Jessops plc Preliminary Results

Jessops plc today reports on its results for the 12 months to 30th September 2007

Highlights

Strategic Review of the business undertaken

- Restructuring programme initiated and completed on schedule, enabling Jessops to trade from a clean base into the Christmas period:
  - 81 stores closed by end of October
  - 20% reduction in central overheads delivered
  - £16.8m of clearance stock disposed of by the end of October
- Strategic framework for the business developed and put in place

Financial performance

- Loss before financing fees, non-recurring items and tax £7.5m (2006: £13.2m profit as restated) in line with expectations
- Total revenue £325.5m (2006: £350.0m)
- Non-recurring costs related to restructuring of £26.2m, in line with previous guidance.
- A further £4.0m non-recurring costs from a balance sheet review commissioned by the Board
- 2006 prior year restatement of £3.9m pre tax from the balance sheet review
- Total cash cost of restructuring programme £3.6m, below previous guidance
- Goodwill impairment of £30.3m
- Committed new banking facilities put in place in August until 31 December 2008

Key trading points

- Increased share of DSLR market within retained share of total digital camera market
- Order@store launched in August 2007
- Supply chain review commenced in May 2007

David Adams, Executive Chairman, said: "*We have put the business in a stronger position for the future. Despite challenging market conditions we have delivered on our initial goals, with the restructuring programme and have set out the strategic framework for the business to operate from; we have solid relationships with suppliers and an enviable market position; and our programme to deliver sustainable profitability in the future is on track, although there is clearly a long road ahead. The Christmas period is hugely important to the business. Whilst trading conditions remain tough we are well prepared with good stock availability and the key period is still to come.*"

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EXECUTIVE CHAIRMAN'S STATEMENT

Overview

This has been a year of significant restructuring at Jessops. We announced a strategic review in March to address the fundamental issues that faced the group in the challenging market. This was completed in June and resulted in a restructuring programme essential to restoring the business to financial viability and a strategy to drive sustainable profitability in the future. This strategy re-positions Jessops as a more focused multi-channel retailer with a strong presence in the growing digital printing services market, in addition to continued leadership in digital cameras.

Like for like sales for the year ended 30th September 2007 were 8.7% down year on year but, despite market conditions deteriorating year on year, we were pleased to retain our share of the total digital camera market at 18.7% each year and grow our share of the DSLR market from 37.3% last year to 38.0% this year. This was an excellent achievement against the background of the extreme disruption to the business during the course of the year caused by the actions we took.

Restructuring Programme

Following the review the following restructuring programme was delivered:

- The closure of 81 stores, which was completed by the end of October 2007. Of these, 47 were stores that overlapped with existing stores, 31 were loss-making and 3 were subject to redevelopments;

- The sale of clearance stock, with a book value of £16.8 million, through the use of third party retail and wholesale clearance specialists. The disposal of the stock was substantially achieved over a 16 week period ending in October, principally using 39 of the stores identified for closure as clearance outlets; and

- A 20% reduction in central overheads and a total overhead reduction including store closures of over £15.0 million.

In addition to the above we have also:

- Introduced order@store;
- Driven collect@store to 65% penetration;
- Started the Supply Chain improvement programme;
- Introduced a staff scheduling system; and
- Rationalised our online offer.

The completion of the restructuring programme has put Jessops in a stronger position for the future. All activities around store closures, stock disposal and head office cost savings were delivered by the end of October, allowing the business to trade from a clean base into the key Christmas period.

Financial Performance

Total revenue fell to £325.5 million from £350.0 million last year and there was a loss before financing fees, non-recurring items and tax of £7.5 million (2006: £13.2 million as restated), in line with the guidance given on 27th September, 2007.

The total pre tax charge for non-recurring items, excluding the impairment of goodwill, was £30.2 million, of which £26.2 million was the total cost of the restructuring programme, which was broadly in line with the guidance given on 21st June, 2007 as the higher costs of clearing the stock were partially offset by savings on store closures. The total cash cost of the restructuring programme of £3.6 million is below the estimate given on 21st June, 2007.

Given the significant changes that the business faced during the year, the Board instigated a full review of the balance sheet, which was carried out by KPMG, the group's auditors. This detailed exercise resulted in certain further provisions of £4.0 million being required and charged to non-recurring items this year, plus a prior year restatement of a pre tax charge of a further £3.9 million, reducing the 2006 profit before tax to £13.1 million (2006 before restatement: £17.0 million). Full details of the prior year restatement are set out in Note 11.

Following the strategic review and the reduction in the overall size of the group, we assessed the future cashflows of the business and, due primarily to the reduced number of stores; they are now not expected to recover the carrying value of the goodwill attaching to the business. Therefore we have recognised a charge of £30.3 million to impair the goodwill to £47.7 million.

The total loss after tax for the year is, therefore, £63.5 million (2006: profit £8.5 million as restated).

A new banking facility of £66.5 million, of which £60.0 million is committed, was agreed on 30th August 2007 and is available until 31st December 2008.

Stock at the year end was reduced to £38.0 million from £61.9 million last year with the average stock holding per store on a like for like basis reduced by over 17% year on year. The net bank debt at the year end was £46.9 million (2006: £33.7 million), lower than that indicated on 21st June, 2007 due to a focus on cash control.

The Directors are not recommending a final dividend for the year (2006: total 2.25p per share).

Business Review

Aggressive pricing decisions combined with difficult market conditions and our decision to dispose of surplus stock made it difficult to improve our gross margin beyond last year's.

For the first seven weeks of the financial year the business instigated an "internet price matching" campaign which drove sales but depressed the margin. The business recognised that it was carrying too much stock after the January sale and from February onwards a policy of discounting clearance stock through our stores was adopted, which further reduced our margin. This policy continued until the announcement of the Strategic Review on 21st June, 2007 and the creation of the dedicated clearance stores. As a result of these issues the gross margin before non-recurring items fell to 30.8% (2006: 32.2% as restated) for the year as a whole. The total gross margin fell to 25.3% reflecting the sales through the clearance stores from 21st June until the end of the year.

