

14 Fashion Retail operating review



Pat Burnett
Chief Executive/Fashion Retail

Good progress with brand building, design and supply chain, but improved first half performance was not sustained in the second half.

| 13% of Group sales | 2001 | 2000 |
|---|-------|-------|
| | £m | £m |
| Sales | 156 | 149 |
| Operating profit/(loss) before reorganisation costs | (2) | 3 |
| Net assets | 51 | 52 |
| Return on year end net assets | n/a | 4.8% |
| Capital spend | 4 | 3 |
| Employees at year end | 2,959 | 3,088 |

Overall performance

Despite sales growth of 5%, full year results were disappointing. Difficult trading conditions in the second half offset the progress seen in the first.

Jaeger

First half sales improved 6% like-for-like, underpinned by a strong performance from the UK womenswear business. Key drivers behind this growth in both sales and margin were improved design of the collections and a move from discounting to premium trading. The brand building campaign to rediscover and rejuvenate Jaeger received a positive reception and the trial of our new store design was successful. Working capital improvements on the back of tight control of finished stocks and supply chain improvements had a positive impact on cash flow.

Second half sales were significantly impacted by the events of 11 September. Customer traffic in Central

London and the US was well down during the critical September and October months when the brand would normally achieve full price sales. This resulted in a greater need to discount to clear stocks during November and December. Sales were well up over the Christmas period and in total second half sales were 1% above the previous year. Margins however fell below last year.

Viyella

Viyella also enjoyed a strong first half, with like-for-like sales up 17% on the back of a buoyant High Street performance. Underpinning this growth was the introduction of new product categories in contemporary and weekend wear, leading to a broadening of the appeal of the range. Further progress has also been made in supply chain management and sourcing, supporting the key brand differentiator of looking good for longer quality product. Margins improved by two percentage points as a result of strong full price sales backed by value added promotions.

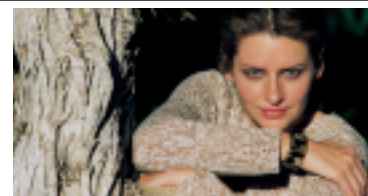
The second half saw a positive reaction to the new collection. However, an increase in discounting to clear stocks resulted in weaker margins on sales that were 2% ahead of the previous year.

Viyella continued to attract new customers and with additional new product is well placed to benefit from any upturn in consumer spending.

Fashion Retail

Jaeger

Viyella



Autumn/Winter 2001 menswear campaign.

Spring/Summer 2002 campaign.