

Preliminary results for the 52 weeks to 25th February 2006

Year of significant change against a difficult trading background

(Years to February)	2006	2005	% Change
Turnover	£268.6m	£276.1m	-2.7%
Operating Profit*	£3.5m	£6.9m	-49%
Profit before tax*	£3.3m	£6.8m	-51%
<small>*before exceptionals</small>			
Exceptional items	(£6.6m)	£0.7m	–
Pre-tax (loss)/profit	(£3.3m)	£7.5m	–
EPS	(1.61p)	2.86p	–
Capex	£10.3m	£18.1m	–
Net cash	£11.8m	£15.4m	–

Highlights

- 2005/6 was a year of significant change against a difficult trading background
- Sales were down by 2.7%, equivalent to a 0.7% like-for-like sales decrease
- During H1, completed move to new purpose-built Distribution Centre
- A further 41 stores converted during the year to the ...instore format
- 141 ...instore outlets at year end, accounted for approximately 50% of sales in 2005/6
- However, performance of the new format stores has, in some cases, been below expectation
- Profit before exceptional items fell by 51%, from £6.8m to £3.3m
- Under new CEO, thorough review of business and strategy in progress
- Balance sheet remains highly liquid: net cash £11.8m vs. February 2005 £15.4m.
- First annual results reported under IFRS; comparatives restated.

Christo Wiese, Chairman, commented:

“It is obviously disappointing that, for the period to 25 February 2006, I have to report that the Group has moved into a loss-making position. Despite continued progress toward the delivery of our stated strategy, and a third year of major change within the business, we have not yet seen the anticipated returns from our investment. However, under our new CEO Trevor Coates, a thorough review of the business is under way with the aim of reviewing both its strategic direction and operating efficiencies.

“Despite the disappointments of the past year and the significant challenges which lie ahead, the board remains confident of the long-term success of the Group.”

Enquiries

Instore plc: Trevor M. Coates, Chief Executive, Tel: 0870 240 4600
 ReputationInc: Tom Wyatt, Tel 020 7758 2800

Chairman's Review

It is obviously disappointing that, for the period to 25 February 2006, I have to report that the Group has moved into a loss-making position. Despite continued progress toward the delivery of our stated strategy, and a third year of major change within the business, we have not seen the anticipated returns from our investment coming through.

During the first half we completed the successful move to our new purpose built Distribution Centre, a significant investment which was always seen as pivotal in re-vitalising the business. This new facility not only provides the potential to service our existing store estate ever more efficiently, but also to service any future expansion of that estate. However, while the Distribution Centre has operated in an effective manner and our stores have been adequately serviced, it has not operated with the required efficiency, resulting in operating costs running ahead of plan.

Similarly the roll out of the ...instore format, the second key element of the strategy, has continued. We now have a total of 141 outlets trading under this fascia, with 41 stores converted and 13 new stores opened during the year. However the performance of this format has been below expectations in some cases, and the anticipated performance differentials between the ...instore and Poundstretcher estates are yet to materialise.

Following the end of the period, Angus Monro decided that it was an appropriate time for him to step down as Chief Executive Officer. I would like to thank Angus for his contribution and to wish him well for the future.

I am delighted that we were able to announce Trevor Coates' appointment to the role of Chief Executive Officer at the end of February. Trevor has a wealth of experience in retailing and the value market both in the UK and overseas, and while he faces significant challenges, not least due to the continuing difficult retail climate, his credentials will undoubtedly enable the Group to move onto the next stage of its development. I welcome Trevor to the Board and wish him every success as he continues with the process of thoroughly reviewing the business and refining both its strategic direction and operating efficiencies.

Finally, I would again like to thank all our staff for their continued support and hard work. Clearly the difficulties experienced during the year have affected all our employees, but they have risen to the challenges faced and will, I know, continue to do so in the year ahead.

In conclusion I would stress that, despite the disappointments of the past year and the significant challenges that lie ahead, your Board remains confident of the future long-term success of the Group.

Operational Review

The last year has seen further significant changes in the business, as we have pressed ahead with implementing our stated strategy. In particular, we completed our successful move to our new Distribution Centre and Head Office at Huddersfield. This superb, purpose-built facility provides the Group with a strong platform to support the future growth of the business.

