

Lambert Howarth Group p.l.c.

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Annual report and accounts 2001

LAMBERT HOWARTH IS A DESIGN, RESOURCING AND DISTRIBUTION BUSINESS SUPPLYING FOOTWEAR, ACCESSORIES AND HOMEWARE OF OWN LABEL AND BRANDED LINES TO RETAILER CUSTOMERS.



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	2001 £'000	2000 £'000
Turnover	151,913	134,851
Operating profit before goodwill and exceptional items	9,462	11,409
Profit before taxation, goodwill and exceptional items	8,118	11,318
Earnings per share before goodwill and exceptional items	25.0p	37.0p
Dividends per share	8.0p	15.0p

stronglypositioned



The group has been refocused into three divisions: **Marks & Spencer, Brands** and **Orient** and emerges from a difficult year with exciting ranges and improved focus and direction.



Our **Marks & Spencer division** has been established specifically to look after this major customer. Our innovative design and high quality of service have established us as a leading supplier.

We have focused our attention on design and development to create ranges to excite the customer and stimulate increased demand for our products.

MARKS & SPENCER division



The 'Ultimate Tote bag' is the best selling bag ever sold within Marks & Spencer. The Ultimate range is being developed to include a backpack, briefcase, overnight bag and a luggage/cabin bag. These are based on our designs and supplied exclusively to Marks & Spencer.





Since 2000 our **Brands division Concept LH**, has become an established footwear brand developer taking advantage of an increasing demand for innovative branded footwear and accessories.

We have signed our first two licences with **French Connection** and **Lulu Guinness**. Each of these enjoys a strong following in its own market areas. The first products will be launched in Spring 2002.

BRANDS division



fcuk*







Our **Orient division** now imports one of the widest collections of home accessories in the UK: lighting, soft furnishings, bathroom textiles, decorative items and kitchen accessories.

This enables us to offer a co-ordinated story for any room of the house. In December 2001 we acquired **Natural Selection International**, a similar but smaller business based in Barcelona which affords us the opportunity to accelerate organic growth in European markets.

ORIENT division



Results for the year to 31 December 2001

Trading conditions during 2001 were difficult and our retail sales suffered throughout the spring and were hampered further by the poor economic environment in the second half of the year. However, there was a marked improvement towards the year end and the Christmas trading period was strong.

The group's turnover increased by 12.6% to £151.9 million from £134.9 million in the previous year principally as a result of the acquisition of Orient Sourcing Services Limited at the end of 2000. Operating profit on continuing activities, before goodwill amortisation, was £9.4 million compared with £9.8 million last year.

Profit on ordinary activities before tax, goodwill and exceptional items was £8.1 million compared with £11.3 million in the previous year as the group experienced sustained pressure on margins and adverse performance in now discontinued operations.

The exceptional items, totalling £2.3 million excluding goodwill adjustments, represent the aggregate of the closure costs of Global Homeware, the General Trade Footwear division, sale of the Safety Footwear business and the gains on the sale of surplus properties.

Earnings per share calculated before goodwill and exceptional items were 25.0p against 37.0p in 2000.

In view of the company's performance, the Board is proposing a final dividend of 5.0p per share (11.0p per share in 2000) which, together with the interim dividend, makes a total for the year of 8.0p per share (15.0p per share in 2000). The final dividend will be paid on 14 May 2002 to shareholders on the register on 12 April 2002.

Strategy

Throughout the year the management has focused on developing the group's strategy of establishing itself as a comprehensive accessory supplier. As a result the group has withdrawn from a number of its non core activities that were no longer offering adequate growth potential in order to concentrate solely on footwear, accessories and homeware. The business is now in a much stronger position to drive future profitability and growth.

Throughout the year the management has focused on developing the group's strategy of establishing itself as a comprehensive accessory supplier.

We have looked for opportunities to extend our activities outside the UK and on 18 December 2001 we acquired Natural Selection International based near Barcelona. We intend to develop this business alongside Orient and increase the Spanish company's limited product range significantly.

Our newly founded Brands division, Concept LH, is now firmly established following the grant of

It is gratifying for both James and I to see the major advance the group has made in the last 12 months to reposition its activities to create a stronger and more diversified business.

The stewardship from Fred Vinton, incoming Chairman, will add experience as the group grows internationally and in the drive to enhance shareholder value.

Outlook

From a difficult start in 2001, your Board and senior management have worked hard to maintain the group's capability to design and resource high quality footwear, homeware and accessories. Furthermore the actions that we have taken to renew the group's focus have been significant. The year has started well and I believe that the strategy we now have in place puts us in a strong position going forward.



R A R Garfit
Chairman

12 March 2002

“The year has started well and I believe that the strategy we now have in place puts us in a strong position going forward.”

licences towards the end of 2001 by French Connection and Lulu Guinness, both skilled international retailers. We believe this business represents an exciting opportunity for the group with significant growth prospects for the medium term. The initial launch of products in the UK and USA is in the spring of this year.

Board

As announced at the time of our interim results in 2001, I will be standing down as Chairman and leaving the group following the Annual General Meeting in May. Similarly, James Howarth, the great grandson of the founder of the group, is also standing down from the Board in May and leaving the group in August 2002.



2001 has been a challenging year for the group. We have reviewed the group's operations and implemented a rationalisation programme to eliminate areas of under performance and to focus on our core activities where we see growth opportunities.

The rationalisation included the closure of our Marks & Spencer homeware division (Global Homeware) and the General Trade Footwear division, both of which have been successfully completed, together with the sale of our Safety Footwear business. The exceptional costs of this programme, partially offset by the sale of surplus properties which resulted in an exceptional profit on disposal of £0.9 million, amounted to £2.3 million prior to goodwill adjustments of £5.5 million. The withdrawal from these areas of business has released cash for investment in our core activities where we see potential for higher returns.

We have reviewed our footwear and accessories operations and reduced costs to improve profitability. The benefits of this action are expected to be experienced fully in 2002. We will continue to ensure we match resource levels with demand, across our business.

The concentration of resources and management in our main areas of activity in footwear, accessories, homeware and brands enables us to build a group which is a leading fashion accessory supplier serving markets in the UK and overseas. Market conditions remain competitive but we are confident that the hard work we have put into restructuring the business will provide us with opportunities from which we can deliver better returns.

Operations

Our operations are organised under three divisional structures: Marks & Spencer, (footwear and accessories); Brands (footwear and accessories) and Orient (homeware).

Marks & Spencer division

Footwear

We experienced difficult trading conditions during the year and demand was initially weak before a sales uplift in the autumn. The Christmas season produced an increase in sales over 2000.

The range of Footglove shoes, which we supply exclusively to Marks & Spencer, were especially popular and they experienced a significant increase in demand over the previous year. However, pressure on margins caused us to experience decline in profitability.

We have focused our attention on design and development to create ranges to excite the customer to stimulate increased demand for our products.

Accessories

Sales were higher in 2001 than in the previous year with our products providing a strong appeal to the customer although our profitability was reduced. We believe the accessories operation to be an exciting part of our business. The key for success in this area comes from innovation and design which we are well placed to deliver.

Brands division

During the year our new Brands division, Concept LH, advanced its plans to establish a significant business within the footwear and accessories market. We succeeded in securing licences to supply footwear for French Connection and Lulu Guinness, with ranges to be available in stores for the coming autumn season.

The concentration of resources and management in our main areas of activity in footwear, accessories, homeware and brands enables us to build a group which is a leading fashion accessory supplier serving markets in the UK and overseas.

Each of these brands has a strong following in its own market areas. French Connection and FCUK enjoy high brand recognition for fashion clothing and Lulu Guinness occupies a place in the luxury market, especially in the USA, for designer bags.

We will design, develop and supply product under the licence agreements, working closely with each partner. The ranges for the first season, now developed, have been received with enthusiasm.

As part of our stated strategy of expansion into mainland Europe we acquired Natural Selection International, a Spanish home accessory company, at the end of December 2001 for an initial consideration of £1 million with a potential further payment to the vendors of up to £0.5 million dependent upon profit performance. Natural Selection with its product synergies and common supply sources affords us considerable growth potential for our homeware operation.

People

We have a committed and highly talented team who have demonstrated professionalism and loyalty in what has been a difficult year. I would like to thank them all on behalf of the Board.



G T Hogarth
Chief Executive

12 March 2002

“We have a committed and highly talented team who have demonstrated professionalism and loyalty. I would like to thank them all on behalf of the Board.”

We are confident we will build a significant brands business in the fashion accessories market where we have identified an increased demand for products which co-ordinate with premium fashion clothing.

Orient division

Orient has continued to perform well, achieving sales expectations and contributing significantly to the group's profitability. The extension of the product offer to include bedding to complement the range of soft furnishings with home accessories and giftware provides us with greater opportunities to grow the business.