We have undertaken a range rationalisation exercise of our compact DSC range and have reduced the number of individual lines we carry in our key stores from over 140 to about 60. This has had the dual benefit of reducing the amount of stock we carry and focusing our customers on the key lines.

Following the closure of the clearance stores in October, we launched a marketing campaign based on image advertising on poster sites across the country. The initial reactions to the campaign were positive.

We are continuing to review our overhead structure beyond the exercise taken in the summer, and will seek to drive further efficiency and productivity savings.

The total imaging market decreased 10.1% by volume and 2.5% by value in the year to the end of September 2007 and the total digital camera market increased 8.0% in volume but decreased 4.0% in value. Overall the average value of a digital camera, including compact DSC's and DSLR's, sold by Jessops fell by 5.2% year on year to £206.45 compared to the fall in the market generally of 11% to £143.31, demonstrating Jessops' positioning at the higher end of the camera market.

Whilst the imaging market remains difficult we believe that it is an attractive retail sector and that Jessops is on the way to being well structured to address it through our multi-channel offer.

We are encouraged by the response of our suppliers to the challenges in the market and, with increased functionality, technology and design coming through in the product ranges, this gives us confidence in the future of this market.

Multi-channel retailing

We are developing further our internet platforms which link directly into our core store offering, building on the strength of the Jessops brand name through www.jessops.com and www.jessopspicturehouse.com. This is part of our overall “Bricks & Clicks” strategy.

We now have nearly 1 million registered users on www.jessopspicturehouse.com and have over 10 million images uploaded to the site. We are developing this site further and customers can now order their prints on line and collect them in our stores, as well as having them delivered to their home or office. This is a first in the UK and is becoming increasingly popular with our customers. This is also beneficial to us as it increases footfall into our stores, attracting both existing and new customers.

We have also launched collect@store and order@store (“Jessops extra”), both of which are innovative services in the UK digital imaging market. These are both well received by our customers and over 65% of all purchases on www.jessops.com are now collected at a Jessops store, with the same benefits as the Jessops Picture House service.

We are also developing our Jessops extra offering by introducing an in-store catalogue. This is being trialled in 10 stores nationwide in the run up to Christmas with a view to rolling it out across the whole store network in the New Year. Eventually we are aiming to offer our complete catalogue range together with ranges from our major suppliers as a unique in store offering to provide our customers with a full range of products.

Strategy Update – The Jessops Proposition

With the restructuring programme announced in June now successfully completed, attention has moved to the longer term strategic positioning of the business.

The Jessops proposition will be as follows:

- A more focused multi-channel retailer offering a full range of products and services across all platforms.
- Supported by the most knowledgeable staff in the market place.
- Competitive on price but will not chase unprofitable business.
- The unique provider of photographic products and services in store.
- The partner of choice for major suppliers offering a showcase of products and services.

In order to deliver this proposition we are focusing on five key building blocks as follows:

1. Customer Service

   Our customer service is already high quality and we are looking to improve this further. We have implemented staff scheduling systems to ensure staff availability matches customer demand and we have successfully launched collect@store and order@store, two initiatives to make shopping with Jessops easier for our customers.

   We have also launched The Jessops Academy with significant support from our suppliers. This initiative will be the responsibility of the recently recruited HR Director and is aimed at improving the product knowledge of our store colleagues, the most important people in the process of providing service to our customers.

2. Property

   With the store closure programme largely completed we are reviewing the ongoing estate to optimise its potential by:

   - ensuring that each store has appropriate space;
   - matching the estate to the local competition and demographics of our customers; and
   - realising the potential for our larger format World Camera Centres.

3. Developing and Printing

   As outlined in June, it is a key part of our strategy to give more focus to this growing, high margin part of the market. We believe we have a unique position in the UK market in providing the best range of hardware and accessories, plus a full developing and printing offer, coupled with our high levels of service.

   www.jessopspicturehouse.com launched in October 2006, has nearly 1 million signed up customers, giving us huge potential to interact with this group of customers actively interested in photography. We have developed the “order at home:collect at store” service to take advantage of the fastest growing part of the print market.

4. Online

   Our online offer had become confused with conflicting sites. We have closed all of our non-photographic sites and it is our intention to focus down to a single platform building on the Jessops brand. We believe this gives greater clarity to our proposition.

   Key to the online offer is the success of collect@store, with 65% of customers taking the opportunity to collect their purchases in our stores giving us the opportunity to up sell.

5. Supply Chain

Our Supply Chain has been significantly behind the requirements of a modern retailer. We have been working to address this in three key areas and the delivery of this project will be the major responsibility of our new Supply Chain Director:

- *Demand forecasting, allocation and replenishment.* By Spring 2008 this project should give us the functionality we require to run the business more effectively across the areas of demand forecasting and stock allocation and replenishment. As well as operational benefits within the business, we believe this will make us an easier business for our supplier partners to work with.

- *Reverse Logistics.* Significant improvements are targeted in the areas of returns to suppliers, repairs and store transfers. The launch of order@store should mean that inefficient and unprofitable store transfers can largely be eliminated.

- *Working Capital Reduction*. Following the disposal of clearance stock in the summer the next stage is to seek to reduce further our working capital requirement by reviewing the product ranges stocked in each store grouping and better product life cycle management. We believe there is potential to reduce the stock further.

The Board

I joined the Board as Executive Chairman in May in time to oversee the final stages of the Strategic Review and its implementation

In September we established an Executive Operating Committee (“EOC”) responsible for the day to day operations of the Group, comprising the senior trading directors of the Group and my fellow non-executive director. The EOC reports to me, meets weekly and will continue to meet until a new Chief Executive is recruited.

The process of recruiting a new Chief Executive and Finance Director is well under way and the operational team has already been strengthened with the appointment of a new HR Director and for the newly created position of Supply Chain Director.

People

Since I joined in May I have been particularly impressed by the knowledge and dedication of all our staff across the Group.

I know that this has been a particularly difficult year for everyone in the business and I would like to thank them all for the way they responded to the challenges we have faced during the year.

