Interim Statement 2006

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Chairman's Statement

In my statement to our Annual General Meeting on 20 September, I drew attention to the diverging performances of our two divisions, with a strong performance being enjoyed by our Leisure division and difficult trading being experienced by our Consumer Electronics division. I also pointed out that the outcome for the year would depend, as always, on the pre-Christmas sales period.

While our Leisure business has continued to perform well, trading in the Consumer Electronics business during October remained extremely difficult. As a consequence of this, and in view of a number of strategic initiatives currently underway, the Board has decided to bring forward announcement of these Interim Results, so as fully to update shareholders as early as possible.

These results reflect the difficulties we have faced in the consumer electronics marketplace, with total group sales – including the Group's share of Grundig - for the period down by 13% to £266.1 million (2005: £306.3 million), and our total operating loss widening to £10.6 million (2005: £5.5 million). The pre-tax loss was £11.8 million (2005: loss of £6.6 million) and our loss per share (fully diluted) was 17.2p (2005: loss of 9.8p).

For the reasons explained in more detail below, the Board is declaring an unchanged interim dividend of 2.25p per share, payable on 23 April 2007 to shareholders on the register at 30 March 2007. A decision on the level of our final dividend will be determined in the light of the outlook for the year ahead and the progress we make in our planned restructuring of the Group.

Corporate Strategy

It has become increasingly apparent over the last year that Alba's two divisions, Consumer Electronics and Leisure, have, and are expected to continue to face, very different business environments and market challenges. In view of the differing strategic profile of the two divisions, the Board is seeking to restructure the Group's composition.

The Board has undertaken a strategic review of the market environment facing its Consumer Electronics division. In order to restore the division to an acceptable level of profitability it has been necessary to reconsider all our activities and adjust their operations in line with our future market projections. This has resulted in the need to undertake a widespread and severe restructuring programme, which will result in a substantial headcount reduction.

Chairman's Statement

In contrast to our previous strategy of adjusting our business model to changing market circumstances, our aim now is to place the Group ahead of market developments and to put it in a position of strength going forward. By acting sooner rather than later, and in a very far-reaching way, we are confident that the Division's assets, systems, products and market positions are strong enough to return the business to a good level of profitability.

Following a comprehensive review of the entire Group's activities, we have set in motion proposals which may culminate in the disposal or the de-merger of the Leisure Division, and which we expect will realise considerable value for shareholders. The Board expects to be in a position to update shareholders regarding progress prior to the end of the current financial year to 31 March 2007.

Commercial necessity has brought the need for change upon the group and I wish to praise all our employees for the realism and understanding with which they have faced what has been a very difficult and challenging period for all.

I would like to take this opportunity to personally thank all staff; those who will go forward with us and those to whom we will regretfully have to say goodbye.

Whilst change is a necessary process of maintaining a competitive profile, we believe that the dramatic upheaval of recent months will shortly be behind us, and that the group can look forward with confidence to a successful future.

Trading Review

Leisure division

The first six months of the year have seen the Leisure Division in total perform well and gain market share in key areas. Operating profits for the division were £6.5 million (2005: £6.1 million) on revenues of £66.3 million (2005: £64.0 million).

The Leisure Division's product ranges have continued to make solid progress and Breville, JCB, Nicky Clarke Electric, and Carl Lewis Fitness have all performed well. The Hinari and Dirt Devil product ranges have seen some short term decline as consumers have traded up to higher price points and the company is currently upgrading and re-engineering product lines.

For the second half new product launches, together with the key Christmas trading period, will determine the division's outcome for the year. Early indications are positive.

Consumer Electronics division

The market structure has changed considerably in the last 18 months. Consumer demand has become polarised between high price, high spec' brands and basic own label product. At the top end margins remain positive, whilst at the bottom end of the market profitable trading is difficult. In between, competition has been fierce as brands have struggled to add real value. It is in this middle market segment that Alba Group's brands are principally positioned.

The shift to digital TV product has brought about a global shift in market development. The uniformity of key digital components (flat screen, memory chips), in terms of quality and price, means that product differentiation has narrowed and premium brands have obtained a competitive advantage.

The increase in digitalisation and technological complexity of the product range has had one further negative side effect for the whole industry, namely a sharp increase in the level of product returns, a large proportion of which are subsequently found to have no fault. There are other issues which also need to be addressed, such as the quick and efficient retirement of obsolete lines and the timely refreshment of product ranges.

In short, the business needs to be quicker and more responsive to market dynamics. Alba is not a manufacturer, but a supplier of own-sourced and branded goods. Our core skills lie in the ability to identify a market need, source appropriately and deliver efficiently.