Results

Turnover increased by 12.6% to £151.9 million from £134.9 million in 2000 principally as a result of a full year's contribution from Orient Sourcing Services Limited.

Operating profit on continuing activities before goodwill amortisation was 4% lower than last year at £9.4 million (2000: £9.8 million), a reflection of the difficult trading environment experienced.

Exceptional items of £2.3 million, excluding goodwill adjustments, represents the aggregate of the closure costs of Global Homeware, General Trade Footwear division, the loss on disposal of the Safety Footwear business and amounts written off investments, in part covered by the gains on disposal of surplus properties of £0.9 million.

The rationalisation and withdrawal from under performing areas of business releases cash for investment in our core activities.

In addition, an adjustment of £5.5 million has been included in the profit and loss account in respect of goodwill previously written off to reserves in relation to the Safety and Homeware businesses. No effect on the value of the group net assets arises as a result of this goodwill adjustment.

Operating review

The Operating review has been incorporated within the Chief Executive's review of operations.

Acquisition

On 18 December 2001, we acquired the whole of the share capital of Natural Selection International S.A., based in Spain, for an initial consideration of £1 million in cash with a potential further cash payment of £0.5 million, should an agreed profit target be met for the year ending 31 March 2002.

Earnings and dividends

Earnings per share, before goodwill and exceptional items, have declined to 25.0p from 37.0p.

The Board is proposing a final dividend of 5.0p (2000: 11.0p) making the total dividend per share 8.0p (2000: 15.0p). The total dividend is covered 2.3 times by earnings excluding goodwill.

Cash flow

A net cash outflow of £5.9 million (2000: £9.2 million) occurred in the year including the cost of the acquisition of Natural Selection International S.A.. The outflow reflects the amount of monies deposited of £6 million for the repayment of loan notes. The net cash at the end of the year was £1.5 million and set against the loan notes and deferred consideration results in gearing of 32%.

Pensions

The introduction of Financial Reporting Standard FRS 17 will require the group to reflect in its accounts the assets and liabilities which exist at the balance sheet date for its defined benefit pension schemes. The adoption of this controversial standard in full is permitted over a 3 year transitional period.

Under the transitional arrangements, balance sheet information is required for 2001 in the notes to the accounts whilst the profit and loss account and balance sheet continue to be prepared in accordance with Statement of Standard Accounting Practice (SSAP) No. 24.

The latest actuarial valuation of the group's principal pension scheme was March 2001 and in common with many other defined benefit schemes shows a deficit. The deficit is being spread over the future service lives of scheme members in accordance with SSAP No. 24.

Under FRS 17, the notes to the accounts include the effect of recognition of the group's pension fund deficit (as measured at the balance sheet date) on shareholders' funds were this deficit to be funded immediately. FRS 17 is expected to create significant variations in companies' reported profit performance once it is fully adopted.

“We have reviewed our footwear and accessories operations and reduced costs to improve profitability.”

With such uncertainty and given the increasing cost of pension provision under defined benefit arrangements the group will close its principal scheme to all new members from 30 March 2002. A stakeholder scheme is to be established for employees joining the company from 31 March 2002.

Goodwill

In accordance with FRS 10 goodwill arising on acquisitions since 1998 has been capitalised and included in the balance sheet and amortised, a charge of £3.4 million (2000: £1.6 million) is reflected in these accounts.

Under the purchase agreement for the acquisition of Orient Sourcing Services Limited, additional consideration is payable as an earn-out based upon the profit performance over the two years 2001 and 2002. In the 2000 accounts, the additional contingent consideration was estimated at £3 million for the Orient Sourcing Services business. In the 2001 accounts the potential earn-out has been reassessed at £1 million.

“The rationalisation and withdrawal from under performing areas of business releases cash for investment in our core activities.”

Treasury policy

The group's exchange rate exposure arises principally from the resourcing of its products overseas for supply to our customers. The treasury function is controlled centrally and the policy is approved by the Board with the view to limiting financial risk and exposure. Speculative purchases or sales of foreign currencies are not permitted.

Day-to-day foreign exchange transactions are dealt with at operating level mainly by currency hedging.

Forward foreign currency exposures and hedging positions are reported to the Board each month for review.

The group's borrowing facilities are set each year to accommodate the expansion of business and to reflect the seasonal nature of its activities.

The group entered into a credit facility agreement with its bankers Barclays Bank Plc and ABN Amro Bank NV to provide a revolving credit and guarantee facility of £20 million to December 2003, when it acquired Orient Sourcing Services Limited. Funds are set aside under the agreement of £3 million each half year from 30 June 2001 to provide for redemption of the loan notes that were issued on the acquisition.

The funding needs for the group, except the loan note guarantee and revolving credit facility, are short-term in nature and most suitably met at floating rates of interest.

Interest rate exposure on the loan notes and guarantee facility are managed by hedging instruments as necessary to protect the group against interest rate fluctuations.

The group's surplus funds are held centrally to be applied as cash cover against the guarantee facility, surplus funds when these arise are held on short-term deposit with approved financial institutions.



J D Gibson
Finance Director

12 March 2002

Directors and advisers

Robert Garfit

Non-executive Chairman

Age 54. Joined the group in February 1983. Appointed to the Board in May 1985 and to the role of Group Managing Director in July 1991 becoming Chief Executive in November 1999 prior to the acquisition of Fast Forward Holdings Limited. Appointed Chairman in May 2000. Robert Garfit has held various senior positions in companies supplying Marks & Spencer throughout his career. In June 1996, he was appointed a non-executive director of SATRA Technology Centre.

Garry Hogarth

Chief Executive

Age 46. Co-founder of Fast Forward, has been responsible for establishing and maintaining the supplier and designer networks of the Fast Forward Group since its foundation in 1988. Joined the Board in November 1999. Appointed Chief Executive in May 2000. He began supplying scarves to Marks & Spencer in 1979 and has maintained and developed contacts with them ever since. In 1974 he commenced working for Tweeddale, a textile business controlled by his family, which he left in 1988.

John Gibson

Group Finance Director

Age 52. Appointed Finance Director in January 1997.

A chartered accountant, he has held a number of senior financial appointments including finance director of Readicut International plc.

Richard Brainin

Executive Director

Age 47. Co-founder of Fast Forward. Appointed to the Board in November 1999. Richard is responsible for the group's strategic development.

After leaving Bache in 1976, he set up and ran his own commodities business which was sold in 1982. During the eighties he managed his own portfolio of private investments prior to the formation of the Fast Forward Group in 1988. Currently a director of several property and investment companies.

James Howarth

Executive Director

Age 53. James is the fourth generation of Howarth family being the great grandson of the founder of Lambert Howarth. Appointed to the Board in August 1977. James has worked 37 years for the group mainly concentrating on production, technical and latterly quality management.

Simon Arora

Executive Director

Age 32. Following a Law degree at Cambridge University, Simon started his career working for strategic management consultants McKinsey & Co. That was followed by venture capital and banking experience at 3i plc and BZW. In 1995, he joined the family business, Orient Sourcing Services. Simon was appointed to the Board of Lambert Howarth following Orient's acquisition in December 2000.

Directors and advisers (continued)

Fred Vinton †⁰

Independent non-executive Director

Age 63. A Harvard graduate, Chairman of Electra Partners. Appointed to the Board in May 2000.

He has worked for JP Morgan in the US, South America and London and was Senior Vice President responsible for the bank's operations in the UK, Ireland and Scandinavia. He was Chief Operating Officer at NM Rothschild & Sons and Chief Executive of the Bemberg Family Group. Currently a director of a private family fund management company and the Amerindo Internet Fund plc.

Kate Swann †⁰

Independent non-executive Director

Age 37. Appointed to the Board in August 2000. Kate is Managing Director of Argos, the high street retailer, part of GUS Plc. Prior to joining Argos in December 2000 Kate was Managing Director of Homebase Limited having joined as Marketing Director three years earlier. Kate has held a number of senior marketing roles with major high street companies.

† Member of the Audit Committee

⁰ Member of the Remuneration Committee

Registered no: 943053

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London
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Directors' report

for the year ended 31 December 2001

The directors present their report together with the audited financial statements for the year ended 31 December 2001.

Principal activity, business review and future developments

The principal activity of the group continues to be the design, resourcing and distribution of footwear, homeware and accessories for supply to retailers. During the year, the group has discontinued its activities in ceramics and the Safety and General Trade footwear businesses.

The consolidated profit and loss account for the year is set out on page 24.

A full review of the year and future developments is contained in the Chairman's statement on page 8, in the Chief Executive's review of operations on page 10 and the Financial review on page 12.

