

Accounting standards

The Group's accounting policies fully reflect all applicable standards issued by the Accounting Standards Board.

Since 2001, FRS17 – Retirement Benefits has been fully adopted in preparing the accounts, in line with best practice. Unlike companies which are applying the transitional rules permitted by this standard, operating profit reflects the Group's full pension current service cost, with the expected return on pension scheme assets offset by interest on pension liabilities included as other finance income in the Group's profit and loss account. The full effect of this standard is set out in Note 29 to the accounts.

FRS19 – Deferred Tax, which requires a full provision to be made for deferred tax in respect of almost all timing differences, has been adopted in the accounts for 2002. The comparative figures for 2001 have been restated accordingly, resulting in a £27.3 million fall in shareholders' funds as at 31 December 2001. The full effect of this standard is set out in the Statement of accounting policies.

Post balance sheet events

The Group completed the disposal of the majority of its loss-making Fashion Retail businesses on 23 January 2003 for a nominal consideration, and the results of the businesses sold have been included within discontinued operations. The net assets of the businesses sold amounted to approximately £36.0 million.

No goodwill arose on the original acquisition of the business and the loss arising on disposal, including expenses, is approximately £38.0 million which will be reflected in the 2003 accounts. The Group retains certain assets of these businesses, primarily including the rights to a long term lease and Jaeger's US business, which based on external valuations are expected to ultimately realise approximately £24.0 million.

In addition, on 28 February 2003, the Group completed its acquisition of the industrial thread business of Vicunha Textil, Brazil's largest textile manufacturer, for approximately £6.0 million. Goodwill of approximately £5.0 million arises on this acquisition, and will be accounted for in the 2003 accounts.

Review of operating results

Operating profit after reorganisation and other exceptional costs increased by 12% to £40.2 million

(2001 – £35.9 million), on turnover of £1,155.6 million (2001 – £1,247.0 million).

This reflects a good underlying performance by the Thread business, as set out below:

Thread operating profit

£m	2001			2002		
	H1	H2	Total	H1	H2	Total
UK and Europe	13.0	5.1	18.1	7.6	5.2	12.8
North America	8.9	2.8	11.7	3.8	8.2	12.0
South America	6.9	5.7	12.6	4.7	6.8	11.5
Asia	15.2	14.3	29.5	15.1	20.6	35.7
Corporate	(2.5)	3.3	0.8	(2.4)	7.7	5.3
	41.5	31.2	72.7	28.8	48.5	77.3
Margin (%)	8.5	6.9	7.8	6.2	10.6	8.4
Reorganisation costs and exceptional items	(13.2)	(13.6)	(26.8)	(8.7)	(6.5)	(15.2)
Total	28.3	17.6	45.9	20.1	42.0	62.1
Half year split (%)	62	38		32	68	

As noted in the Chief Executive's review, in 2002 the Thread business experienced a strong recovery in the second half whilst continuing to downsize Western capacity and invest in low cost economies in Asia. Profits in Asia for the full year increased by 21% and represented almost half of total Thread profits. Operating margins strongly recovered in the second half as a result of cost reduction initiatives and improved capacity utilisation, leaving full year margins 0.6 percentage points higher than the previous year.

Corporate benefited from a £4.1 million increase in royalties from Group subsidiary companies as well as a £3.7 million (2001 – £1.9 million) benefit from the write off of negative goodwill arising on the purchase of minority interests in accordance with FRS10 – Goodwill and Intangible assets, and as set out in note 21 of the accounts.

Whereas Thread performance deteriorated during the second half of 2001, it improved throughout 2002, and 68% of 2002 profits were generated in the second half of the year, giving the Group a solid platform for 2003.

Operating losses after reorganisation costs and exceptional items from the Group's other businesses, namely India Textiles, Fashion Retail and Bedwear, totalled £21.9 million (2001 – £10.0 million). The progress made in exiting these businesses is detailed below.

Disposals

The Group has made substantial progress in withdrawing from its non-Thread businesses. The ongoing withdrawal from India Textiles will be completed in 2003, and operating losses after reorganisation costs were reduced to £0.5 million (2001 – £2.3 million). Exit costs amounted to £7.0 million (2001 – £12.8 million) and as in 2001 are included in the loss on sale or termination of operations. The Jaeger Knitwear manufacturing business was sold in December 2002 at a loss of £3.1 million, and, as noted above, the majority of the loss-making Fashion Retail businesses were sold subsequent to the year end. Discussions are well advanced on the sale of the Group's Bedwear business.

Gains on sales of property and other assets made surplus by the reorganisation and disposal programme totalled £8.7 million (2001 – £13.6 million). In total, the net loss on sale or termination of operations and asset sales was £1.4 million (2001 – £13.2 million).

Interest and tax

Net interest costs fell to £9.4 million (2001 – £10.5 million) reflecting a reduction in debt.

FRS17 other finance income increased to £14.3 million (2001 – £10.2 million). This includes a £3.9 million refund from the winding up of a discontinued pension scheme. The balance represents the net of the expected return on pension scheme assets offset by interest on pension liabilities, and is a non-cash item. Further details are contained in note 29 of the accounts.

Profit before tax increased significantly to £44.6 million (2001 – £23.0 million). On the IIMR basis (before goodwill and FRS3 exceptional items) profit before tax was £44.4 million (2001 – £38.0 million).