The move from our previous multiple premises was not however entirely without difficulty and trading in the first quarter of the year was disrupted by the process of transition.

The trading background over the last year has admittedly been a difficult one, but we have recognised that we have work to do to refine and improve our trading formats to produce the proper return on our already significant investment in modernising and revamping the business.

A thorough review of every area of the business is currently under way, led by our new Chief Executive Officer, Trevor M. Coates.

International Financial Reporting Standards (IFRS)

These are the first set of consolidated annual financial statements reported under IFRS. As a result all comparatives in the financial information above are made against the 52-week period ended 26 February 2005 as restated, unless otherwise stated.

Sales

In the 52 week period ended 25 February 2006, Group sales amounted to £268.6 million (2005: £276.1 million). The overall sales reduction of 2.7% reflected the disruption referred to above during the move to our new distribution facility in Huddersfield. Also, certain loss-making stores were closed in the period under review. Like for like sales for the 52 weeks were negative at -0.7%. (2005: positive at 2.5%).

Profit

Group operating profit before exceptional items decreased to £3.5 million (2005: £6.9 million). After net exceptional charges of £6.6 million (2005: net exceptional credit of £0.7 million) total operating loss was £3.1 million (2005: £7.6 million operating profit).

Gross profit (percentage of sales) before exceptional items increased from 12.9% to 13.2%. This reflected margin gains offset by increases to fixed costs within our retail estate. Distribution costs before exceptional items increased from 5.3% to 6.1% primarily as a result of lower initial productivity rates on transition of our distribution facilities, which adversely affected stock dispatch to branches. In addition, higher levels of staffing were required for the new Distribution facility during our first Christmas peak. Administrative expenses before exceptional items increased from 5.2% to 5.7% largely as a result of the increased costs of the new Head Office facility at Huddersfield.

Profit before tax and exceptional items reduced to £3.3 million (2005: profit before tax and exceptional items of £6.9 million) after net interest payable of £0.2 million (2005: net interest payable of £0.05 million).

The Group had net exceptional charges in the period totalling £6.6 million (2004: net exceptional credits of £0.7 million). This is made up of four separate items:

Firstly, as we have reported previously, during the period, the directors conducted a detailed commercial assessment of all stores, incorporating not just basic trading performance but also their location, demographics and ability to convert to the ...instore brand. This led to 11 stores being identified for closure. Based on advice received from independent consultants an exceptional charge of £2.9 million was provided for in the financial statements for the likely costs to be incurred on disposal.

Secondly, as a result of the transition from previous distribution facilities, which closed in the period under review, an exceptional charge of £1.6 million was incurred to reflect shrinkage losses identified, plus a further £0.4 million as a result of satisfying certain exit clauses inherent in the lease provisions.

Thirdly, following the Christmas period, the Choice voucher company entered into administration creating a bad debt of £0.8 million. Due to the material nature of the debt this has been classed as an exceptional item.

And finally, as a result of the provisions under IAS 36, the Directors have conducted an assessment of the future cash flows of all trading outlets. As a result, an impairment charge of £0.9 million has been recognised where the anticipated cash flows do not suggest the carrying value of the associated assets can be supported.

The basic loss per share was 1.61 pence (2005: earnings per share of 2.86 pence). The diluted loss per share was 1.61 pence (2005: earnings per share of 2.80 pence).

Group Balance Sheet

Shareholders' funds at 25 February 2006 amounted to £45.7 million (2005: £48.5 million). Capital investment was £10.3 million (2005: £18.1 million), the major components of which were £7.5 million (2005: £9.6 million) relating to investment in our retail estate, £0.4 million (2005: £6.2 million) relating to the move to our new distribution and head office facility and £2.4 million (2005: £2.3 million) relating to systems development and security initiatives.

Stock levels increased from £39.7 million at 26 February 2005 to £40.7 million at 25 February 2006 as a result of lower than anticipated sales and also a release of certain stock provisions.