Dividends and reserves

An interim dividend of 3.0p per share (2000: 4.0p) was paid on 10 December 2001.

The directors recommend a final dividend of 5.0p (2000: 11.0p) per share. This is payable on 14 May 2002 on the ordinary shares in issue to the members on the register at the close of business on 12 April 2002.

The retained loss for the year (2000: profit) has been transferred to reserves.

Directors and their interests

The directors of the company, all of whom have been directors throughout the year ended 31 December 2001, are listed on pages 14 and 15.

Mr R A R Garfit and Mr J C Howarth retire in accordance with the Articles and are not offering themselves for re-election. Mr G T Hogarth and Mr R A Brainin who retire by rotation in accordance with the Articles are offering themselves for re-election.

The interests of the directors in the shares of the company at 31 December 2001 and 11 March 2002 are disclosed in the Remuneration report on page 18.

Details of significant contracts with directors can be found in note 30 to the accounts.

Employees

The group gives full and fair consideration to applications for employment made by disabled persons. If employed persons become disabled, all possible assistance is given to them to continue in their existing job, or in an alternative position within the group. All employees, whether disabled or not, share in any available opportunity for training and progression.

The group is committed to a policy of communication and consultation with its employees. Joint consultation procedures exist and financial and economic factors affecting the performance of the group are discussed and copies of the group financial statements are provided to employees on request.

Substantial shareholdings

Shareholders holding more than 3% of the shares of the company at 11 March 2002 were:

	Number of shares	% issued share capital
R A Brainin	3,686,030	16.24
G T Hogarth	3,686,030	16.24
The Equitable Life Assurance Society	2,828,600	12.46
Schroder Nominees Limited	1,496,841	6.60
S Arora, B Arora and J Arora	1,436,781	6.33
Pershing Keen Nominees Limited	883,000	3.89
J C and J H Howarth	840,324	3.70
The Henderson Smaller Companies Investment Trust plc	760,000	3.35

So far as the directors are aware, no other person or group of persons has or had on 11 March 2002 an interest amounting to 3% or more of the shares of the company.

Directors' report (continued)

for the year ended 31 December 2001

Authority to allot shares

The authority of shareholders is, pursuant to Section 80 of the Companies Act 1985, required to enable directors to allot shares. Accordingly, in line with the company's usual procedure, resolution 6 seeks authority for the directors to issue shares within the limits of the increased authorised share capital for the period ending on 8 May 2007. This authority is sought in respect of unissued shares to an aggregate nominal value of £230,615 being 10.2% of the company's issued share capital. It is intended to seek renewal of this authority at the 2003 and subsequent Annual General Meetings. The directors have no present intention of exercising the authority sought.

Permission to allot a limited number of shares other than to existing shareholders

A company wishing to make issues of equity capital for cash otherwise than to existing equity shareholders in proportion to their shareholdings may, if it has obtained the requisite general authority from its shareholders, do so without the need for the approval of its shareholders for each actual issue as it arises. In line with the company's usual procedure, resolution 7 which is dependent upon resolution 6 being passed is proposed in order to give the directors a general authority to allot equity shares for cash other than on a pre-emption basis to existing shareholders.

This power is sought in respect of unissued ordinary shares to an aggregate nominal value of £113,469 being 5% of the company's issued share capital as shown in these financial statements. If given, this authority will expire at the conclusion of the Annual General Meeting to be held in 2003 or 8 August 2003 whichever is the sooner and it is intended to seek its renewal at that and subsequent Annual General Meetings.

Political and charitable contributions

	2001	2000
Charitable contributions	£2,500	£3,000

No political contributions were made during the year (2000: £nil).

Payments to suppliers

Whilst no formal code is followed, the group's policy is normally to pay suppliers according to agreed terms of business. These terms are agreed with suppliers upon entering into binding contracts and the group's policy is to adhere to the payment terms providing the relevant goods or services have been supplied in accordance with the contracts.

The group's average creditor payment period at 31 December 2001 was 19 days (2000: 25 days) and that of the company was 11 days (2000: 31 days).

Directors and officers liability insurance

It is confirmed that the company purchased Directors and Officers liability insurance for the year ended 31 December 2001.

Post balance sheet events

Details of post balance sheet events are given in note 31 to the accounts.

Auditors

The auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office, and a resolution that they be reappointed will be proposed at the Annual General Meeting.

By order of the board

J M Hogg

Company Secretary

12 March 2002

Remuneration report

Members of the Remuneration Committee

The Remuneration Committee is comprised of two independent non-executive directors and the chief executive.

They are as follows:

Mr A M Vinton (Chairman of the Remuneration Committee)
Ms K E Swann (Non-executive director)
Mr G T Hogarth (Chief Executive)

Compliance and policy

The company's Remuneration Committee makes recommendations to the Board on the remuneration policy that applies to executive directors and the group's other senior management. In determining that policy it has followed the provisions of schedule B of the Combined Code annexed to the Financial Services Authority's Listing Rules, except for the appointment of Mr G T Hogarth to the Remuneration Committee who was invited to join by the non-executive directors. However, Mr G T Hogarth's salary is reviewed separately by the two non-executive directors.

Remuneration of non-executive directors

The remuneration of the non-executive directors is determined by the Board with the assistance of independent advice concerning comparable organisations and appointments.

Neither the chairman of the committee nor the other non-executive director receives any pension or other benefits from the company, nor do they participate in any bonus or incentive schemes or share option schemes.

Remuneration policy for executive directors

The company's remuneration policy for executive directors is to:

- (a) have regard to the directors' experience and the nature and complexity of their work in order to pay a competitive salary that attracts and retains management of the highest quality.
- (b) provide post retirement benefits through the group's pension scheme, but where necessary using unfunded schemes to give broadly similar benefits.
- (c) provide employment related benefits including the provision of a company car, life assurance, insurance relating to the director's duties and medical insurance.

Salaries and benefits

The Remuneration Committee meets regularly in order to consider and make recommendations on annual salaries for executive directors, having regard to personal performance.

Performance related incentive plan

Annual bonus

The company operates a performance related annual bonus scheme. The Remuneration Committee sets the appropriate performance criteria for the executive directors.

Policy on grant of share options

The company operates both an all employee SAYE share option scheme and an executive share option scheme. The directors encourage employee share ownership through the availability of share options for grant each year to eligible employees under the SAYE scheme. The executive share option scheme, which was introduced in 1998 following shareholder approval, provides for the granting of share options subject to achievement of performance targets. The committee, who are responsible for making recommendations to the Board on the grant of these options, believe that this policy is appropriate in order to provide participants with a meaningful incentive and to recognise their contributions to the group.

Contracts of service

All of the executive directors have contracts of service which can be terminated by the company with a notice period of 12 months. G T Hogarth, R A Brainin and S Arora are required to give 12 months' notice of termination and J D Gibson is required to give 6 months' notice.

Mr R A R Garfit and Mr J C Howarth are standing down from the Board at the Annual General Meeting and are not offering themselves for re-election in accordance with the company's Articles.

There is a 12 months unexpired term of the service contracts with Mr G T Hogarth and Mr R A Brainin who are retiring at the Annual General Meeting and are offering themselves for re-election in accordance with the company's Articles.

Remuneration report (continued)

Directors' detailed emoluments

Details of individual directors' emoluments for the year are as follows:

	Salary and fees £'000	Annual Bonuses £'000	Benefits £'000	2001 Total £'000	2000 Total £'000
Executive directors					
G T Hogarth	150	–	–	150	150
J D Gibson	120	3	12	135	131
R A Brainin	130	–	–	130	130
J C Howarth	90	–	11	101	100
S Arora	115	–	12	127	5
Non-executive directors					
R A R Garfit*	175	–	12	187	188
A M Vinton	30	–	–	30	20
K E Swann	30	–	–	30	13
	840	3	47	890	737

*Mr R A R Garfit became non-executive chairman on 29 August 2001.

No director waived emoluments in respect of the year ended 31 December 2001 or 2000.

Directors' pension entitlements

Details of the individual directors' pension entitlements at 31 December 2001 are as follows:

	Additional pension earned in the year £	Accrued entitlement at 31 December 2000 revalued at 31 December 2001 £	Accrued entitlement at 31 December 2001 £	Pension entitlement transfer value for the year £
R A R Garfit	9,394	78,700	88,094	119,579
G T Hogarth*	1,590	–	1,590	15,299
J D Gibson	1,518	6,199	7,717	18,673
R A Brainin*	1,590	–	1,590	16,152
J C Howarth	3,444	47,851	51,295	42,713

*The details given for Mr G T Hogarth and Mr R A Brainin are for a part year and reflect the period from 1 April 2001, when they became eligible to join the scheme.

The accrued pension entitlement shown is the amount that would be paid each year on retirement based on service to the end of the current year.

