 29 December 2001 amounted to £nil (2000 - £0.7m).

19 PROVISIONS FOR LIABILITIES AND CHARGES

Group	Pension provision £m	Property provision £m	Deferred taxation (note 8) £m	Total £m
At 30 December 2000	7.4	-	1.0	8.4
Created in the period	2.7	-	0.3	3.0
Transfer from creditors	-	3.8	-	3.8
At 29 December 2001	**10.1**	**3.8**	**1.3**	**15.2**

The deferred taxation liability is analysed as follows:

	29 Dec 2001 £m	30 Dec 2000 £m
Accelerated capital allowances	9.8	7.2
Other timing differences	(8.5)	(6.2)
	1.3	1.0

The only timing differences not recognised are in respect of (i) property revaluation surpluses amounting to £12.6m (2000 - £12.6m) and (ii) gains on the sale of assets which have been rolled over into replacement assets, net of available losses, which amount to £4.9m (2000 - £6.4m).

20 CALLED UP SHARE CAPITAL

Ordinary Shares of 10p each

Authorised	Number	£m
At the beginning and end of the period	775,152,000	77.5

Allotted & Fully Paid	Number	£m
At 30 December 2000	594,893,021	59.5
Issued during the period	4,581,569	0.4
At 29 December 2001	**599,474,590**	**59.9**

20 CALLED UP SHARE CAPITAL (continued)

At 29 December 2001 the following options were in existence:

Share Scheme	Date Granted	No of Options	Exercise Price	Option Period
Executive	17 July 1992	1,456,200	115p	July 1995 - July 2002
Share Options	15 December 1994	102,800	124p	Dec 1997 - Dec 2004
	3 July 1995	811,600	115p	July 1998 - July 2005
	2 July 1996	434,100	180p	July 1999 - July 2003
	1 July 1997	148,300	129p	July 2000 - July 2004
	1 July 1998	3,372,200	63p	July 2001 - July 2005
	5 March 1999	785,000	35p	Mar 2002 - Mar 2006
	6 September 1999	705,000	39p	Sept 2002 - Sept 2006
	27 September 1999	6,479,800	42p	Sept 2002 - Sept 2009
	28 September 2000	1,040,000	63p	Sept 2003 - Sept 2010
	13 November 2000	350,000	56p	Nov 2003 - Nov 2010
	22 December 2000	583,941	68.5p	Dec 2003 - Dec 2010
	15 January 2001	590,000	79.25p	Jan 2004 - Jan 2011
	20 March 2001	320,000	96.75p	Mar 2004 - Mar 2011
	14 May 2001	160,000	123p	May 2004 - May 2011
Performance	19 May 2000	7,010,784	68.25p	May 2003 - May 2010
Options	8 June 2000	23,619	64.1p	Jun 2003 - Jun 2010
	22 December 2000	1,167,883	68.5p	Dec 2003 - Dec 2010
	30 May 2001	3,446,895	124.75p	May 2004 - May 2011
	12 June 2001	466,470	131.5p	Jun 2004 - Jun 2011
Sharesave	7 August 1998	204,840	51p	Sept 2001 - Mar 2002
Options	19 August 1999	9,755,962	30p	Sept 2002 - Mar 2003

	As at 30 Dec 2000	Options lapsed	Options granted	Options exercised	As at 29 Dec 2001
Executive Share Options					
17 July 1992	1,526,900	-	-	(70,700)	**1,456,200**
15 December 1994	102,800	-	-	-	**102,800**
3 July 1995	886,900	-	-	(75,300)	**811,600**
2 July 1996	434,100	-	-	-	**434,100**
1 July 1997	148,300	-	-	-	**148,300**
1 July 1998	3,424,200	-	-	(52,000)	**3,372,200**
5 March 1999	785,000	-	-	-	**785,000**
6 September 1999	705,000	-	-	-	**705,000**
27 September 1999	6,657,900	-	-	(178,100)	**6,479,800**
28 September 2000	1,040,000	-	-	-	**1,040,000**
13 November 2000	350,000	-	-	-	**350,000**
22 December 2000	583,941	-	-	-	**583,941**
15 January 2001	-	-	590,000	-	**590,000**
20 March 2001	-	-	320,000	-	**320,000**
14 May 2001	-	-	160,000	-	**160,000**
Performance Options					
19 May 2000	7,010,784	-	-	-	**7,010,784**
8 June 2000	23,619	-	-	-	**23,619**
22 December 2000	1,167,883	-	-	-	**1,167,883**
30 May 2001	-	-	3,446,895	-	**3,446,895**
12 June 2001	-	-	466,470	-	**466,470**
	24,847,327	-	4,983,365	(376,100)	**29,454,592**