Our reputation stands on our performance in stores and throughout the company. Earlier this month we were delighted once again to receive Practical Photography Magazine and Digital Photo Magazine's award for "Best Photo Retailer of the Year" for 2007; the 12th year in succession that we have received this award. I am particularly pleased that we have won this award again this year given the challenges that our people have faced and it is great testimony to their determination to provide the best service for our customers.

Current trading and outlook

The market for imaging products remains challenging and the process of restructuring Jessops has added a layer of difficulty to trading.

As described above the restructuring programme was completed by the end of October but was undoubtedly disruptive and contributed to the poor trading figures up until the end of the financial year at the end of September and into October.

Total sales for the 10 weeks ended 9th December, 2007 were 26.6% down year on year. Like for like sales in the same period were 7.3% down year on year but product contribution was flat with the product margin up 2.1 percentage points at 29.0%. The sales for the first 10 weeks have been impacted by lower sales transfer volumes than originally anticipated, which are currently running at just under 30% against our target of 40%. We don't expect this to change materially over the course of this year.

The like for like comparatives have been severely affected by the promotional stance last year for the seven weeks from the beginning of October 2006 until the 3rd week in November 2006, which was to promote aggressively "internet price matching". While this was successful in driving turnover it was heavily at the expense of product margin.

Now we are out of this period, in the last three weeks ended 9th December, 2007 our like for like sales have been positive.

Stock availability is good for Christmas following the issues earlier in the year and in the whole financial year we now have the toughest sales comparatives behind us and going forward the comparatives become easier.

We have put the business in a stronger position for the future. Despite challenging market conditions we have delivered on our initial goals. We have delivered the restructuring programme and have set out the strategic framework for the business to operate from; we have solid relationships with suppliers and an enviable market position; and our programme to deliver sustainable profitability in the future is on track, although there is clearly a long road ahead.

The Christmas period is hugely important to the business. Whilst trading conditions remain tough, we are well prepared with good stock availability and the key period is still to come.

David Adams
Executive Chairman

13th December, 2007

FINANCIAL REVIEW

Revenue

Jessops' total revenue fell to £325.5 million in the year ended 30 September 2007 (2006: £350.0 million). Revenue before non-recurring items was £320.8 million. The revenue from non-recurring items represents the sale of the clearance stock from 21st June, 2007.

Jessops' store network accounted for 87.3% of the Group's total revenue in 2007 (2006: 88.5%) and 88.7% of the revenue before non-recurring items. The remainder was generated through the direct consumer channel, primarily the internet.

Total DSLR sales grew 12.7% by value, driven by new products, lower prices, and more manufacturers entering the market, providing the consumer with a wider range of products at competitive price points. Digital compact sales declined by 21.1%, resulting in an overall decrease in digital camera sales of 7.6%. Sales of other photographic hardware increased year on year due to more sales of lenses, driven by the increase in sales of DSLR's, and total lens sales increased 33.7% year on year. Film printing declined sharply as expected during the year, reflecting the increased switch from film to digital prints, and digital printing sales held up well despite the disruption to the business over the key trading period for digital printing of July and August.

	2007 £ million	2006 £ million
Cameras	**163.6**	183.0
Photographic accessories	**77.9**	88.1
Digital printing	**14.4**	15.0
Film printing	**11.0**	14.5
Camcorders	**25.0**	29.5
Other photographic hardware	**28.9**	19.9
Total revenue before non-recurring items	**320.8**	350.0
Revenue from non-recurring items	4.7	0.0
Total Revenue	**325.5**	350.0

Operating loss

Gross margin on revenue before non-recurring items in 2007 at 30.8% (2006: 32.2% as restated) was 1.4 percentage points lower than in 2006, reflecting the decisions taken earlier in the year to promote aggressively internet price matching in the first seven weeks of the year and to dispose of older stock at lower prices from February to June. Gross margin on total revenue was 25.3% after taking into account the £16.6 million gross loss on non-recurring items arising principally from the disposal of the £16.8 million of clearance stock.

Operating expenses before non-recurring items increased by 6.2% to £102.3 million in 2007 (2006: £96.4 million as restated). Total operating expenses were £115.9 million. The 6.2% increase in underlying operating expenses was principally due to increased advertising costs in the first quarter of last year and increases in occupancy costs due to the higher number of stores year on year until the announcement of their closure in June.

Jessops recorded an operating loss before finance fees and non-recurring items for the year of £7.5 million (2006: profit £13.2 million as restated). This reflects the deteriorating market conditions during the financial year leading to the strategic review announced on 21st June, 2007, which involved among other initiatives, the closure of 81 stores, the rationalisation of the Head Office Support Centre and a detailed program to reduce stock holdings within the business.

Jessops' revenue and operating profits demonstrate a semi-annual peak in December, as a result of the Christmas trading season, and again in the summer period as customers purchase cameras, memory cards and film for their summer holidays and subsequently have their images developed. The different mix of products bought in each of the peaks contributes to slightly higher margins in July and August as compared to December and January.

Non-recurring items

There was a total charge of £60.5 million (2006: nil) for non-recurring items before tax during the year arising out of the strategic review announced on 21st June, 2007. This charge is comprised as follows:

	£ million
Loss on disposal of stock	**14.1**
Store closures	**9.5**
Head office re-organisation	**1.3**
Professional fees	**1.3**
Total restructuring costs	**26.2**
Balance sheet review provisions	**4.0**
Total non-recurring items pre-goodwill impairment	**30.2**
Goodwill impairment	**30.3**
Total non-recurring items	**60.5**

The total restructuring costs are in line with the guidance given on 21st June, 2007 of £25.1 million.

The balance sheet review provisions arise out of the balance sheet review carried out by KPMG at the request of the Board. This review also resulted in a prior year restatement, details of which are set out below.

Prior year restatement

Given the significant changes that the business faced during the year, the Board instigated a full review of the balance sheet, which was carried out by KPMG, the group's auditors.

This detailed exercise resulted in a prior year restatement of a charge before tax of £3.9 million, reducing the profit before tax to £13.1 million (2006 before restatement: £17.0 million).