The increase in the additional pension earned during the year excludes any increase for inflation.

The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11, less director's contributions. It does not represent a sum payable to individual directors and it therefore cannot be included meaningfully within annual remuneration.

Members of the scheme have the option of paying Additional Voluntary Contributions. Neither the contributions nor the resulting benefits are included in the above table.

Employer contributions to individual money purchase arrangements are as follows:	2001 £	2000 £
G T Hogarth	10,101	–
J D Gibson	12,635	7,339
R A Brainin	6,401	–

Remuneration report (continued)

Directors' interests

Interest in shares

The interests of the directors in the shares of the company at 31 December 2001 were:

	31 December 2001		31 December 2000	
	Shares	Options	Shares	Options
R A R Garfit	57,969	–	57,969	50,348
J D Gibson	15,600	7,647	15,600	25,000
J C Howarth	840,324	5,131	856,924	5,131
G T Hogarth	3,686,030	7,647	3,686,030	–
R A Brainin	3,686,030	7,647	3,686,030	–
S Arora	474,138	–	474,138	–
A M Vinton	12,134	–	12,134	–
K E Swann	–	–	–	–

Mr J C Howarth, as trustee of the Clifford Howarth Charity Trust, had a non-beneficial interest at 31 December 2001 in 414,720 ordinary shares of the company (2000: 414,720).

Interests in share options

Details of options held by directors are set out below:

	At 31 December 2000	Number of options Granted during the year	At 31 December 2001	Exercise price	Date from which exercisable	Expiry date
R A R Garfit						
Executive Scheme	50,000*	–	–			
SAYE Scheme	348**	–	–			
	50,348	–	–			
J D Gibson						
Executive Scheme	25,000*	–	–			
SAYE Scheme	–	7,647	7,647	126.67p	1 July 2004	1 January 2005
	25,000	7,647	7,647			
J C Howarth						
SAYE Scheme	5,131	–	5,131	190.00p	1 December 2001	1 June 2002
	5,131	–	5,131			
G T Hogarth						
SAYE Scheme	–	7,647	7,647	126.67p	1 July 2004	1 January 2005
	–	7,647	7,647			
R A Brainin						
SAYE Scheme	–	7,647	7,647	126.67p	1 July 2004	1 January 2005
	–	7,647	7,647			

* The 1999 executive scheme options have lapsed due to performance criteria not being met.

** Mr Garfit's SAYE options lapsed on 14 December 2001.

There were no changes in the above interests between the year end and 11 March 2001. The Executive Scheme options noted above were granted under the Executive Share Option Scheme which was approved by shareholders in a general meeting on 23 April 1998. The SAYE scheme options granted during the year were granted on 23 April 2001.

The market price of the company's shares at the end of the financial year was 135p and the range of market prices during the year was between 205p and 89p.

On behalf of the Board

A M Vinton, Chairman of the Remuneration Committee

12 March 2002

Corporate governance

Compliance

The Board supports the highest standards of corporate governance and has considered the principles and provisions of the Combined Code ("The Code") as set out in the Financial Services Authority's Listing Rules. The following statement sets out the company's application of the principles of the Code and the extent of compliance with the Code's provisions, made in accordance with the requirements of the Listing Rules.

The Board considers that it has complied with the provisions set out in the Combined Code during the period under review with the exception of the matters set out below.

Non-executive directors

During the year the company has not complied with code provision A.3.1. which requires non-executive directors to comprise not less than one third of the Board. Prior to 29 August 2001 less than one third of the Board were non-executive directors. Mr R A R Garfit became a non-executive director on 29 August 2001 and he and Mr J C Howarth retire from the Board at the Annual General Meeting to be held on 8 May 2002. From this date the Board will consist of six members, one third of whom will be non-executive.

Code provision B.2.2. states that the Remuneration Committee should consist of non-executive directors but as stated last year Mr G T Hogarth, the Chief Executive had been invited to serve on the committee with the two non-executive directors and continues to do so. Mr G T Hogarth's salary is independently reviewed by the two non-executive directors.

Code provision D.3.1. states that the Audit Committee should consist of at least three non-executive directors. Prior to August 2001, when Mr R A R Garfit became a non-executive director, there were only two non-executive directors available to serve on the committee.

Reporting under the Turnbull Report

Whilst the company has established procedures to comply with the Turnbull Report, procedures were not implemented at Orient Sourcing Services Limited (an operating subsidiary) until December 2001.

The Board of directors

The Board, two of whom are independent non-executive directors, exercises full and effective control over the activities of the group through regular Board meetings. A total of eight full Board meetings were held during the year, with additional sub committee meetings to address specific points. The Board is responsible for the overall direction of the group and for securing performance from group assets.

The Board is of the opinion that each director should be clear about their duties and responsibilities. For this reason, written terms of reference have been set out in relation to all Board committees and full appropriate training is provided to

directors both on appointment and on a continuing development basis.

All directors have direct access to the advice and services of the company secretary and are able, if necessary, to seek independent advice on any matter and an agreed procedure is in place to facilitate this.

Board balance and supply of information

The positions of non-executive chairman and chief executive are held by separate Board members. The Board considers that all of the non-executive directors are of sufficient calibre and two are independent from management. The senior independent non-executive director is Mr A M Vinton.

Board members are kept apprised of the actions of the executive management and are circulated with relevant papers and proposals prior to Board meetings. All directors participate in meetings and are able to bring their independent judgement to bear on the decision making process in the areas of strategy, performance, resources, standards of conduct and in those matters specifically reserved for the Board, a schedule of which is available throughout the organization.

Appointments to the Board, remuneration and re-election

The Remuneration Committee, which met twice during the year, is responsible for making recommendations to the Board on remuneration policy for senior executives, including salaries, incentive payments and share options and continues to appraise remuneration packages against those of other comparable companies.

Non-executive directors are appointed for an initial period of up to three years. Nomination for re-election is a matter for the Board as a whole having regard to the changing needs of the business.

Directors' remuneration

All Code provisions relating to remuneration of the directors are dealt with in the Remuneration report on pages 18 to 20.

Relations with shareholders

The chairman and chief executive normally meet with substantial institutional investors at least twice a year and the group encourages attendance and participation at the Annual General Meeting by small shareholders.

Audit Committee

The Audit Committee, chaired by an independent non-executive director, makes recommendations to the Board in respect of the group's financial statements, internal controls and key accounting policies and judgements. The committee reviews the findings of the external auditors and makes recommendations on the appointment and remuneration of

the auditors. The committee reviews the nature and extent of any non-audit work undertaken by the external auditors.

Internal controls

The company has established an ongoing process for identifying, evaluating and managing the significant risks faced by the company in accordance with the guidance set out in the Turnbull Report. This process has been in place throughout the year, with the exception of the operating subsidiary, Orient Sourcing Services Limited where the process was implemented by December 2001. Given the level of corporate activity, a review of the significant risks faced by Orient was not completed until December, some three months later than anticipated.

The Board is responsible for the group's systems of internal controls and through the delegated responsibilities of the Audit Committee has undertaken a review of the effectiveness of the internal controls for the year, reporting back to the Board its findings in relation to the main control mechanisms in place. Whilst the Board are happy to confirm that the review had not established any significant weaknesses in internal controls that had resulted in financial losses, contingencies or uncertainties, such a system can only provide reasonable and not absolute assurance against material misstatement or loss.

The group's control environment is the responsibility of the group's directors and managers at all levels. The group's organisational structure has clear lines of responsibility. Operating and financial responsibility for subsidiary companies is delegated to local boards. The Board has communicated ethical and operating policies to all personnel, which are supported by written procedures and appropriate training. A code of ethics has been established and published.

The risks facing each of the group's business activities are kept under regular review and assessment. All subsidiaries are required to regularly assess key risks and related control and monitoring procedures. The Board monitors this process. Local management is responsible for control procedures in relation to each of the key risks identified and reporting on the effectiveness of those controls. Local management reports whether its key controls have functioned effectively. Standard financial control procedures operate throughout the group to ensure the integrity of the group's financial statements. The Board has established procedures for the authorisation of capital expenditure including lease commitments.

A quality steering committee, reporting to the Board, has been established to maintain information flow and control of quality in all areas of the business. Corporate Governance procedures were reviewed at every board meeting throughout the year.

Internal audit

The Board has reviewed the need for an internal audit function and has concluded that this is not a requirement at this stage. The Board will continue to review this decision on an annual basis.

Going concern

After making appropriate enquiries, the directors have a reasonable expectation that the group and the company have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the group's financial statements.