20 CALLED UP SHARE CAPITAL (continued)

	As at 30 Dec 2000	Options lapsed	Options granted	Options exercised	As at 29 Dec 2001
Sharesave Options					
5 September 1997	339,293	(339,293)	-	-	-
7 August 1998	5,589,389	(875,120)	-	(4,509,429)	204,840
19 August 1999	10,312,757	(483,821)	-	(72,974)	9,755,962
	41,088,766	(1,698,234)	4,983,365	(4,958,503)	39,415,394

Employee Share Schemes (note 12)

The Company maintains two employee share ownership trusts, which hold shares in MFI Furniture Group Plc. These are summarised as follows:

Name of Trust	Shareholding (number of shares)	Value on 29 Dec 2001 £000's	Dividends waived
MFI Employee Share Trust	22,303,418	31,225	Yes
MFI Employee Benefit Trust	190,000	266	No

The trusts have been funded by the employing companies in the Group to acquire shares in MFI Furniture Group Plc. The cost of running these trusts is included in the profit and loss account. The Trusts undertake the following activities:

MFI Employee Share Trust

- to transfer shares to executive directors when shares vest under the MFI Performance Share Plan
- to transfer shares to employees on exercise of various options granted under (i) an unapproved executive share option scheme and (ii) the MFI Performance Share Plan.

MFI Employee Benefit Trust

- to transfer shares to employees under the MFI Group Profit Sharing Trust.

21 RESERVES

Group	Share premium account £m	Other reserves £m	Revaluation reserve £m	Profit and Loss account £m
At 30 December 2000	43.9	19.4	42.1	181.7
Retained profit for the period	-	-	-	27.2
Share Issue	4.7	-	-	(2.5)
Amortisation of goodwill	-	2.5	-	(2.5)
Foreign exchange and other adjustments	-	-	-	(0.9)
At 29 December 2001	**48.6**	**21.9**	**42.1**	**203.0**

The cumulative amount of goodwill written off against Group reserves in respect of acquisitions prior to 24 April 1999, when FRS10 'Goodwill and intangible assets' was adopted, amounts to £504.6m (30 December 2000 - £504.6m).

During 2001 £5.1m was received by MFI Furniture Group Plc on the issue of shares in respect of the exercise of share options awarded under various share option plans. Employees paid £2.6m to the Group for the issue of shares and the balance of £2.5m comprised contributions to the qualifying employee share trust (QUEST) from subsidiary undertakings.

Company	Share premium account £m	Special reserve £m	Profit and loss account £m
At 30 December 2000	43.9	482.6	77.4
Retained profit for the period	-	-	199.6
Share Issue	4.7	-	-
At 29 December 2001	**48.6**	**482.6**	**277.0**

These Financial Statements do not include a separate profit and loss account for MFI Furniture Group Plc (the parent company) as permitted by Section 230 of the Companies Act 1985.

The profit for the financial period dealt with in the Financial Statements of the Company was £214.3m (2000 - £47.8m).

The special reserve created as a result of a capital reduction in November 1993 is not distributable.

22

PENSIONS

The Group operates two funded schemes which provide benefits based on the final pensionable pay of participating employees. 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 charges are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent finalised valuations of the schemes were as at 6 April 1999.

This valuation showed that the two schemes had an aggregate market value of assets of £207.4m at that time and that the actuarial value of those assets represented 115% of the benefits that had accrued to members, after allowing for future expected increases in earnings. This surplus, taking into account the pension provision in the consolidated balance sheet (see note 19), is being credited to the profit and loss account over the expected remaining service lives of the members of the scheme.

The main actuarial assumptions used include an investment return of 8% per annum, rates of salary increase of 6% per annum, rates of dividend growth of 4.5% per annum and rates up to 5% per annum for pensions in payment.

The transitional disclosures associated with the adoption of FRS17 'Retirement Benefits' have been applied for the period ended 29 December 2001. The requirements of FRS17 are that a pension scheme deficit must be applied against distributable reserves. The adoption of the standard is not required until the Group's reporting period ending December 2003.

The total pension charge for the period was £10.4m (2000 - £8.7m).

The actuarial valuation was updated to 29 December 2001 by a qualified actuary and is reported below. The major assumptions used for this update were:

	29 Dec 2001
Rate of increase in salaries	4.0%
Discount rate	6.5%
Inflation assumption	2.5%

The assets in the scheme and the expected rate of return were:

	29 Dec 2001 Long term rate of return expected	Value £m
Equities	8.5%	199.8
Bonds	4.0%	47.8
Cash	2.5%	10.5
Total market value of assets		258.1

	29 Dec 2001
Total market value of assets	258.1
Present value of scheme liabilities	(303.5)
Deficit in the scheme	(45.4)
Related deferred tax liability	13.6
Net pension scheme liability	(31.8)

The net pension scheme liability under FRS17 would reduce Group reserves under the adoption of the standard.

