

Thread

Operating profit before reorganisation costs £77.3 million (2001 – £72.7 million).

A strong second half performance, led by significant growth in our Asian businesses, more than offset a weak first half to deliver real progress over 2001. Sales growth in our industrial business reflected share gain in key global accounts. The migration of apparel and footwear manufacture from developed markets such as the USA, the UK, France and Germany to lower labour cost countries continued apace, allowing us to leverage our strong service capability in virtually all favoured locations. The crafts business performed well, notably in the USA and Germany, as cyclical interest in handknitting activity was maintained in 2002.

Thread sales 2002	£m	Like-for-like growth on same period of previous year*		
		Full year (%)	First half (%)	Second half (%)
Apparel thread	358.3	+2	-3	+8
Speciality thread	141.8	+3	-3	+10
Zips and trim	92.1	-3	-9	+5
Total industrial	592.2	+2	-4	+8
Crafts	325.1	+5	+1	+9
Other	5.3	-42	-29	-79
Total	922.6	+2	-3	+8

*Growth at constant exchange rates, excluding impact of acquisitions/disposals.

North America

The demand for industrial thread within the NAFTA area was subdued throughout the year. US consumer demand for apparel was generally flat and the expected inventory build after significant de-stocking in 2001 was not as strong as expected as retailers focused on shorter supply lead times. Another sharp contraction of garment manufacturing activity in the US occurred with China and other Asian markets being the main beneficiaries. However our sales of industrial thread in the Caribbean Basin Initiative area grew strongly as we benefited from recent investments in capacity for local service in the Dominican Republic and Honduras.

Pressure on industrial margins continued due to intense competitor pressure in the face of volatile and shifting customer demand. This was compensated by significant cost reduction action taken in the latter part of 2001, bolstered by further overhead reductions in 2002. Our significant investment in a comprehensive Mexican supply capability commenced in July and is progressing on schedule, with first production planned

for mid 2003. This will greatly enhance our local service capability and long term cost competitiveness.

The US crafts business again delivered a strong performance, bolstered by increased consumer interest in leisure crafts activity, our strong position with key retailers such as Wal-Mart, and increased emphasis on product innovation.

UK and Europe

Sales of industrial thread declined in Western Europe in the face of difficult market conditions, notably in Germany and France, and continued migration of manufacturing to the European rim and Asia. Competitive pressure also impacted margins. This was compensated by good sales growth in Eastern Europe as we strengthened our sales force and service capability in Romania, Bulgaria, Turkey and the Ukraine. The major expansion of capacity in Romania commenced in the fourth quarter and will come on-stream in mid 2003. Our business in Turkey benefited from a more stable exchange rate and strong sales growth to contractors servicing the European market.

Zip fastener sales were slightly down, reflecting a fashion change away from the zip as an aesthetic feature of the finished garment. Progress however was made in the latter part of the year in securing stronger European retailer specification for our Opti branded product.

Strong crafts sales were registered in Germany as a result of renewed consumer interest in handknittings. Crafts sales generally throughout Europe were robust, reflecting greater emphasis on product development and the leveraging of our comprehensive distribution capability, which now extends to Eastern Europe.

Asia

Demand for industrial thread grew strongly throughout the year, as a result of exceptional growth in exports of apparel and footwear to the USA in the latter part of the year. The major beneficiaries were China and Vietnam but all our Asian businesses recorded a strong second half as US and European retailers placed their faith in the Asian contractor base as an integral part of their ongoing supply chain. This had to a large extent been anticipated and the earlier expansion of capacity in our Asian units paid dividends. We continued to gain share in key footwear accounts with a number of new specifications being received

during the year including Nike, Wolverine, Timberland, Clarks and Dr. Martens. Consumer thread sales also grew as we exploited opportunities in markets where we have a strong industrial thread presence.

Expansion of capacity continued in the high growth markets during 2002 and in 2003 we intend to invest in a new factory in Southern China capable of servicing the expected surge in demand over the next five years. This unit will also provide low cost, high quality product for our European supply chain. Full production is planned for the first half of 2004. Elsewhere in Asia, service capability was strengthened with the opening of new units in Bangladesh and Thailand. Our Madagascar service unit re-opened at the end of the year as the political situation in the country stabilised and this will allow us to fully exploit sales growth potential in this region arising from the African Growth and Opportunity Act.