Statement of directors' responsibilities

The directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and of the group as at the end of the financial year and of the profit and loss of the group for that year.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 2001. The directors also confirm that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time, the financial position of the company and the group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The company's report and accounts are planned to be published on the company's future website and in this regard the directors accept responsibility for the maintenance and integrity of the website and any uncertainty arising as a result of the accounts being available via the web in different legal and accounting jurisdictions.

On behalf of the Board

K E Swann

Chairwoman of the Audit Committee

12 March 2002

Independent auditors' report to the members of Lambert Howarth Group p.l.c.

We have audited the financial statements which comprise the profit and loss account, the balance sheets, the cashflow statement, the statement of total recognised gains and losses and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards issued by the Auditing Practices Board and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the chairman's statement, the chief executive's review of operations, the financial review, the directors' report, the remuneration report and the corporate governance report.

We review whether the corporate governance statement reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the

effectiveness of the company's or group's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 31 December 2001 and of the loss and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

Chartered Accountants and
Registered Auditors
London

12 March 2002

Consolidated profit and loss account

for the year ended 31 December 2001

	Notes	2001 Profit and loss before goodwill £'000	2001 Goodwill amortisation/ write-off £'000	2001 Profit and Loss £'000	2000 Profit and Loss £'000
Turnover (including share of joint ventures)					
Continuing operations		130,585	–	130,585	105,042
Acquisitions		33	–	33	–
		130,618	–	130,618	105,042
Discontinued operations		22,807	–	22,807	30,962
		153,425	–	153,425	136,004
Less: share of turnover of joint ventures		(1,512)	–	(1,512)	(1,153)
Turnover	2	151,913	–	151,913	134,851
Cost of sales	4	(116,440)	(3,440)	(119,880)	(101,343)†
Gross profit		35,473	(3,440)	32,033	33,508
Net operating expenses	4	(26,130)	–	(26,130)	(23,674)
Operating profit					
Continuing operations		9,311	(3,440)	5,871	8,256
Acquisitions		(26)	–	(26)	–
		9,285	(3,440)	5,845	8,256
Discontinued operations		58	–	58	1,578
Group operating profit		9,343	(3,440)	5,903	9,834
Share of operating profit in joint ventures		119	–	119	17
Total operating profit: group and share of joint ventures	4	9,462	(3,440)	6,022	9,851
Profit on disposal of surplus properties	5 (a)	851	–	851	–
Cost of termination of discontinued operations	5 (b)	(3,066)	(5,493)	(8,559)	–
Interest receivable		179	–	179	305
Amounts written off investments	5 (c)	(106)	–	(106)	–
Interest payable	8	(1,523)	–	(1,523)	(396)
(Loss)/profit on ordinary activities before taxation	7	5,797	(8,933)	(3,136)	9,760
Tax on (loss)/profit on ordinary activities	9	(1,626)	–	(1,626)	(3,455)
(Loss)/profit for the financial year		4,171	(8,933)	(4,762)	6,305
Dividends	11	(1,816)	–	(1,816)	(3,340)
Retained (loss)/profit for the financial year	24	2,355	(8,933)	(6,578)	2,965
(Loss)/earnings per share					
Basic				(21.0)p	29.7p
Goodwill amortisation and write-off				39.4p	7.3p
Exceptional items (including amounts written off investments)				6.6p	–
Basic before goodwill amortisation and write-off and exceptional items				25.0p	37.0p
Diluted				(19.4)p	29.5p

There is no difference between the (loss)/profit on ordinary activities before taxation and the retained (loss)/profit for the year stated above and their historical cost equivalents.

† Includes goodwill amortisation of £1,558,000.

Balance sheets

as at 31 December 2001

		Group				Company		
	Notes	2001 £'000		2000 £'000		2001 £'000		2000 £'000
Fixed assets								
Intangible assets	14 (a)	29,791		34,820		–		–
Tangible assets	14 (b)	10,810		13,091		23		493
Investments in joint ventures	15							
Share of gross assets		737		1,124		–		–
Share of gross liabilities		(435)		(1,014)		–		–
Other investments	15	302 –		110 106		– 24,200		– 29,372
		302		216		24,200		29,372
		40,903		48,127		24,223		29,865
Current assets								
Stocks	16	22,921		21,772		–		–
Debtors	17	13,326		14,553		15,129		13,845
Cash at bank and in hand		3,915		7,665		–		–
		40,162		43,990		15,129		13,845
Creditors: amounts falling due within one year		18	25,969	27,092		23,923		19,375
Net current assets/(liabilities)			14,193	16,898		(8,794)		(5,530)
Total assets less current liabilities			55,096	65,025		15,429		24,335
Creditors: amounts falling due after more than one year		19	9,182	17,561		8,000		14,800
Provisions for liabilities and charges		20	168	171		–		–
Net assets			45,746	47,293		7,429		9,535
Capital and reserves								
Called up share capital	21	2,269		2,264		2,269		2,264
Deferred shares	22	2,500		2,500		185		147
Contingent shares	23	250		750		19		44
Share premium account	24	685		634		685		634
Merger and other reserves	24	20,224		20,224		97		97
Profit and loss account	24	19,818		20,921		4,174		6,349
Equity shareholders' funds			45,746	47,293		7,429		9,535

The financial statements on pages 24 to 53 were approved by the Board of directors on 12 March 2002 and were signed on its behalf by:

R A R Garfit
J D Gibson
Directors

Consolidated cash flow statement

for the year ended 31 December 2001

	Notes	2001 £'000	2000 £'000
Net cash inflow from operating activities	25 (a)	7,163	2,815
Returns on investments and servicing of finance			
Interest received		179	311
Interest paid		(1,549)	(228)
		(1,370)	83
Taxation		(4,410)	(4,875)
Capital expenditure and financial investment	25 (b)	1,817	(4,703)
Acquisitions and disposals			
Purchase of subsidiary undertakings		(1,611)	(244)
Net cash acquired with subsidiary undertakings		223	734
Disposal of subsidiary undertakings		1,420	–
		32	490
Equity dividends paid to shareholders		(3,174)	(3,067)
Net cash inflow/(outflow) before financing		58	(9,257)
Financing			
Issue of ordinary share capital		56	70
Loan note deposit made		(6,000)	–
Hire purchase repayments		–	(4)
		(5,944)	66
Decrease in cash in the year	25 (c)	(5,886)	(9,191)

Statement of group total recognised gains and losses

for the year ended 31 December 2001

	2001 £'000	2000 £'000
(Loss)/profit for the financial year	(4,762)	6,305
Exchange difference arising on consolidation	(18)	(3)
Total recognised (losses)/gains since last annual report	(4,780)	6,302

Reconciliation of movements in group shareholders' funds

for the year ended 31 December 2001

	2001 £'000	2000 £'000
(Loss)/profit for the financial year	(4,762)	6,305
Dividends	(1,816)	(3,340)
	(6,578)	2,965
Share capital issued for cash	56	70
Share capital including premium, issued to vendors of acquired business	–	2,356
Deferred and contingent shares to be issued	(500)	3,250
Expenses of share issue charged to share premium account	–	(191)
Goodwill previously written off through reserves	5,493	–
Exchange difference arising on consolidation	(18)	(3)
Net (reduction)/addition to shareholders' funds	(1,547)	8,447
Opening equity shareholders' funds	47,293	38,846
Closing equity shareholders' funds	45,746	47,293

Notes to the financial statements

for the year ended 31 December 2001

1 Accounting policies

(a) Accounting convention

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards. The directors consider that the accounting policies set out below are suitable, have been consistently applied and are supported by reasonable and prudent judgements and estimates.

(b) Basis of consolidation

The group financial statements consolidate the financial statements of the company and its subsidiaries for the financial year ended 31 December 2001. The results of subsidiaries acquired during the year are included in the group profit and loss account from the date of acquisition. The difference between the fair value of the consideration given and the fair value of the separable net assets acquired has been capitalised on the balance sheet as goodwill and is being amortised over ten years, being the directors' estimate of its expected useful economic life. Goodwill relating to acquisitions made prior to 1 January 1998, the date on which FRS10 "Goodwill and Intangible Assets" was adopted, has, as a matter of accounting policy, been written off against reserves on acquisition. Acquisitions for which the consideration includes an issue of shares eligible for relief under Sections 131 to 134 Companies Act 1985 are stated in the parent company balance sheet at the nominal value of the shares issued plus the cost of acquisition. All other acquisitions are stated at cost.

(c) Investments in subsidiary undertakings

Investments in subsidiary undertakings comprise share interests and long term loans and are stated at cost less any provisions for diminution in value.

(d) Joint ventures

In the normal course of business the group invests in joint ventures which are classified as fixed assets in accordance with FRS9 and accounted for using the gross equity method.

(e) Turnover

Turnover represents the amount receivable, excluding value added tax, for goods net of returns and trade discounts supplied to customers in the normal course of business. Provisions for returns are deducted from trade debtors and are estimated based upon the group's historical rate of returns.