To survive and thrive in a fast changing market place, the Group recognises the need to adjust its scale of operations, so as to best meet operational and customer needs, whilst providing an economic return for shareholders.

Since March 2006, the number of employees in the Division has reduced from approximately 600 to 500 today, and is on track to reach our revised target of less than 300 by June 2007. This reduction is expected to result in no loss of profitable sales or quality of service delivery to customers.

Going forward, the Consumer Electronics business retains three key competitive advantages in the UK market:

- The value of the brands
- The proven ability to source the latest value for money products to meet the needs of major customers
- Logistical capabilities which throughout the supply chain are industry leading

The re-organisation that the company is undertaking, incorporating these advantages, is designed to ensure that the company will return to profitability.

Grundig

Trading at Grundig has been disappointing. This situation was not helped by Grundig Management reluctance to either change the cost base or the company structure. In consequence, together with our 50% joint-venture partner Beko, at the end of the first quarter we retained the leading global consultancy group Accenture, to conduct a review of the business, propose and implement a strategy to take the brand forward. After gaining Board approval for the new strategic plan, our new management team instructed the roll out of the new business plan which is on track to deliver the revised lower cost business model.

Outlook

We believe that the Leisure division will continue to make progress and are confident of trading successfully through Christmas, helped by the already well received launch of new products.

As explained in the review above, our expectations for the Consumer Electronics market are subdued, and rather than rely on a turn of fortune in market circumstances, we have decided upon a radical course of action, with the strategic intent of returning the division to sustained profitability as quickly as possible.

John E Harris CBE
Chairman
15 November 2006

Consolidated Income Statement

		Note	six months ended 30 September 2006 (unaudited) £'millions	six months ended 30 September 2005 (unaudited) £'millions	year ended 31 March 2006 (audited) £'millions
Revenue					
	Group and share of joint venture		**266.1**	306.3	714.2
	less: share of joint venture		**(53.2)**	(56.4)	(135.6)
Group revenue		3	**212.9**	249.9	578.6
Operating (Loss)/Profit					
	Group operating (loss)/profit	3	**(3.4)**	(2.5)	5.6
	Share of results of joint venture		**(7.2)**	(3.0)	(0.5)
Total Operating (Loss)/Profit			**(10.6)**	(5.5)	5.1
Finance costs		4	**(1.2)**	(1.1)	(2.7)
(Loss)/Profit before tax			**(11.8)**	(6.6)	2.4
Tax		5	**3.0**	1.6	(1.2)
(Loss)/Profit for the period			**(8.8)**	(5.0)	1.2
Attributable to: Equity holders of the parent			**(8.8)**	(5.0)	1.2
Earnings per share (in pence)		6			
	Basic		**(17.4)p**	(9.9)p	2.4p
	Diluted		**(17.2)p**	(9.8)p	2.3p

Consolidated statement of recognised income and expense

Net income/(expense) recognised directly in equity	**0.9**	(0.5)	0.3
(Loss)/profit for the period	**(8.8)**	(5.0)	1.2
Total recognised (expense)/income for period (all attributable to equity shareholders)	**(7.9)**	(5.5)	1.5

Group balance sheet

	Notes	**30 September 2006 (unaudited) £'millions**	30 September 2005 (unaudited) £'millions	31 March 2006 (audited) £'millions
Non-current assets				
Goodwill		**1.2**	1.2	1.2
Property, plant & equipment		**17.6**	18.5	18.2
Investment in joint venture		**20.0**	27.6	28.0
Total non-current assets		**38.8**	47.3	47.4
Current assets				
Inventories		**96.0**	101.7	92.4
Trade receivables and other receivables		**91.6**	115.0	83.1
Financial assets - derivative financial instruments		**–**	–	2.0
Tax recoverable		**4.6**	2.6	2.8
Cash		**2.4**	3.1	2.7
Total current assets		**194.6**	222.4	183.0
Total assets		**233.4**	269.7	230.4
Current liabilities				
Bank borrowings and overdrafts		**74.5**	81.9	59.3
Trade and other payables		**50.4**	60.0	42.4
Financial liabilities - derivative financial instruments		**0.7**	–	–
Income tax		**4.9**	5.5	4.6
Provisions		**6.2**	5.8	5.8
Total current liabilities		**136.7**	153.2	112.1
Non-current liabilities				
Bank borrowings and overdrafts		**6.1**	19.5	14.7
Deferred tax		**1.3**	2.1	1.4
Total non-current liabilities		**7.4**	21.6	16.1
Total liabilities		**144.1**	174.8	128.2
Total net assets		**89.3**	94.9	102.2
Equity attributable to equity holders of the parent				
Share capital		**5.1**	5.1	5.1
Share premium		**18.6**	18.3	18.6
Investment in own shares		**(2.4)**	(2.5)	(2.6)
Translation reserve		**(1.0)**	0.5	1.7
Hedging reserve		**0.3**	(2.9)	(3.3)
Other reserves		**1.9**	1.5	1.6
Retained earnings		**66.8**	74.9	81.1
Total equity	8	**89.3**	94.9	102.2