Our Indian business performed strongly in both the industrial and consumer thread segments as we benefited from strong growth in apparel exports and local demand. The successful buy-out of the minority stake in Madura Coats further strengthened our position in this highly strategic market.

South America

Reported profit for the year was again negatively affected by currency translation in Brazil. However underlying activity in all segments of our Brazilian business was strong, particularly in industrial thread as apparel exports grew on the back of an extremely competitive exchange rate. The acquisition in February 2003 of an industrial thread competitor, Vicunha, further strengthens our business and we are well-positioned to benefit from economic recovery in the region.

Other businesses

Operating loss before reorganisation costs £18.0 million (2001 – £4.3 million).

Further deterioration in the performance of non-core businesses was almost entirely due to Fashion Retail where the second half proved just as disappointing as the first half. Both Jaeger and Viyella were affected by weak demand and more intense competition in their respective segments, leading to a full year operating loss before reorganisation costs of £16.3 million (2001 – £2.3 million). As noted below, the majority of the Fashion Retail businesses were sold in January

for a nominal sum but over the next one-two years we expect to realise the value of the retained assets. Based on external valuations, eventual realisation of the retained assets is expected to lead to a net cash inflow of approximately £24 million.

Bedwear performance continued to be impacted by lower own-label sales but some improvement was seen towards the end of the year as cost savings started to come through. For the full year, operating loss before reorganisation cost was £1.5 million (2001 – profit £0.7 million). Since the year end, action has been taken to further reduce capacity so as to position the business to return to profit. Negotiations on the sale of the business are well advanced.

India Textiles benefited from earlier capacity reduction and the operating loss before reorganisation costs was reduced to £0.2 million (2001 – £2.3 million). Withdrawal from the business is now almost complete.

STRATEGY

The strong second half performance in Thread shows that the benefits of the decision to focus the Group's management and financial resources on Thread are beginning to come through. Good progress was made during 2002 in downsizing Western capacity whilst expanding in low cost locations. However, as stated previously, we expect this major restructuring of our global supply chain to continue until end 2004, at which point the full benefits of our leading global position in Thread should begin to flow through. The strategic priorities for the business remain unchanged. Continued focus on four critical areas of activity will enable us to further strengthen our competitive position and build on the momentum achieved in the latter part of 2002 into 2003 and beyond.

• Relationships with global retailers and brand owners

We will continue to invest resource to exploit this still emerging opportunity, drawing on our unique global spread and our growing understanding of retailer supply chains. In the short term this is the key to increased market share and growth in industrial thread. Longer term, our position as the leading supplier to garment exporters in emerging markets will enable us to benefit from the huge potential for growth in domestic consumption as living standards improve.

- **Cost-effective supply chain**

Continued reduction of capacity in Western Europe and North America will be complemented by the commissioning of significant new investment in capacity in Romania, Mexico and China. Reduction of the cost base in Western markets is the key to further growth in operating margins. In a volatile economic climate, strategic partnerships with global suppliers also contributed greatly to raw material cost stability during 2002.

- **Service capability in low cost locations**

During 2002 we further strengthened our service network with investments in Bulgaria, Thailand and Bangladesh and the expansion of capacity in high growth locations, notably China and Vietnam. We have now virtually completed our global service coverage. The emphasis moving forward is to extract maximum value from this service capability, both in terms of securing new business through the provision of an unparalleled fast response service as well as the achievement of world class performance standards to minimise cost and inventory.

- **Capitalise on Crafts position**

Our strong performance in Crafts is based on a relatively small number of markets and the opportunity exists to roll out successful product development on a broader scale, building on our existing international network.

Despite the highly uncertain economic and political environment, the combination of our strengthened leadership position in the global thread market and the significant reduction in exposure to non-core business allows us to face the future with confidence.

Martin Flower

Group Chief Executive