Cash Flow

The Group generated cash from continuing operations of £7.7 million (2005: cash generated of £13.9 million). The decrease year on year relates primarily to the lower level of profitability offset by a positive working capital movement and higher depreciation charges. After interest, tax, capital expenditure and the proceeds of the sale of a long leasehold property, cash outflow before financing was £3.8 million (2004: outflow of £3.1 million).

After the effects on financing of an inflow of £0.1 million (2005: cash inflow of £23.5 million principally as a result of a successful Rights Issue in May 2004), cash and cash equivalents decreased by £3.7 million (2005: increase of £20.4 million) giving a closing cash and cash equivalent position of £11.8 million (2005: £15.4 million).

Dividend

The Directors are not recommending the payment of a dividend for the period (2005: £nil).

Current Trading

In the 8 weeks to 22 April 2006, like for like sales are +7.1%. Comparing the three-week Easter period against the same Easter period for 2005, like for like sales are +10.8%. Such comparisons are against a period last year of supply difficulties following transition to the new distribution facility and as such this can not be taken as indicative of full year performance. However they do represent an encouraging trend.

C H Wiese
Chairman

26 April 2006

Consolidated Income Statement

52 weeks ended 25 February 2006

52 weeks ended 25 February 2006				52 weeks ended 26 February 2005		
Note	Before exceptional items £'000	Exceptional items (Note 1) £'000	Total £'000	Before exceptional items £'000	Exceptional items (note 1) £'000	Total £'000
Revenue	268,562	–	268,562	276,094	–	276,094
Cost of sales	(233,216)	(5,371)	(238,587)	(240,413)	1,258	(238,564)
Gross profit	35,346	(5,371)	29,975	35,681	1,258	37,530
Distribution costs	(16,420)	(405)	(16,825)	(14,528)	(824)	(15,352)
Administrative expenses	(15,424)	(799)	(16,223)	(14,225)	225	(14,591)
Operating (loss)/profit	3,502	(6,575)	(3,073)	6,928	659	7,587
Finance income	130	–	130	307	–	307
Finance costs	(328)	–	(328)	(360)	–	(360)
(Loss)/profit on ordinary activities before taxation	3,304	(6,575)	(3,271)	6,875	659	7,534
Taxation	(19)	(328)	(347)	(1,924)	675	(1,249)
(Loss)/profit for the period attributable to equity shareholders	3,285	(6,903)	(3,618)	4,951	1,334	6,285
(Loss)/Earnings per share (pence)						
Basic	3		(1.61)			2.86
Diluted			(1.61)			2.80
All of the results relate to continuing operations.						

Consolidated Statement of Changes in Shareholders' Equity

52 weeks ended 25 February 2006

	Share capital £'000	Share premium £'000	Other Reserves £'000	Retained earnings £'000	Total £'000
At 29 February 2004	23,645	78,329	1,674	(85,409)	18,239
Net profit	–	–	–	6,285	6,285
Share options					
Share option charge	–	–	414	–	414
New share capital subscribed (less associated costs)	5,076	–	–	–	5,076
Premium arising on the issue of ordinary shares	–	19,465	–	–	19,465
Movement in respect of investment in own shares	–	–	–	(1,004)	(1,004)
At 27 February 2005	28,721	97,794	2,088	(80,128)	48,475
Adoption of IAS 32 and IAS 39	–	–	(118)	–	(118)
At 27 February 2005	28,721	97,794	1,970	(80,128)	48,357
Net loss	–	–	–	(3,618)	(3,618)
Cash flow hedges:					
Fair value gains in period	–	–	5,261	–	5,261
Transfers to net profit	–	–	(4,956)	–	(4,956)
Share options:					
Share option charge	–	–	518	–	518
Movement in respect of investment in own shares	–	–	–	128	128
At 25 February 2006	28,721	97,794	2,793	(83,618)	45,690