Group cash flow statement

	Notes	**six months ended 30 September 2006 (unaudited) £'millions**	six months ended 30 September 2005 (unaudited) £'millions	year ended 31 March 2006 (audited) £'millions
Cash flow from operating activities				
Cash generated from operations	9	**(6.2)**	0.1	35.0
Tax received/(paid)		**1.1**	(1.5)	(4.5)
Net cash (used in)/from operating activities		**(5.1)**	(1.4)	30.5
Cash flows from investing activities				
Purchase of Investments		**(0.1)**	(1.5)	(1.6)
Purchase of property, plant and equipment (net)		**(0.1)**	(0.4)	(0.9)
Net cash flow used in investing activities		**(0.2)**	(1.9)	(2.5)
Financing activities				
Finance costs paid		**(0.9)**	(0.9)	(1.9)
Interest received		**0.5**	0.5	1.1
Proceeds on issue of ordinary shares		**–**	0.1	0.4
Dividends paid		**(1.1)**	(1.1)	(5.6)
Repayment of bank loans		**(5.5)**	(1.7)	(4.0)
Movement in bank import advances (net)		**8.1**	15.6	4.4
Net cash flow from/(used in) financing activities		**1.1**	12.5	(5.6)
Net (decrease)/increase in cash and cash equivalents		**(4.2)**	9.2	22.4
Net foreign exchange differences		**(0.1)**	–	0.3
Cash and cash equivalents at beginning of period		**(8.3)**	(31.0)	(31.0)
Cash and cash equivalents at end of period		**(12.6)**	(21.8)	(8.3)

Notes to the interim statement

1. General information

The interim statement for the six months ended 30 September 2006 does not constitute statutory accounts for the purposes of Section 240 of the Companies Act 1985 and has not been audited. No statutory accounts for the period have been delivered to the Registrar of Companies.

The financial information in respect of the year ended 31 March 2006 has been produced using extracts from the statutory accounts prepared in accordance with International Financial Reporting Standards, as adopted by the European Union ('IFRS') and in accordance with the Companies Act. The statutory accounts for this period have been filed with the Registrar of Companies. The auditors' report on these accounts was unqualified and did not contain a statement under Sections 237 (2) or (3) of the Companies Act 1985.

The interim report was approved by the directors on 14th November 2006.

2. Accounting policies

The Group has adopted the accounting policies set out in the most recent annual financial statements in the preparation of this interim statement. All of these policies have been applied consistently throughout the period.

3. Segment information

a) Primary reporting format-geographical segments.

For management purposes, the Group is currently organised into the following management and reporting divisions: UK, Mainland Europe, the Far East and, with effect from 1st April 2006, Australasia. Australasia previously was managed by and reported within the UK division but is now managed as a separate reporting division. These divisions are the basis on which the Group reports its primary segment information shown on the following page:

Notes to the interim statement

	Revenue			Group operating profit		
	six months ended 30 September 2006 (unaudited) £'millions	six months ended 30 September 2005 (unaudited) £'millions	year ended 31 March 2006 (audited) £'millions	**six months ended 30 September 2006 (unaudited) £'millions**	six months ended 30 September 2005 (unaudited) £'millions	year ended 31 March 2006 (audited) £'millions
UK	**171.9**	198.4	477.6	**(4.7)**	(3.6)	1.4
Mainland Europe	**14.4**	24.3	44.5	**(1.0)**	(2.8)	(2.9)
Far East	**35.8**	40.1	81.6	**2.4**	3.9	7.1
Australasia	**0.6**	0.3	0.6	**(0.1)**	–	–
	222.7	263.1	604.3	**(3.4)**	(2.5)	5.6
Less inter company turnover	**(9.8)**	(13.2)	(25.7)			
	212.9	249.9	578.6			

The first half of the Group's financial year is normally the quieter half with sales, particularly of Consumer Electronics, reaching a peak in the period approaching Christmas.

b) Secondary reporting format - business segments.