The principal items in the restatement of prior year profits are the effect of reclassifying the group's operating leases as finance leases (£1.4 million) and a difference in the year in which certain incentive payments received from suppliers, for which all of the cash has been received, is recognised (£1.3 million). There are also other adjustments writing off certain amounts which are not recoverable (£1.2 million).

As a result of the above adjustments to the profit there are consequential adjustments to the balance sheet, the net effect of which is to reduce net assets at 30th September, 2006 to £96.7 million (2006: £98.9 million before restatement) and increase net assets at 30th September, 2005 to £89.3 million (2006: £88.8 million before restatement).

A full analysis of these changes is set out in Note 11.

Goodwill impairment

Following the strategic review and the reduction in the overall size of the group, we assessed the future cashflows of the business and in accordance with IAS 35 "Impairment", due primarily to the reduced number of stores; they are now not expected to recover the carrying value of the goodwill attaching to the business. Therefore we have recognized a charge of £30.3 million to impair the goodwill to £47.7 million.

Future cash flows were projected based on actual operating results and the group's current business plan following the strategic review mentioned above.
A pre-tax discount rate of 16.8% was applied in determining the recoverable amount of the business which the Directors have estimated to be the approximate weighted average cost of capital of the group.

Bank interest charges

Jessops' net interest payable excluding finance fees on bank borrowings was £3.7 million in 2007 (2006: £2.6 million) reflecting the combination of higher average levels of debt during the year and higher interest rates.

Bank facility finance fees during the year were £1.8 million (2006: £0.1 million).

Taxation

There was a tax credit for the year of £6.3 million (2006: charge £4.6 million as restated) on loss before tax and after non-recurring items of £69.7 million (2006: profit £13.1 million as restated). This credit is apportioned £1.5 million for the loss before non-recurring items and £4.8 million for the loss on non-recurring items.

Loss for the financial period

Jessops' recorded a loss after interest, tax and non-recurring items in 2007 of £63.5 million (2006: profit £8.5 million restated), primarily due to the loss from non-recurring items of £55.7 million after tax (2006: nil).

Loss per share

Basic loss per share for the year was 61.7p per share (2006: basic earnings per share: 8.3p as restated). Basic adjusted loss per share for the year was 6.1p (2006 as restated 8.4p earnings per share).

Dividends

Dividends equating to 1.5p per share were paid during the year (2006: 2.15p per share).

There is no dividend recommended for the year ended 30th September, 2007 (2006: total 2.25p per share).

Cash flows

Total cash absorbed from operations during the year was £1.7 million (2006: as restated £29.6 million cash generated). The fall was principally due to the decline in operating profit.

Financial structure and financial risk management

At 30 September 2007, Jessops' total net bank debt was £46.9 million (2006: £33.7 million).

A new facility of £66.5 million, of which £60.0 million is committed, was signed on 30th August, 2007 and is available until 31st December, 2008. Since the year end on 31st October, 2007 £2.0 million of the facility was repaid in line with the facility agreement. A further repayment of £6.0 million is due on 30th April, 2008.

The principal terms of the banking arrangement are for an interest rate of up to 5.25% over LIBOR. On £40.0 million of the facility the cash interest payment is 2.0% over LIBOR, with the remaining interest of 3.25% over LIBOR rolled-up and payable in December 2008. Additional deferred financing fees of £7.0 million are also payable in December 2008.

Part of the terms agreed involves the issue of warrants over unissued ordinary shares representing 10% of Jessops' issued share capital on the basis that 5% of these warrants are exercisable from August 2007 with the remaining 5% issued and exercisable post the AGM in February 2008. Under the terms of the facility warrants over shares representing 5% of the issued share capital were issued to HSBC Bank plc on 30th August, 2007.

Should Jessops be unable to issue the second tranche of the Warrants, this tranche will be replaced by the payment of a £3.0 million cash fee payable in February 2008.

The Group's bank borrowings carry a variable rate of interest linked to prevailing LIBOR rates. From time to time the Group enters into interest rate swaps and similar products to mitigate the risk of rises in UK interest rates. There are no such arrangements in place at 30th September, 2007.

These facilities are secured to HSBC Bank plc by a first fixed and floating charge over the Group's assets. A second ranking fixed and floating charge over the assets of The Jessops Group Limited and a pledge over the shares of Camera Equity Limited have been provided to the Trustees of the Jessops Group Limited Pension and Life Assurance Scheme (1993).

Pensions

Jessops operates a defined benefit pension scheme (The Jessop Group Limited Pension and Life Assurance Scheme (1993)), which was closed to new members in January 1997. The latest full actuarial valuation was carried out on 1st June, 2004 and was updated for IAS 19 purposes at 30th September 2007 by a qualified independent actuary. Under the IAS 19 valuation, the pension deficit decreased to £7.9 million at 30th September, 2007 (2006: £8.3 million). The Group is paying a monthly contribution of £130,000.

Jessops also has a defined contribution scheme ("The Jessop Group Limited Money Purchase Pension Scheme") into which it contributes between 1% and 6% of salary depending on the employee's age and length of service. This scheme is provided by Norwich Union and is compliant with stakeholder requirements.

William Rollason
Director

13th December 2007

Consolidated income statement - unaudited
For the year ended 30 September 2007

	Note	Results before non-recurring items for the year ended 30 September 2007 Unaudited £000	Non recurring items in the year ended 30 September 2007 (see note 2) Unaudited £000	Total year ended 30 September 2007 Unaudited £000	Year ended 30 September 2006 (as restated) Unaudited £000
Revenue		**320,754**	**4,731**	**325,485**	350,044
Cost of sales		**(221,954)**	**(21,308)**	**(243,262)**	(237,261)
Gross profit		**98,800**	**(16,577)**	**82,223**	112,783
Operating expenses		**(102,323)**	**(13,582)**	**(115,905)**	(96,382)
Impairment of goodwill		**-**	**(30,300)**	**(30,300)**	-
Operating (loss) / profit		**(3,523)**	**(60,459)**	**(63,982)**	16,401
Finance costs	3	**(7,094)**	**-**	**(7,094)**	(4,351)
Finance income	3	**1,333**	**-**	**1,333**	1,059
(Loss) / profit before amortization of finance fees and taxation		**(7,469)**	**(60,459)**	**(67,928)**	13,201
Finance fees	3	**(1,815)**	**-**	**(1,815)**	(92)
(Loss) / profit before taxation		**(9,284)**	**(60,459)**	**(69,743)**	13,109
Taxation	4	**1,479**	**4,803**	**6,282**	(4,576)
(Loss) / profit for the period		**(7,805)**	**(55,656)**	**(63,461)**	8,533
Earnings per ordinary share – basic	6			**(61.7)p**	8.3p
Earnings per ordinary share – diluted	6			**(61.7)p**	8.3p

All activities relate to continuing operations. All (loss) / profit is attributable to equity shareholders.