23 CONSOLIDATED CASH FLOW STATEMENT

a) Reconciliation of profit on ordinary activities before interest to operating cash flows	**52 weeks to 29 Dec 2001 £m**	52 weeks to 30 Dec 2000 £m
Operating profit before exceptional items	**61.9**	40.9
Depreciation of tangible fixed assets	**30.9**	30.4
Amortisation of fixed asset investment	**1.8**	1.1
Increase in stocks	**(1.2)**	(35.4)
Increase in debtors	**(24.1)**	(28.4)
Increase in creditors and provisions	**34.9**	21.3
Net cash inflow – pre-exceptional operating activities	**104.2**	29.9
Net cash outflow – operating exceptionals	**(1.4)**	(4.5)
Net cash inflow from operating activities	**102.8**	**25.4**

b) Analysis of cash flows for headings netted in the cash flow statement	**52 weeks to 29 Dec 2001 £m**	52 weeks to 30 Dec 2000 £m
Returns on investments and servicing of finance		
Interest received	**4.2**	4.8
Interest paid	**(1.0)**	(0.9)
Net inflow on investments and servicing of finance	**3.2**	3.9
Capital expenditure and financial investment		
Payments to acquire tangible fixed assets	**(51.1)**	(35.4)
Receipts from sales of tangible fixed assets	**2.6**	35.0
Payment to acquire own shares	**(18.0)**	(2.5)
Investment in joint ventures	**(1.8)**	-
Net outflow for capital expenditure and financial investment	**(68.3)**	(2.9)
Financing		
Share issue	**2.6**	-
Decrease in bank finance	**(3.1)**	(18.7)
Capital element of finance lease rental payments	**(0.1)**	0.1
Net outflow from financing	**(0.6)**	(18.6)

c) Analysis of net cash	Cash at bank £m	Current asset investments £m	Revolving credit facility £m	Term loans £m	Net cash £m	Finance leases £m	Total net cash £m
As at 1 January 2000	30.2	0.4	(15.0)	(7.6)	8.0	(0.4)	7.6
Cash flow	9.4	(0.1)	15.0	3.7	28.0	(0.1)	27.9
As at 30 December 2000	39.6	0.3	-	(3.9)	36.0	(0.5)	35.5
Cash flow	12.6	(0.1)	-	3.1	15.6	0.1	15.7
Exchange difference	(0.1)	-	-	-	(0.1)	-	(0.1)
As at 29 December 2001	**52.1**	**0.2**	**-**	**(0.8)**	**51.5**	**(0.4)**	**51.1**

24 CONTINGENT LIABILITIES

	Company 29 Dec 2001 £m	Company 30 Dec 2000 £m
Group VAT registration cross guarantee	8.4	4.0

Members of the Group have assigned UK property leases in the normal course of business. Should the assignees fail to fulfil any obligations in respect of these leases, members of the Group may be liable for those defaults. The number of such claims arising to date has been small and the cost, which is charged to profit and loss as it arises, has not been material.

25 FINANCIAL COMMITMENTS

Group

Capital commitments

The estimated amount of capital expenditure at 29 December 2001 authorised by the Board for which no provision has been made in the financial statements is as follows:

	29 Dec 2001 £m	30 Dec 2000 £m
Contracted for	0.9	1.7

Leasing commitments

Obligations entered into in respect of finance leases, net of future interest, are set out below:

Finance leases which expire:	29 Dec 2001 £m	30 Dec 2000 £m
Within one year	0.4	0.3
Between one and five years		0.2
	0.4	0.5

At 29 December 2001 the annual commitments under operating leases were as set out below:

Operating leases which expire:	Land & buildings 29 Dec 2001 £m	Land & buildings 30 Dec 2000 £m	Other assets 29 Dec 2001 £m	Other assets 30 Dec 2000 £m
Within one year	1.5	1.3	3.3	6.7
Between one and five years	4.2	3.4	6.8	10.2
After five years	74.2	65.8	0.3	0.3
	79.9	70.5	10.4	17.2

Company

The parent company had no capital or leasing commitments at 29 December 2001 (2000 - £nil).

26 RELATED PARTY TRANSACTIONS

Other than a £1.8m investment in joint ventures, there were no material transactions between the Company and Group and related parties.