(f) Stocks

Stocks are stated at the lower of cost and net realisable value. Provisions are made for slow-moving and obsolete stock based on directors' estimates. The cost of partly and fully processed stock includes an appropriate amount for overhead expenses.

(g) Tangible fixed assets

Tangible fixed assets are carried at cost less any provision for permanent impairment in value.

Depreciation is provided to write down the cost of tangible fixed assets to their residual value, on a straight line basis, over the following principal periods:

Freehold and long leasehold buildings	– 25 to 40 years
Short leasehold buildings	– over period of lease
Machinery and equipment	– 5 to 10 years
Computer equipment	– 3 years
Motor vehicles	– 4 years
Moulds	– 2 to 3 years

No depreciation is provided on land.

(h) Deferred taxation

Deferred taxation is provided where a liability is expected to crystallise in the foreseeable future as a result of:

- timing differences between the balance sheet written down value and the tax written down value of fixed assets on which capital allowances are granted for tax purposes; and
- other timing differences reduced by the availability of trading losses.

Notes to the financial statements (continued)

for the year ended 31 December 2001

1 Accounting policies continued

(i) Foreign currency

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rate ruling at the year end or, where applicable, at the estimated sterling equivalent, taking account of future foreign exchange and similar contracts. The trading results of overseas undertakings are translated at the average exchange rates for the year.

Exchange adjustments arising from the retranslation of the opening net investment, and from the translation of the profits or losses at average rate, are taken to reserves. Other exchange differences, including those arising from currency conversions in the usual course of trading, are taken into account in determining profit on ordinary activities before taxation.

(j) Financial instruments

The group uses forward currency contracts to hedge its exposure to fluctuations in foreign exchange rates. Instruments accounted for as hedges are designed as a hedge at the inception of contracts. Gains and losses on foreign currency hedges are recognised in the profit and loss account on maturity of the underlying transaction.

(k) Pension costs

The expected cost of pensions in respect of the group's defined benefit pension scheme is charged to the profit and loss account on a systematic basis over the service lives of employees in the scheme. The cost is calculated in accordance with the recommendations of qualified actuaries.

Any experience surpluses or deficiencies that may arise from time to time are normally amortised over the average working lives of employees currently covered by the scheme.

The cost of the contributions to the defined contributions scheme are charged to the profit and loss account as they are incurred.

(l) Leases and hire purchase

Assets obtained under leases and hire purchase contracts which result in the transfer to the group of substantially all the risks and rewards of ownership (finance leases) are capitalised as tangible fixed assets at the estimated present value of underlying lease payments and are depreciated over the shorter of the assets' useful economic life and lease term.

Obligations under such agreements are included in creditors net of finance charges allocated to future periods.

The finance element of the rental payments is charged to the profit and loss account over the period of the lease or hire purchase contract so as to produce a constant periodic rate of charge on the outstanding balance of the net obligations in each period.

Rentals paid under other leases (operating leases) are charged against income on a straight line basis over the lease term.

(m) Government grants

Government grants relating to fixed assets are credited to deferred income, and are released to the profit and loss account over the expected useful economic lives of the assets concerned.

(n) Changes in presentation of financial information

In November and December 2000, the Accounting Standards Board issued FRS17 Retirement Benefits and FRS18 Accounting Policies. Full adoption of FRS17 will not be mandatory for the Group until the year ending 31 December 2003. However, the FRS has an extended transitional period during which certain disclosures are required in the notes to the financial statements. The Group is required to make these phased transitional disclosures for the year ended 31 December 2001. These disclosures are shown in note 13. FRS18 is effective for these financial statements, it has not resulted in any changes to presentation.

Notes to the financial statements (continued)

for the year ended 31 December 2001

2 Turnover

	2001 £'000	2000 £'000
Geographical analysis, by destination		
United Kingdom and Isle of Man	146,965	127,732
Other European countries	4,686	5,914
Asia	262	1,205
	151,913	134,851

The origin of all turnover is wholly within the United Kingdom and the Isle of Man, with the exception of £ nil (2000: £294,000) supplied from Portugal.

All joint venture turnover and profit were generated from sales within Portugal (2000: Portugal). The group's net assets are held principally in the United Kingdom, with only immaterial amounts held overseas. Profit before taxation is earned principally from United Kingdom operations, with immaterial amounts earned from overseas sales.

3 Class of business analysis

The group is engaged in design, resourcing and distribution of consumer products to major retailers. In reporting our activities, the directors consider that the business constitutes a single class.

4 Operating profit

	Continuing operations £'000	Acquisitions £'000	Discontinued operations £'000	2001 Total £'000	2000 Total £'000
Turnover: group and share of joint ventures	130,585	33	22,807	153,425	136,004
Less: share of joint ventures	(1,512)	–	–	(1,512)	(1,153)
Group turnover	129,073	33	22,807	151,913	134,851
Cost of sales before goodwill amortisation	(98,089)	(38)	(18,313)	(116,440)	(99,785)
Goodwill amortisation	(3,440)	–	–	(3,440)	(1,558)
Total cost of sales	(101,529)	(38)	(18,313)	(119,880)	(101,343)
Gross profit/(loss)	27,544	(5)	4,494	32,033	33,508
Selling and distribution expenses	(10,865)	(2)	(1,222)	(12,089)	(13,044)
Administrative expenses	(10,951)	(19)	(3,214)	(14,184)	(10,800)
Other income	143	–	–	143	170
Net operating expenses	(21,673)	(21)	(4,436)	(26,130)	(23,674)
	5,871	(26)	58	5,903	9,834
Share of operating profit in joint ventures	119	–	–	119	17
Operating profit/(loss)	5,990	(26)	58	6,022	9,851
				2001	2000
The average number of employees, divided into categories was:				Number	Number
Manufacturing				130	149
Administration and sales				446	355
				576	504
				£'000	£'000
The aggregate emoluments for the year were:					
Wages and salaries				10,851	8,080
Social security costs				907	693
Pension costs (see note 13)				1,007	451
				12,765	9,224

Notes to the financial statements (continued)

for the year ended 31 December 2001

5 Exceptional items (including amounts written off investments)

(a) Profit on disposal of surplus properties

A number of surplus properties have been disposed of during the year generating an exceptional profit on disposal of £851,000.

The anticipated tax payable on this exceptional item is £nil.

(b) Cost of termination of discontinued operations

	Loss/costs £'000	Goodwill £'000	Total £'000
Loss on sale of Safety Footwear business (see note 15)	510	326	836
Cost of discontinuance of Homeware business	454	5,167	5,621
Cost of discontinuance of General Trade Footwear business	2,102	–	2,102
	3,066	5,493	8,559

These losses include the write off of goodwill previously written off against reserves.

The anticipated tax relief on this exceptional item is £823,000.

(c) Amounts written off investments

Based on the directors' valuation the value of unlisted investments has been written down by £106,000 in the year to a carrying value of £nil.

The anticipated tax relief on this exceptional item is £nil.

6 Directors' emoluments

Detailed disclosures of directors' individual remuneration, pensions, share interests and share options are given in the Remuneration report on pages 18 to 20 and form part of these financial statements.

	2001 £'000	2000 £'000
Aggregate emoluments	890	956
Gains made on exercise of share options	–	1
Company pension contributions to money purchase schemes	29	7

Retirement benefits are accruing to 5 directors (2000: 4 directors) under the group's defined benefit scheme.

Emoluments payable to the highest paid director are as follows:

	2001 £'000	2000 £'000
Aggregate emoluments, gains on share options exercised and benefits under long-term incentive schemes:	187	188
Defined benefit scheme:		
Accrued pension at year end	88	76

Notes to the financial statements (continued)

for the year ended 31 December 2001

7 (Loss)/profit on ordinary activities before taxation

	2001 £'000	2000 £'000
(Loss)/profit on ordinary activities before taxation is stated after charging/(crediting):		
Auditors' remuneration for audit services	119	139
Hire of machinery, equipment and motor vehicles	118	170
Rent paid under operating leases of land and buildings	239	319
Depreciation charge for the year	1,022	903
Amortisation of goodwill	3,440	1,558
Loss/(profit) on disposal of fixed assets	45	(41)

Amounts paid to the auditors by the company and its UK subsidiary undertakings in respect of non-audit services charged to operating profit were £134,606. (2000: £126,000). Amounts paid to the auditors for services rendered during the acquisition of Natural Selection International S.A. were £44,529. These fees have been treated as acquisition costs and expenses of the share issue and not charged to operating profit.

The audit fees in respect of the parent company were £24,000 (2000: £ 24,000).