The tax charge was reduced to £9.1 million (2001 – £11.0 million). This charge is made up of tax on profits of overseas subsidiaries, while losses continued to be generated in the UK, primarily by the Fashion Retail division. The reduction in the tax charge reflects refunds of prior year tax in both the UK and the US.

Basic earnings per share increased to 4.2p (2001 – 1.4p) and headline earnings per share increased to 3.8p (2001 – 2.8p).

Dividends

In connection with the recommended offer announced on 6 March 2003, the Board has declared a special second interim dividend of 2.5p (in lieu of a final dividend for the year just ended). The payment of this dividend is conditional on the offer being declared wholly unconditional. In the event that this offer is not successful, this special second interim dividend will not be paid. In this situation the Board will propose a final dividend.

Pension arrangements

The Company operates a defined benefit plan in the UK. This plan was in surplus at 31 December 2002 and remains open to new members. There are similar arrangements in the US where the plan is also in surplus. Continued suspension of employer contributions has been recommended by the actuaries in both cases.

The Group's recognised pension assets at 31 December 2002 have fallen to £31.1 million (2001 – £50.7 million), of which £11.5 million (2001 – £24.4 million) represents the surplus in the UK plan net of deferred tax and the remainder represents surpluses in North America plans.

The gross surplus in the UK plan at the beginning of the year was £219.0 million, of which £34.9 million was recognised, being the present value of the long term contribution holiday. The surplus reduced significantly to £16.5 million at 31 December 2002, reflecting the fall in equity markets during the year.

There are various pension and leaving indemnity arrangements in other countries, primarily in Europe, which in general are not funded. These liabilities amounted to £60.9 million (2001 – £49.8 million) net of deferred tax at 31 December 2002.

£28.5 million (2001 – £4.4 million) of the deterioration in recognised pension assets and liabilities has arisen as the actuarial assumptions made in the valuation at 31 December 2001 were not met or have been changed. In accordance with FRS17, this has been charged to the statement of total recognised gains and losses.

Balance sheet and cash flow

Net cash inflow from operating activities increased by £13.8 million to £100.7 million (2001 – £86.9 million), reflecting a £18.8 million improvement (2001 – £10.1 million deterioration) in working capital.

The disposal of businesses and surplus assets generated £17.7 million (2001 – £57.1 million).

Capital expenditure was £56.9 million (2001 – £54.9 million), including key projects in Mexico, China and Indonesia. After adjusting for year-end creditors, actual cash outflow was £48.6 million (2001 – £54.7 million). £11.6 million (2001 – £22.4 million) was spent on acquisitions, primarily the purchase of minority interests.

Net debt fell from £128.1 million at the start of the year to £104.4 million. Shareholders' funds fell from £515.4 million to £463.7 million, reflecting the £28.5 million actuarial loss and a £25.4 million (2001 – £12.2 million) exchange loss charged to the statement of total recognised gains and losses. Gearing was 20.8% (2001 – 22.1%).

Treasury

At the year end, the Group had undrawn committed facilities which expire after more than one year of £117.8 million (2001 – £86.5 million). The Group's convertible bonds of £60.4 million come due for redemption at their principal value on 9 August 2003. The Group was not in breach of any of its borrowing covenants.

The Group's policy is to minimise exposure to changing interest rates by ensuring an appropriate balance of fixed and floating rates. The exposure is managed through the use of interest rate swaps and forward rate agreements, the nominal principal of which does not exceed the underlying debt and cash positions covered.

Following the restructuring of the UK businesses, the majority of the Group's profits, cash flows and assets relate to its overseas Thread operations and are denominated in a range of currencies. The principal exchange rates used in preparing the financial statements were as follows:

		2002	2001
Average	US\$	1.50	1.44
	Euro	1.59	1.61
Year end	US\$	1.61	1.46
	Euro	1.53	1.63

Borrowings are drawn or swapped into US dollars to hedge the impact of changes in the sterling/US dollar exchange rate on the translation of US dollar denominated assets. Further details are contained in Note 19 of the accounts. The Group's translation exposure in the profit and loss account is not hedged. The translation of 2001 overseas turnover and operating profit at 2002 average rates reduces sales and operating profit by £30.1 million and £2.0 million respectively.

Going concern basis

The financial statements have been prepared on a going concern basis.

Under the terms of the Company's £172 million committed bank facilities, in the event of a change in control, the Company must negotiate with a view to agreeing terms and conditions acceptable to the lenders for continuing to make the facilities available.

In recommending the current offer from Avenue Acquisition for the ordinary share capital of the Company, the Directors have assessed the likelihood of the facilities not continuing to be made available and, if they are not available, whether alternative facilities can be negotiated and agreed. In forming their assessment, the Directors have had regard to the considerable investment made in the share capital of the Company by the acquiror and the structure of that investment, as well as to certain representations made by Avenue Acquisition and Guinness Peat Group plc regarding their intentions either to invite the Company's existing banks to continue making the facility available with changes acceptable to the various parties or to re-finance the facility through Avenue Acquisition's own bankers. In the circumstances, the Directors have no evidence to suggest that the facilities will be withdrawn or that a re-financing would not be achievable and accordingly the Directors continue to believe that it remains appropriate to adopt the going concern basis in preparing the Company's financial statements.

After making enquiries, and based on the above the Directors have formed a judgement that at the time of approving the financial statements, there is a reasonable expectation that the Group has sufficient resources to continue in operational existence for the foreseeable future.

Jonathan Lea

Group Finance Director