With effect from 1st April 2006, the Group operates, in as much as practically possible, as two business segments, the Consumer Electronics division and the Leisure Division. The above information reported on by business segment is as follows:

	Revenue			Group operating profit		
	six months ended 30 September 2006 (unaudited) £'millions	six months ended 30 September 2005 (unaudited) £'millions	year ended 31 March 2006 (audited) £'millions	**six months ended 30 September 2006 (unaudited) £'millions**	six months ended 30 September 2005 (unaudited) £'millions	year ended 31 March 2006 (audited) £'millions
Consumer Electronics	**146.6**	185.9	435.7	**(9.9)**	(8.6)	(8.6)
Leisure	**66.3**	64.0	142.9	**6.5**	6.1	14.2
	212.9	249.9	578.6	**(3.4)**	(2.5)	5.6

Notes to the interim statement

4. Finance costs	**six months ended 30 September 2006 (unaudited) £'millions**	six months ended 30 September 2005 (unaudited) £'millions	year ended 31 March 2006 (audited) £'millions
Finance costs comprise:			
Interest on bank loans and overdrafts repayable within 5 years	**0.9**	0.8	1.9
Group's share of joint venture's finance costs	**0.8**	0.7	1.9
	1.7	1.5	3.8
Less: Bank interest receivable	**–**	–	(0.1)
Interest from joint venture	**(0.5)**	(0.4)	(1.0)
	1.2	1.1	2.7

5. Tax

The taxation charge is based on the estimated effective tax rate for the year as a whole of 25%.

6. Earnings per share

Basic earnings per share are based upon earnings of £(8.8) million (2005 : £(5.0) million) and 50,600,547 (2005 : 50,649,881) Ordinary Shares being the average number of Ordinary Shares in issue during the six months ended 30 September 2006 excluding the shares held by The Alba plc ESOP Trust.

Diluted earnings per share are based upon earnings of £(8.8) million (2005 : £(5.0) million) and 51,255,626 (2005 : 51,269,552) Ordinary Shares allowing for the exercise of outstanding share purchase options exercisable at a price below the average fair value during the period and the shares held by The Alba plc ESOP Trust.

Notes to the interim statement

7. Dividends	**six months ended 30 September 2006 (unaudited) £'millions**	six months ended 30 September 2005 (unaudited) £'millions	year ended 31 March 2006 (audited) £'millions
Dividend paid/approved per share in the period of 11.0p (2005/6: interim 2.25p, full year 11.0p)	**5.5**	5.6	5.6

The amount paid and/or approved during the six months ended 30th September 2005 and 2006 is in respect of the interim and final dividend for the year ended 31 March 2005 and 2006 respectively. The amount paid and/or approved during the year ended 31 March 2006 is in respect of the interim and final dividend for the year ended 31st March 2005.

8. Reconciliation of Movement in Consolidated Equity			
Total recognised (expense)/income for the period	**(7.9)**	(5.5)	1.5
Dividends on equity shares	**(5.5)**	(5.6)	(5.6)
New share capital subscribed	**-**	0.1	0.4
Purchase of own shares	**(0.1)**	(1.5)	(1.6)
Loss on sale of treasury shares	**0.3**	-	-
Share based payments	**0.3**	0.4	0.5
Net decrease in equity	**(12.9)**	(12.1)	(4.8)
Opening equity	**102.2**	107.0	107.0
Closing equity	**89.3**	94.9	102.2

Notes to the interim statement

9. Note to the consolidated cash flow statement	**six months ended 30 September 2006 (unaudited) £'millions**	six months ended 30 September 2005 (unaudited) £'millions	year ended 31 March 2006 (audited) £'millions
Cash flow from operating activities:			
Operating (loss)/profit	**(10.6)**	(5.5)	5.1
Adjustment for:			
Depreciation of property, plant & equipment	**0.7**	0.7	1.5
Share of results of joint venture	**7.2**	3.0	0.5
IFRS 2 share option charge	**0.3**	0.4	0.5
Loss on sale of treasury shares	**0.3**	–	–
(Increase)/Decrease in receivables	**(6.0)**	(13.2)	16.8
(Increase)/Decrease in inventories	**(3.0)**	12.5	22.5
Increase/(Decrease) in payables	**4.9**	2.2	(11.9)
Cash flow from operating activities	**(6.2)**	0.1	35.0
Net Debt			
Cash and cash equivalents	**(12.6)**	(21.8)	(8.3)
Bank loans	**(19.2)**	(27.0)	(24.7)
Bank import advances	**(46.4)**	(49.5)	(38.3)
	(78.2)	(98.3)	(71.3)

Cash and cash equivalents comprise cash at bank and bank overdrafts all with a maturity of three months or less.

10. Related party transactions

During the period the Group made sales to its joint venture, Grundig. The value of these sales and sums due from Grundig other than in respect of the acquisition were:

Amounts sold to joint venture during period	**7.1**	11.6	25.8
Amounts owed by joint venture at period end	**10.9**	10.4	7.7

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