8 Interest payable

	2001 £'000	2000 £'000
Interest on bank loans and overdrafts	634	221
Interest on loan notes	877	171
Other interest	7	1
Group interest payable	1,518	393
Joint ventures: interest on bank loans and overdrafts	5	3
Total interest payable	1,523	396

9 Tax on (loss)/profit on ordinary activities

	2001 £'000	2000 £'000
United Kingdom corporation tax at 30% (2000: 30%)	1,769	3,414
Overseas tax	101	248
Deferred tax	(92)	(12)
Double taxation relief	(109)	(213)
	1,669	3,437
(Over)/under provisions in respect of prior years		
Corporation tax	(165)	–
Deferred tax	89	8
	1,593	3,445
Share of joint ventures	33	10
Tax on (loss)/profit on ordinary activities	1,626	3,455

Notes to the financial statements (continued)

for the year ended 31 December 2001

10 Parent company's profit and loss account

The parent company has taken advantage of Section 230 of the Companies Act 1985 and not prepared a separate profit and loss account for its own activities. The parent company's loss for the financial year was £359,000. (2000 Profit: £3,342,000).

Charged to the company's profit for the year are provisions against the carrying value of investments and other exceptional costs which amount to £5,449,000.

11 Dividends

	2001 £'000	2000 £'000
Interim of 3.0p (2000: 4.0p) per share	681	847
Recommended final of 5.0p (2000: 11.0p) per share	1,135	2,493
	1,816	3,340

12 (Loss)/earnings per share

Basic (loss)/earnings per share is calculated by dividing the (loss)/earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year.

For diluted (loss)/earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion for all dilutive potential ordinary shares. The group has two categories of dilutive potential ordinary shares; shares issuable on 15 April 2002 as deferred consideration for the purchase of Orient Sourcing Services Limited and those share options granted to employees where the exercise price is less than the average market price of the company's ordinary shares during the year.

Reconciliation of the (loss)/earnings and weighted average number of shares used in the calculations are set out below:

	(Loss)/ earnings £'000	2001 Weighted average no. of shares Thousand	Per share amount Pence	Earnings £'000	2000 Weighted average no. of shares Thousand	Per share amount Pence
Basic EPS						
(Loss)/earnings attributed to ordinary shareholders	(4,762)	22,691	(21.0)	6,305	21,228	29.7
Shares issuable as deferred consideration	–	1,852	1.6	–	68	(0.1)
Effect of dilutive securities options	–	23	–	–	66	(0.1)
Diluted EPS	(4,762)	24,566	(19.4)	6,305	21,362	29.5
Supplementary (loss)/earnings per share to exclude goodwill						
Basic EPS	(4,762)	22,691	(21.0)	6,305	21,228	29.7
Exceptional items	1,498	–	6.6	–	–	–
Goodwill amortisation and write-off	8,933	–	39.4	1,558	–	7.3
Basic EPS excluding goodwill and exceptionals	5,669	22,691	25.0	7,863	21,228	37.0

Supplementary (loss)/earnings per share has been calculated to exclude the effect of goodwill and exceptional items. In the directors' opinion, the adjusted numbers provide a more meaningful view of the group's underlying operating performance.

Notes to the financial statements (continued)

for the year ended 31 December 2001

13 Pension schemes

(a) Scheme definitions

The group contributes to both defined benefit and defined contribution schemes, where assets are held other than by an insurance company these assets are administered by trustees separately from group funds.

Defined benefit schemes

i) Lambert Howarth Retirement Benefits Scheme

The latest valuation of the scheme was made at 30 March 2001 by J D Ferns, Fellow of the Institute of Actuaries, of William M. Mercer Limited. The principal methods and assumptions used and the results of the valuation are set out below.

Valuation method	Projected unit
Investment rate of return	5.75% per annum
Future increases in salaries	4.25% to 4.75% per annum
Rate of pension escalation	2.5% per annum
Actuarial value of assets	£14.7m
Market value of assets	£14.7m
Level of funding (actuarial value of assets as a percentage of accrued service liabilities)	80%

The valuation identified a pension deficit and, on actuarial advice, funding rates for the scheme were increased with effect from 1 January 2002 to eliminate the actuarial deficits over the expected working lives of employees by payment of additional cash sums as detailed below. On this basis the scheme's deficit should be eliminated by 2017. The employer's normal contribution rate taking account of the spreading of the deficit described above is 12.2% of pensionable salaries plus £25,000 per month for five years until December 2007, with an additional £9,000 per month from January 2002 to October 2002.

The pension cost charged to the profit and loss account in respect of the defined benefit scheme for the year amounted to:

	2001 £'000	2000 £'000
Regular pension cost	660	350
Spreading of deficit in accordance with SSAP No. 24	225	–
	885	350

A liability of £225,000 (2000: £nil) has been included within creditors representing the difference between the amounts recognised as cost and the amounts paid.

ii) Ronaldsway Shoe Company Limited Retirements Benefits Scheme

The latest valuation of the scheme was made at 31 March 2000 by D T Gill, Fellow of the Institute of Actuaries, Norwich Union Life & Pensions Limited. The principal methods and assumptions used and the results of the valuation are set out below.

Valuation method	Projected unit
Investment rate of return	8.0% per annum before retirement 6.5% per annum after retirement
Future increases in salaries	6% per annum
Rate of pension escalation	3.5% per annum
Actuarial value of assets	£1.0m
Market value of assets	£1.0m
Level of funding (actuarial value of assets as a percentage of accrued service liabilities)	91%

Notes to the financial statements (continued)

for the year ended 31 December 2001

13 Pension schemes continued

The valuation identified a pension deficit and, on actuarial advice, funding rates for the scheme were increased with effect from 31 March 2000 to eliminate the actuarial deficits over the expected working lives of employees using the straight line method. On this basis the scheme's deficit should be eliminated by 2010. The employer's normal contribution rate taking account of the spreading of the deficit described above is 17.9% of pensionable salaries.

The pension cost charged to the profit and loss account in respect of the defined benefit scheme for the year amounted to:

	2001 £'000	2000 £'000
Regular pension cost	74	78
Spreading of deficit	11	12
	85	90

A liability of £9,000 (2000: £9,000) has been included within creditors representing the difference between the amounts recognised as cost and the amounts paid.

Defined contribution schemes

The group also has defined contribution schemes as follows:

- Group personal pension scheme for weekly paid employees
Weekly paid employees have the opportunity to contribute up to Inland Revenue limits to a group personal pension plan with Norwich Union. The employer pays a fixed amount each week on behalf of each contributing employee.
- Stakeholder scheme
A stakeholder pension scheme was set up with Norwich Union in 2001 for all employees not eligible to participate in any other group pension scheme. No contribution is made by the employer to this scheme.

(b) Pension costs

The total cost of defined contribution arrangements of £37,000 has been fully expensed against profits in the current year.

Total pension costs for the group are derived as follows:

	2001 £'000	2000 £'000
Defined benefit schemes	970	440
Defined contribution schemes	37	11
	1,007	451

(c) FRS17 Retirement benefits

i) Lambert Howarth Retirement Benefits Scheme

The valuation used for FRS17 disclosures has been based on the most recent actuarial valuation at 30 March 2001 and updated by William M. Mercer Limited to take account of the requirements of FRS17 in order to assess the assets and liabilities of the scheme at 31 December 2001. Scheme assets are stated at their market value at 31 December 2001.

Notes to the financial statements (continued)

for the year ended 31 December 2001

13 Pension schemes continued

The financial assumptions used to calculate scheme liabilities under FRS17 are:

Valuation method	Projected unit
Discount rate	5.83% per annum
Inflation rate	2.75% per annum
Increase to deferred benefits during deferment	2.75% per annum
Increases to pensions in payment	2.75% per annum
Salary increases	4.5 to 5% per annum

The assets in the scheme and the expected rate of return were:

	Long term rate of return expected at 31 December 2001	Value at 31 December 2001 £'000
Equities	7.0%	9,180
Bonds	4.5%	5,168
Other	4.0%	12
Total market value of assets		14,360
Present value of scheme liabilities		(19,700)
Deficit in the scheme		(5,340)
Related deferred tax asset		1,602
Net pension liability – Lambert Howarth Retirements Benefits Scheme		(3,738)

ii) Ronaldsway Shoe Company Limited Retirements Benefits Scheme

The valuation used for FRS17 disclosures has been based on the most recent actuarial valuation at 31 March 2000 and updated by Norwich Union Life to take account of the requirements of FRS17 in order to assess the assets and liabilities of the scheme at 31 December 2001. Scheme assets are stated at their market value at 31 December 2001.