Consolidated statement of recognised income and expense - unaudited
For the year ended 30 September 2007

	2007 Unaudited £000	2006 (as restated) Unaudited £000
Actuarial (loss) / gain recognised in the pension scheme	**(419)**	1,232
Deferred tax on actuarial gain in the pension scheme	**126**	(370)
Impact of tax rate changes on deferred tax asset	**(162)**	-
Foreign exchange translation differences	**(18)**	2
Net income and expense recognised directly in equity	**(473)**	864
(Loss) / Profit for period	**(63,461)**	8,533
Total recognised income and expense relating to the period	**(63,934)**	9,397
Prior year adjustments	***(2,202)**	-
Total income and expense recognized since last annual report	**(65,136)**	9,397

*The impact of the prior year adjustment is solely on retained earnings.
All recognised income and expense is attributable to equity shareholders.

Consolidated balance sheet - unaudited
At 30 September 2007

	Note	**30 September 2007 Unaudited £000**	30 September 2006 (as restated) Unaudited £000
Non current assets			
Goodwill		**47,688**	77,064
Intangible assets		**7,982**	9,107
Property, plant and equipment		**36,115**	44,373
Deferred tax assets		**2,208**	2,557
		93,993	133,101
Current Assets			
Inventories		**37,967**	61,853
Trade and other receivables		**13,453**	10,636
Current tax receivable		**-**	1,049
Cash and cash equivalents		**13,079**	-
		64,499	73,538
Current liabilities			
Bank overdrafts and borrowings	8	**(348)**	(13,749)
Other borrowings	8	**-**	(1,291)
Obligations under finance leases	.	**(1,356)**	(2,262)
Trade and other payables		**(56,466)**	(59,141)
Current tax liabilities		**(557)**	-
		(58,727)	(76,443)
Net current assets / (liabilities)		**5,772**	(2,905)
Non current liabilities			
Borrowings	8	**(50,086)**	(19,717)
Obligations under finance leases	.	**(2,388)**	(2,529)
Other creditors	9	**(7,000)**	-
Retirement benefits obligations		**(7,886)**	(8,304)
Deferred tax liabilities		**-**	(2,962)
		(67,360)	(33,512)
Net assets		**32,405**	**96,684**
Equity			
Issued capital	10	**2,571**	2,571
Share premium	10	**89,161**	89,161
Retained earnings	10	**(59,311)**	4,950
Translation reserve	10	**(16)**	2
Total equity attributable to equity shareholders of the parent	10	**32,405**	**96,684**

Consolidated cash flow statement - unaudited
For the year ended 30 September 2007

		Year ended 30 September 2007 Unaudited £000	Year ended 30 September 2006 (as restated) Unaudited £000
Cash flows from operating activities			
(Loss)/profit before taxation		(69,743)	13,109
Adjusted for:			
Finance income		(1,333)	(1,059)
Financing costs		7,094	4,351
Depreciation and amortisation		13,774	9,910
Impairment of goodwill		30,300	-
Employee related share-based payments		246	186
Exchange difference		(18)	4
Loss / (profit) on disposal of property, plant and equipment		2,567	2
Pension contributions in excess of charge		(1,001)	(927)
Operating cash flows before movement in working capital		(18,144)	25,576
Decrease / (increase) in stocks		24,136	(5,402)
(Increase)/ decrease in debtors		(2,769)	814
(Decrease) / increase in creditors		(4,978)	8,582
Cash generated by operations		(1,725)	29,570
Taxes received / (paid)		5,335	(5,104)
Interest paid		(3,442)	(2,750)
Net cash from operating activities		168	21,716
Cash flows from investing activities			
Proceeds on disposal of property, plant and equipment		1,262	64
Acquisition of property plant and equipment		(5,704)	(10,609)
Acquisition of intangible assets		(923)	(1,397)
Acquisition of business assets		(200)	(97)
Net cash from investing activities		(5,565)	(12,039)
Cash flows from financing activities			
Proceeds from new bank loan		60,000	-
Repayment of borrowings		(27,500)	(5,500)
Repayment of finance lease liabilities		(2,476)	(2,970)
Payment of finance costs		(2,350)	-
Redemption of preference shares		(1,291)	-
Purchase of own shares		(115)	(54)
Dividends paid		(1,543)	(2,211)
Net cash from financing activities		24,725	(10,735)
Net increase/ (decrease) in cash and cash equivalents		19,328	(1,058)
Cash and cash equivalents at the beginning of the period		(6,249)	(5,191)
Cash and cash equivalents at the end of the period	7	13,079	(6,249)

Notes

1. Basis of preparation

The financial statements are being prepared on a going concern basis which the directors believe to be appropriate for the reasons set out below.

The company and the group meets its day to day working capital requirements and medium term funding requirements through banking facilities which are repayable in full on 31st December, 2008, which will be more than one year from the date of approval of the financial statements but within the foreseeable future. The nature of the group's business is such that there can be variation in the timing of cash inflows as trading patterns develop, in particular the quantum and timing of Christmas and summer trading activity. However the directors have prepared detailed projected cash flow information for the period ending twelve months from the date of their approval of the financial statements and a business plan forecast for a two year period beyond that date. Those projections and forecasts take into account such variations to an extent which they consider to be reasonable, based on the information that is available to them at the time of approval of this preliminary announcement. On the basis of this cash flow information the directors consider that the company and the group will be able to continue to operate within the facility currently in place (and meet covenants) during the period of the facility.