Consolidated Balance Sheet

52 weeks ended 25 February 2006

	Note	2006 £'000	2005 £'000
Assets			
Non-current assets			
Property, plant and equipment		39,238	38,192
Deferred tax		1,418	1,852
Other receivables		1,439	1,555
		42,095	41,599
Current assets			
Inventories		40,737	39,734
Trade and other receivables		8,964	6,475
Derivative financial assets		290	–
Current tax receivable		842	–
Cash and cash equivalents		11,759	15,444
		62,592	61,653
Total assets		104,687	103,252
Liabilities			
Current liabilities			
Trade and other payables	4	(43,520)	(38,217)
Current tax payable		–	(853)
		(43,520)	(39,070)
Net current assets		19,072	22,583
Non-current liabilities			
Provisions		(11,996)	(11,992)
Other non-current payables		(3,481)	(3,715)
		(15,477)	(15,707)
Total liabilities		(58,997)	(54,777)
Net assets		45,690	48,475
Shareholders' equity			
Called up share capital		28,721	28,721
Share premium		97,794	97,794
Other reserves		2,793	2,088
Retained earnings		(83,618)	(80,128)
Total equity		45,690	48,475

The financial statements were approved by the Board on 26 April 2006, and were signed on its behalf by:

T M Coates	C H Wiese
Director	Chairman

Consolidated Cash Flow Statement

52 weeks ended 25 February 2006

		52 weeks ended 25 February 2006 £'000	52 weeks ended 25 February 2005 £'000
	Note		
Cash flows from operating activities			
Cash generated from operations	5	7,679	13,865
Interest received		130	307
Interest paid		(300)	(360)
Tax (paid)/received		(1,694)	284
Net cash from operating activities		5,815	14,096
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		922	1,017
Purchase of property, plant and equipment		(10,432)	(18,089)
Loans repaid in the year		(118)	–
Loans advanced to employees		–	(118)
Net cash used in investing activities		(9,628)	(17,190)
Cash flows from financing activities			
Net proceeds from the issue of share capital		–	24,541
Purchase of own shares		–	(1,004)
Sale of own shares		128	–
Net cash from financing activities		128	23,537
Net (decrease)/increase in cash, cash equivalents and overdrafts		(3,685)	20,443
Cash, cash equivalents and overdrafts at beginning of period		15,444	(4,999)
Cash, cash equivalents and overdrafts at end of period		11,759	15,444

Notes to the Financial Statements

52 weeks ended 25 February 2006

1 EXCEPTIONAL ITEMS	2006 £'000	2005 £'000
Cost of sales:		
1) Store provisions adjustments	(2,932)	1,258
2) Shrinkage losses	(1,552)	–
3) Impairment of property, plant and equipment	(887)	–
	(5,371)	1,258
Distribution costs:		
4) Relocation expenses	(405)	(824)
Administration costs:		
5) Bad debt (charge)/credit	(799)	100
6) Relocation expenses	–	(466)
7) Profit on sale of property, plant and equipment	–	591
	(799)	225
Total exceptional (charge)/credit	(6,575)	659
<p>1) During the 52 week period ended 25 February 2006, the directors conducted a detailed commercial assessment of stores, incorporating not just basic trading performance but also their location, demographics and ability to convert to the Instore brand which led to 11 stores being identified for closure. Based on advice received from independent consultants £2.9 million was provided for the likely costs to be incurred on store disposal. During the 52 week period ended 26 February 2005, the Directors' reassessed the Group's obligations to maintain its leasehold premises to the standard required under the terms of its leases. This resulted in an exceptional credit to cost of sales of £1.3 million.</p> <p>2) As a result of the transition from previous distribution facilities, which closed in the period under review, an exceptional charge of £1.6 million was incurred as a result of shrinkage losses identified.</p> <p>3) The Directors have conducted an assessment of the future cash flows of all trading outlets and as a result, an impairment charge of £0.9 million has been recognised on those stores where the anticipated cash flows do not support the carrying value of the associated assets.</p> <p>4) As a result of the finalisation of the transition from the previous distribution facilities, which closed in the period under review, a further charge of £0.4 million was incurred. In the prior year, relocation expenses of £0.8 million were incurred.</p> <p>5) The Choice voucher company entered into administration during the year, and a specific bad debt of £0.8 million has crystallised. Due to the material nature of the debt this has been classed as an exceptional item. In the prior year and exceptional credit arose in respect of the recovery of £0.1 million under a warranty claim.</p> <p>6) In the 52 week period ended 26 February 2005, the Group incurred exceptional administrative expenses of £0.5 million in connection with the relocation of its Head Office and Distribution Centres.</p> <p>7) In the 52 week period ended February 2005, the Group made profit on the sale of fixed assets of £0.6 million.</p>		
2 TAXATION		
Analysis of charge in period	2006 £'000	2005 £'000
Current tax		
Current period	–	280
Adjustments in respect of prior period	–	(825)
	–	(545)
Deferred tax (note 8)	347	1,794
Taxation	347	1,249
Tax reconciliation		
A reconciliation of the (loss)/profit on ordinary activities before taxation to the current year tax charge is shown below:	2006 £'000	2005 £'000
(Loss)/profit on ordinary activities before tax	(3,271)	7,534
(Loss)/profit on ordinary activities multiplied by rate of corporation tax in the UK of 30% (2005: 30%)	(981)	2,260
Effects of:		
Permanent differences	1,045	1,007
Tax losses not utilised	1,174	–
Tax losses utilised	–	(513)
Utilisation of capital losses	(1,014)	(207)
ACT utilised	–	(471)
Adjustments in respect of prior periods	123	(827)
Total taxation	347	1,249
The company had surplus advance corporation tax carried forward at 25 February 2006 of £2,529,000 (2005: £2,529,000).		