On 31st December, 2008 the amounts extended to the group under the banking facilities are repayable in full. The directors will have to renew or replace those facilities with facilities that are appropriate to the group's ongoing requirements. The potential source and cost of such facilities is a matter which the directors are currently considering. The availability of suitable facilities will be dependent on a number of factors including the financial performance, financial position and success of the cost reduction plan of the group; the economic environment and the level of borrowings the business will require and support in the context of the conditions in the credit market, at the time of refinancing.

These uncertainties may cast significant doubt on the company's and group's ability to continue as a going concern and therefore the company and the group may be unable to continue to realize its assets and discharge its liabilities in the normal course of business. This preliminary announcement does not include any adjustments that would result from the going concern basis of preparation being inappropriate.

The financial information set out above does not constitute the company's statutory accounts for the years ended 30th September, 2007 or 2006. The financial information for 2006 is derived from the statutory accounts for 2006, subject to the prior year adjustments disclosed in note 11, which have been delivered to the registrar of companies. The auditors have reported on the 2006 accounts; their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 237(2) or (3) of the Companies Act 1985. The statutory accounts for 2007 will be finalised on the basis of the financial information presented by the directors in this preliminary announcement and will be delivered to the registrar of companies in due course. We understand that the audit report in the financial statements will be modified to include an emphasis of matter relating to the assumption that the going concern basis of preparation is appropriate.

2. Non-recurring items

A new £66.5m banking facility was signed on 30th August, 2007 for the period up to 31st December, 2008. The Directors undertook a detailed strategic review of the business in support of this refinancing exercise which has involved the closure of 81 stores and the rationalization of the Head Office Support Centre, and a detailed program to reduce stock holdings within the business.

Further to this, the directors have performed a detailed review of the balance sheet which resulted in certain provisions being booked.

An analysis of the non-recurring items incurred in the year is given below.

	Revenue	Cost of sales	Operating Expenses	Impairment of goodwill £'000	Total
	£'000	£'000	£'000	-	£'000
Store closures	-	-	(9,509)	-	(9,509)
Head office reorganization	-	-	(1,288)	-	(1,288)
Cost of restructuring and reorganization	-	-	(10,797)	-	(10,797)
Stock clearance	4,731	(18,846)	-	-	(14,115)
Net restructuring costs	4,731	(18,846)	(10,797)	-	(24,912)
Professional fees	-	-	(1,285)	-	(1,285)
Total cost of corporate restructuring	4,731	(18,846)	(12,082)	-	(26,197)
Impairment of goodwill	-	-	(30,300)	(30,300)	(30,300)
Balance sheet review provisions	-	(2,462)	(1,500)	-	(3,962)
Total non-recurring items before tax	4,731	(21,308)	(13,582)	(30,300)	(60,459)

Following the strategic review and the reduction of the overall size of the business, the directors conducted a goodwill impairment review in accordance with IAS 36 "Impairment". The directors assessed the future cashflows of the business and due primarily to the reduced number of stores, they are not expected to recover the carrying value of the goodwill attaching to the business. Therefore an impairment charge of £30,300,000 has been recognised in the income statement as noted above.

Future cash flows were projected based on actual operating results and the group's current business plan following the strategic review mentioned above and were risk adjusted.

A pre-tax discount rate of 16.8% was applied in determining the recoverable amount of the units which the management has estimated to be the approximate weighted average cost of capital of the group.

3. Financial income and expense

	2007	2006 (as restated- note 11)
	£000	£000
Finance costs:		
Amortisation of finance fees	721	92
Fair value of warrants	1,094	-
Total finance fees	1,815	92
Bank borrowings	3,676	2,586
Other interest	197	317
Interest on pension scheme liabilities	1,406	1,356
Finance costs	7,094	4,351
Finance income:		
Expected return on pension scheme assets	(1,242)	(1,059)
Other interest	(91)	-
Finance income	(1,333)	(1,059)
	5,761	3,292

On 30 August 2007 the Group entered into a £60,000,000 loan facility with a further overdraft facility of £6,500,000.

Interest is charged on £20,000,000 of the borrowings at 3.00% over LIBOR, and on the remaining £40,000,000 of the facility at 5.25% over LIBOR. On the £40,000,000 the cash interest payment is 2.0% over LIBOR, with the remaining interest of 3.25% over LIBOR rolled-up and payable in December 2008. Furthermore, there is a further 2% cash interest charge on £2,000,000 of this £40,000,000 facility for the 6 months from 1 November 2007 to 30 April 2008.

Interest is charged at 5.25% over LIBOR on amounts drawn down from the overdraft facility.

The £20,000,000 facility is repayable on 31 December 2008. £2,000,000 of the £40,000,000 facility was repaid on 31 October 2007. Further repayments will be made of £6,000,000 on 30 April 2008 and £4,000,000 on 31 October 2008, with the remainder due for repayment on 31 December 2008.

A deferred financing fee of £7,000,000 is payable in December 2008 and is included in other creditors due in greater than a year – see note 9. This fee forms part of the finance fees which are deducted from the bank liability as shown in note 8 as the loan is measured at amortised cost in accordance with IAS 39. These fees are being recognised in the income statement over the period of the loan as they are part of amortised cost of the loan which is measured using the effective interest rate method. The remainder of the finance fees which have been treated in this way relates to one-off professional fees of £3,203,000 which were incurred in connection with the refinancing exercise.

A further fee involves the issue of warrants over unissued ordinary shares representing 10% of Jessops' issued share capital. 5% of these warrants were exercisable from 30 August 2007 with the remaining 5% exercisable post approval in the 2008 AGM. The treatment of these warrants, as prescribed by IFRS 2 'Share Based Payments', is to write off the fair value of the warrants immediately through finance costs in the income statement, with the credit going directly to equity. If the second tranche of warrants is not granted by 28 February 2008, a £3,000,000 cash fee is payable, but the directors have prepared the accounts on the assumption that the warrants are issued. Key judgements made by the directors were to determine the accounting policy in respect of the warrants and whether the warrant cost should be expensed immediately. They concluded that none of the events which could trigger the £3,000,000 cash fee is likely.