Notes to the Financial Statements continued

52 weeks ended 25 February 2006

3 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period, excluding those held in the employee share trust, which are treated as cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has one class of potentially dilutive ordinary shares: those share options granted to employees where the exercise price is less than the average market price of the company's ordinary shares during the period.

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below.

	Earnings £'000	2006 Weighted average number of shares millions	Per share amount pence	Earnings £'000	2005 Weighted average number of shares millions	Per share amount pence
Basic (loss)/earnings per share:						
Earnings attributable to ordinary shareholders	(3,618)	224.7	(1.61)	6,285	219.4	2.86
Effect of dilutive securities						
Options	–	–	–	–	5.1	–
Diluted (loss)/earnings per share	(3,618)	224.7	(1.61)	6,285	224.5	2.80

The dilutive effect of options is disregarded in the current period as a loss was incurred.

4 TRADE AND OTHER PAYABLES - CURRENT

	2006 £'000	2005 £'000
Trade payables	27,319	23,347
Other tax and social security payable	4,290	4,882
Other payables	4,592	1,741
Accruals	7,319	8,247
	43,520	38,217

5 CASH FLOW FROM OPERATING ACTIVITIES

	2006 £'000	2005 £'000
Cash generated from operations		
(Loss)/profit for the financial period	(3,618)	6,285
Adjustments for:		
Taxation	347	1,249
Finance Income	(130)	(307)
Finance costs	328	360
Depreciation	6,627	5,160
Impairment	887	–
Loss on disposal of property, plant and equipment	862	233
share-based payment charge	518	414
Increase/(decrease) in inventories	(1,003)	2,637
Increase/(decrease) in trade and other receivables	(2,272)	3,521
Increase/(decrease) in payables	5,129	(3,363)
Increase/(decrease) in provisions	4	(2,324)
Cash generated from continuing operations	7,679	13,865

The financial information included in this preliminary announcement does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. The financial information has been prepared in accordance with International Financial Reporting Standards adopted by the European Union, and the comparative information has been restated accordingly.

The financial information for the 52 weeks ended 25 February 2006 has been extracted from the Group's statutory accounts for that period. The restated comparative financial information for the year to 26 February 2005 is based on extracts from the Group's statutory accounts for that period, which were prepared under United Kingdom Generally Accepted Accounting Principles, and have been delivered to the Registrar of Companies. The auditors have reported on the accounts for the periods ended 25 February 2006 and 26 February 2005; their reports were unqualified and did not contain a statement under section 237 (2) or (3) of the Companies Act 1985. The statutory accounts for the period ended 25 February 2006 will be delivered to the Registrar of Companies following the Company's annual General Meeting.

This announcement has been agreed with the Company's auditors for release and was approved by the Board on 26 April 2006.