The facilities are secured by fixed and floating charges over the Group's assets.

Notes (continued)

4. Taxation

	2007	2006 (as restated - note 11
	£000	£000
Current taxation:		
UK corporation tax charge for the period	**(3,730)**	3,779
Adjustment in respect of prior periods	**-**	(374)
	(3,730)	3,405
Deferred taxation:		
Origination and reversal of timing differences	**(2,552)**	687
Adjustment in respect of prior periods	**-**	484
	(2,552)	1,171
	(6,282)	4,576

5. Dividends

	2007	2006
	£000	£000
Equity – ordinary		
Final for the year ended 30 September 2006 – paid 1.50p	**1,543**	-
Interim for the year ended 30 September 2006 – paid 0.75p	**-**	771
Final for the year ended 30 September 2005 – paid 1.40p	**-**	1,440
	1,543	2,211

The directors do not propose a final dividend for the year ended 30 September 2007.

Notes (continued)

6. Earnings per share

Basic and diluted earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity shareholders by the weighted average number of ordinary shares in issue during the period.

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. These represent 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.

Weighted average numbers of shares:

	2007	2006
	000	000
Weighted average number of shares in issue during the period	**102,861**	102,838
Weighted average number of dilutive shares	**-**	257
Number of shares for diluted earnings per share	**102,861**	103,095

Adjusted earnings per share

In addition to basic earnings per ordinary share, an additional adjusted earnings per share has been provided below which excludes one off costs (net of tax). The earnings used for the basic and additional calculations, together with the resultant basic earnings per share are shown below:

	2007	2006 (As restated – note 11)
	£000	£000
(Loss) / profit after tax for the period	**(63,461)**	8,533
Non-recurring costs post tax	**55,656**	-
Amortisation of finance fees post tax	**1,526**	60
Profit for the period excluding one off costs	**(6,279)**	8,593
Earnings per ordinary share – basic	**(61.7)p**	8.3p
Adjusted earnings per ordinary share – basic	**(6.1)p**	8.4p
Earnings per ordinary share – diluted	**(61.7)p**	8.3p
Adjusted earnings per ordinary share – diluted	**(6.1)p**	8.3p

Notes (continued)

7. Analysis of movement in net debt

	At 1 October 2006 (as restated note 11)	**Cash flow**	**Other non cash changes**	**At 30 September 2007**
Cash at bank and in hand	-	13,079	-	**13,079**
Bank overdraft	(6,249)	6,249	-	**-**
	(6,249)	19,328	-	**13,079**
Debt due within one year	(7,500)	1,850	5,302	**(348)**
Debt due after one year	(19,717)	(32,000)	1,631	**(50,086)**
B preference shares in Camera Equity Limited	(1,291)	1,291	-	**-**
Amounts due under HP and finance leases	(4,791)	2,476	(1,429)	**(3,744)**
Net debt	(39,548)	(7,055)	5,504	**(41,099)**

8. Bank borrowings

	2007 £000	2006 £000
Current:		
Bank overdrafts	**-**	6,249
Bank loans	**8,000**	7,500
B preference shares in Camera Equity Limited	**-**	1,291
Less: finance fees to be amortised within a year	**(7,652)**	-
	348	15,040
Non current:		
Bank loans	**52,000**	20,000
Less :finance fees to be amortised in more than one year	**(1,914)**	(283)
	50,086	19,717

9. Other creditors due in greater than one year

	2007 £000	2006 £000
Deferred financing fees – see note 3	**(7,000)**	-

Notes (continued)

10. Capital and reserves

	Share capital £'000	Share premium £'000	Retained earnings £'000	Translation reserve £'000	Total equity £'000
As at 1 October 2005 as previously reported	2,571	89,161	(2,920)	-	**88,812**
Prior year adjustments	-	-	527	-	**527**
As at 1 October 2005 as restated- note 11	2,571	89,161	(2,393)	-	**89,339**
Profit for the period	-	-	8,533	-	**8,533**
Employee share option scheme	-	-	186	-	**186**
Deferred tax on share options	-	-	27	-	**27**
Purchase of own shares	-	-	(54)	-	**(54)**
Actuarial gain (net of tax)	-	-	862	-	**862**
Currency translation difference	-	-	-	2	**2**
Dividends paid	-	-	(2,211)	-	**(2,211)**
As at 30 September 2006	2,571	89,161	4,950	2	**96,684**
At 1 October 2006	2,571	89,161	7,152	2	**98,886**
Prior year adjustments	-	-	(2,202)	-	**(2,202)**
As at 1 October 2006 as restated- note 11	2,571	89,161	4,950	2	**96,684**
Loss for the period	-	-	(63,461)	-	**(63,461)**
Employee share option scheme	-	-	247	-	**247**
Fair value of warrants issued			1,093	-	**1,093**
Impact of tax rate change on deferred tax asset			(162)	-	**(162)**
Deferred tax on share options	-	-	(27)	-	**(27)**
Purchase of own shares	-	-	(115)	-	**(115)**
Actuarial gain (net of tax)	-	-	(293)	-	**(293)**
Currency translation difference	-	-	-	(18)	**(18)**
Dividends paid	-	-	(1,543)	-	**(1,543)**
As at 30 September 2007	**2,571**	**89,161**	**(59,311)**	(16)	**32,405**

Notes (continued)

11. Prior period adjustments

In the year to 30 September 2007, the group identified a number of accounting adjustments in relation to prior years. This note sets out the impact of these adjustments on the financial statements.

Consolidated income statement

	Notes	Year ended 30 September 2006 As previously reported £000	Adjustment £000	As restated £000
Revenue		350,044	-	350,044
Cost of sales	a,b,c	(234,841)	(2,420)	(237,261)
Gross profit		115,203	(2,420)	112,783
Operating expenses	b,d	(95,220)	(1,162)	(96,382)
Operating (loss) / profit		19,983	(3,582)	16,401
Finance costs	d	(4,034)	(317)	(4,351)
Finance income		1,059	-	1,059
(Loss) / profit before amortization of finance fees and taxation		17,100	(3,899)	13,201
Amortisation of finance fees		(92)	-	(92)
(Loss) / profit before taxation		17,008	(3,899)	13,109
Taxation		(5,746)	1,170	(4,576)
(Loss) / profit for the period		11,262	(2,729)	8,533

Notes (continued)

11 Prior year adjustments (continued)

Consolidated balance sheet

	Notes	As at 30 September 2006 As previously reported £000	Adjustment	As restated £000
Non current assets				
Goodwill		77,064		77,064
Intangible assets		9,107		9,107
Property, plant and equipment	d	36,921	7,452	44,373
Deferred tax assets		2,557		2,557
		125,649	7,452	133,101
Current Assets				
Inventories		61,853		61,853
Trade and other receivables	c,d	13,466	(2,830)	10,636
Current tax receivable		105	944	1,049
		75,424	(1,886)	73,538
Current liabilities				
Bank overdrafts and borrowings		(13,749)		(13,749)
Other borrowings		(1,291)		(1,291)
Obligations under finance leases	d	(21)	(2,241)	(2,262)
Trade and other payables	a,b	(56,043)	(3,098)	(59,141)
Current tax liabilities		-		-
		(71,104)	(5,339)	(76,443)
Net current assets / (liabilities)		4,320	(7,225)	(2,905)
Non current liabilities				
Borrowings		(19,717)		(19,717)
Obligations under finance leases	d	(100)	(2,429)	(2,529)
Retirement benefits obligations		(8,304)		(8,304)
Deferred tax liabilities		(2,962)		(2,962)
		(31,083)	(2,429)	(33,512)
Net assets		98,886	(2,202)	96,684
Equity				
Issued capital		2,571		2,571
Share premium		89,161		89,161
Retained earnings	a,b,c,d	7,152	(2,202)	4,950
Translation reserve		2		2
Total equity attributable to equity shareholders of the parent		98,886	(2,202)	96,684

Notes (continued)

11 Prior year adjustments (continued)

Consolidated balance sheet

	Notes	As at 30 September 2005 As previously reported £000	Adjustment	As restated £000
Non current assets				
Goodwill		77,014	-	77,014
Intangible assets		9,393	-	9,393
Property, plant and equipment	d	31,808	8,438	40,246
Deferred tax assets		3,050	-	3,050
		121,265	8,438	129,703
Current Assets				
Inventories		56,429	-	56,429
Trade and other receivables		11,450	-	11,450
Cash and cash equivalents		4,809	-	4,809
		72,688	-	72,688
Current liabilities				
Bank overdrafts and borrowings		(15,500)	-	(15,500)
Other borrowings		-	-	-
Obligations under finance leases	d	(21)	(2,694)	(2,715)
Trade and other payables	a,b	(48,552)	(1,854)	(50,406)
Current tax liabilities		(423)	(226)	(649)
		(64,496)	(4,774)	(69,270)
Net current assets		8,192	(4,774)	3,418
Non current liabilities				
Borrowings		(28,416)		(28,416)
Obligations under finance leases	d	(121)	(3,137)	(3,258)
Retirement benefits obligations		(10,166)		(10,166)
Deferred tax liabilities		(1,942)		(1,942)
		(40,645)	(3,137)	(43,782)
Net assets		88,812	527	89,339
Equity				
Issued capital		2,571		2,571
Share premium		89,161		89,161
Retained earnings	a,b,c,d	(2,920)	527	(2,393)
Total equity attributable to equity shareholders of the parent		88,812	527	89,339

There are no changes to the reported cash flows as a result of the above adjustments.

11 Prior year adjustments (continued)

Following a detailed balance sheet review the following errors in prior year results have become apparent during the compilation of the Financial Statements for the year ended 30 September 2007. Immaterial of a like nature have been aggregated.

	Reference	Effect on reported profit for 2006	Effect on reported profit prior to 2006	Effect on 2006 reserves carried forward
		£000	£'000	£000
Reduction in reported profit				
Supplier claims	a	394	875	1,269
Duplicated and omitted entries	b	851	979	1,830
Marketing support monies	c	1,262	-	1,262
Reclassification of leases	d	1,392	(2,607)	(1,215)
Tax effect on the above		(1,170)	226	(944)
		2,729	(527)	2,202

The adjustments are described below:

a. The claims against suppliers relate to charge backs against them. The group previously and in error recognised these as being available for offset against invoiced amounts payable and so liabilities and cost of sales were understated.

b. The duplicated and omitted entries relate to clerical errors in respect of rebates, settlement discounts and other supplier related items which were erroneously recognized in the results of 2006 and prior years.

c. The marketing support monies relate to receipts recognized in the 2006 results in respect of marketing and other promotional activity that was directly funded by suppliers. A reconsideration of the terms of the receipts from the suppliers has concluded that in certain cases, the recognition of these receipts in the income and expenditure account should have been deferred. The marketing support payments have been received. The adjustment relates to the timing of recognition and not the realization of the sums concerned.

d. The reclassification of leases relates to equipment leases taken out by the group some years ago. Following a review of the terms of the leases, the directors are now of the opinion that the leases should have been classified as finance leases at inception under International Financial Reporting Standards (IFRS's) as adopted by the EU. Accordingly a retrospective adjustment has been made to recognise the assets concerned, recognise an associated finance lease liability and in the income and expenditure statement to replace operating lease rental charges with depreciation and finance lease interest. The cash cost to the group in respect of the arrangements is not affected by this change.

In addition to the above, an accumulated reconciliation error of £680,000 has been recognized in the non-recurring result within operating expenses for the current year on the basis that the period to which the error relates cannot be established with any certainty.

In each of the cases set out above, the directors are satisfied that the errors made in prior years have been properly identified as to the period to which they relate and that in aggregate they meet the definition of material prior period errors that require retrospective restatement under International Accounting Standard 8 "Accounting Policies, Changes in Accounting Estimates and Errors".