The financial assumptions used to calculate scheme liabilities under FRS17 are:

Valuation method	Projected unit
Discount rate	5.9% per annum
Inflation rate	2.5% per annum
Increase to deferred benefits during deferment	2.5% per annum
Increases to pensions in payment	3% per annum
Salary increases	4% per annum

The assets in the scheme and the expected rate of return were:

	Long term rate of return expected at 31 December 2001	Value at 31 December 2001 £'000
Other	6.50%	1,250
Total market value of assets		1,250
Present value of scheme liabilities		(1,490)
Deficit in the scheme		(240)
Related deferred tax asset		72
Net pension liability – Ronaldsway Shoe Company Limited Retirements Benefits Scheme		(168)

Notes to the financial statements (continued)

for the year ended 31 December 2001

13 Pension schemes continued

	2001 Group £'000
FRS17 Retirement benefits – group net assets summary	
Net assets	
Net assets excluding pensions liability	45,746
Pensions liability – Lambert Howarth Retirements Benefits Scheme	(3,738)
Pensions liability – Ronaldsway Shoe Company Limited Retirements Benefits Scheme	(168)
Net assets including pensions liability	41,840
FRS17 Retirement benefits – group reserves summary	
Reserves	
Profit and loss reserve excluding pension liability	19,818
Pensions liability - Lambert Howarth Retirements Benefits Scheme	(3,738)
Pensions liability - Ronaldsway Shoe Company Limited Retirements Benefits Scheme	(168)
Profit and loss reserve including pension liability	15,912

14 Fixed assets

(a) Intangible assets

	Goodwill £'000
Cost	
At 1 January 2001	36,548
Additions (see note 15)	596
Adjustments to goodwill (see below)	(2,185)
At 31 December 2001	34,959
Aggregate amortisation	
At 1 January 2001	1,728
Charge for the year	3,440
At 31 December 2001	5,168
Net book value at 31 December 2001	29,791
Net book value at 31 December 2000	34,820

The goodwill arising on the acquisition of Orient Sourcing Services Limited has been reassessed by the directors as a result of a further review of the fair value of assets and contingent consideration during the hindsight period as permitted by FRS7 (see note 15).

Notes to the financial statements (continued)

for the year ended 31 December 2001

14 Fixed assets continued

(b) Tangible assets

	The Company			The Group		
	Freehold and long leasehold land and buildings £'000	Plant machinery moulds and equipment £'000	Company total £'000	Freehold and long leasehold land and buildings £'000	Plant machinery moulds and equipment £'000	Group total £'000
Cost						
At 1 January 2001	420	310	730	12,548	5,873	18,421
Additions during year	–	–	–	60	1,262	1,322
Transfer to subsidiary	–	(236)	(236)	(101)	101	–
Acquisition of subsidiary	–	–	–	–	75	75
Disposals	(409)	–	(409)	(2,459)	(507)	(2,966)
Exchange adjustments	–	–	–	–	(1)	(1)
At 31 December 2001	11	74	85	10,048	6,803	16,851
Depreciation						
At 1 January 2001	12	225	237	1,393	3,937	5,330
Transfer to subsidiary	–	(194)	(194)	–	–	–
Acquisition of subsidiary	–	–	–	–	47	47
Charge for year	4	20	24	122	900	1,022
Provision for diminution in value	–	–	–	2	280	282
Disposals	(5)	–	(5)	(271)	(369)	(640)
At 31 December 2001	11	51	62	1,246	4,795	6,041
Net book value						
At 31 December 2001	–	23	23	8,802	2,008	10,810
At 31 December 2000	408	85	493	11,155	1,936	13,091

The provision for diminution in value forms part of the exceptional costs associated with the discontinuance of businesses.

	2001 £'000	2000 £'000
The cost of freehold and long leasehold buildings, subject to depreciation, included above amounts to:	7,200	3,600

Included in the cost of freehold and long leasehold buildings, subject to depreciation were buildings acquired at the end of 2000 which were not subject to a depreciation charge during 2000, but which have been subject to a depreciation charge for 2001.

It is not possible to segregate certain figures relating to freehold and long leasehold land and buildings. However, the earliest date on which any long lease expires is in the year 2013.

Notes to the financial statements (continued)

for the year ended 31 December 2001

15 Investments

Company	Unlisted Investments £'000	Interests in group undertakings		Total £'000
		Shares £'000	Loans £'000	
Cost				
At 1 January 2001	246	29,464	2,300	32,010
Additions	–	185	–	185
Disposals	–	(329)	–	(329)
Adjustment to deferred consideration (see note 22)	–	38	–	38
Adjustment to contingent consideration (see note 23)	–	(26)	–	(26)
At 31 December 2001	246	29,332	2,300	31,878
Provisions for diminution in value				
At 1 January 2001	140	498	2,000	2,638
Provided in the year (see below)	106	4,634	300	5,040
At 31 December 2001	246	5,132	2,300	7,678
Net book value				
At 31 December 2001	–	24,200	–	24,200
At 31 December 2000	106	28,966	300	29,372

The following provisions have been made against the carrying value of investments in and loans to subsidiary undertakings whose business operations have been sold or discontinued in the year.

	Shares £'000	Loans £'000
Lambert Howarth Safety Limited	–	300
Global Homeware Limited	4,634	–
	4,634	300

Notes to the financial statements (continued)

for the year ended 31 December 2001

15 Investments continued

Group	Investment in joint ventures £'000	Unlisted investments £'000	Total £'000
Cost			
At 1 January 2001	110	264	374
Additions	112	–	112
Share of retained profit	87	–	87
Exchange differences	(7)	–	(7)
At 31 December 2001	302	264	566
Provisions for diminution in value			
At 1 January 2001	–	158	158
Provided in the year (see note 5(c))	–	106	106
At 31 December 2001	–	264	264
Net book value			
At 31 December 2001	302	–	302
At 31 December 2000	110	106	216

Joint ventures

The group owns 30% of the issued ordinary share capital of Glovar, Industria de Calçado, S.A. which manufactures footwear and is incorporated in Portugal.

The group purchased during the year a 30% stake in the ordinary share capital of Alto da Torre, S.A. which owns property and is incorporated in Portugal. The group's subsidiary in Portugal occupies property owned by this associate.

The group's share of the results and net assets of Glovar and Alto da Torre, have been incorporated into the group's accounts using the gross equity method of accounting. This treatment has been adopted due to the long-term nature of this investment over which the group exercises joint control.

Subsidiary undertakings

The principal investments in subsidiary undertakings held by the parent company include the following wholly owned subsidiary undertakings all of which are included within these consolidated financial statements.

	Activity	Country of incorporation and principal operations
Lambert Howarth & Sons Limited	Footwear	United Kingdom
Ronaldsway Shoe Co Limited *	Footwear	Isle of Man
Fast Forward Resources plc *	Fashion Accessories	United Kingdom
Orient Sourcing Services Limited	Homeware	United Kingdom
Natural Selection International S.A. *	Homeware	Spain
Lambert Howarth Portugal		
Produtos Em Pele, Ceramicas, Vidro E Texteis Lda	Supplier Liaison	Portugal

* Shares held by subsidiary undertakings

Investments in subsidiary undertakings comprise ordinary shares except for 125,000 redeemable preference shares of £1 each in Ronaldsway Shoe Co Limited.

Notes to the financial statements (continued)

for the year ended 31 December 2001

15 Investments continued

Acquisition of Natural Selection International S.A.

On 18 December 2001, the group, through its subsidiary Orient Sourcing Services Limited, acquired the entire share capital of Natural Selection International S.A.. The principal activity of Natural Selection is the design, import and distribution of soft furnishings, housewares and giftware to the retail trade.

On completion of the acquisition £1,000,000 was paid in cash. A further amount payable in cash (up to a maximum of £500,000) is expected to become due in June 2002 if certain performance targets are achieved. The total consideration is based on a multiple of eight times the profit on ordinary activities for the year ending 31 March 2002 after a 30% notional tax charge, with a maximum consideration payable of £1,500,000.

The book and provisional fair values of the assets and liabilities acquired in the transaction were as follows:

	Book value £'000	Revaluation £'000	Provisional fair value £'000
Fixed assets	28	–	28
Stocks	671	(85)	586
Debtors	723	–	723
Cash	223	–	223
Creditors	(577)	–	(577)
Net assets acquired	1,068	(85)	983
			Provisional fair value £'000
Consideration			
Cash			1,000
Contingent consideration			500
Total consideration			1,500
Cost of acquisition			79
			1,579
Goodwill			596

The goodwill arising from this acquisition is being amortised on a straight-line basis over ten years. Such a period is judged as the time over which the value of the underlying business is expected to exceed the value of the underlying assets. The amortisation charged to the profit and loss account for 2001 amounts to £nil.

The revaluation is a provision against stock to reflect the current estimate of realisable values. The current revaluation is provisional pending final review of judgemental areas by the directors and will be finalised in the financial statements for 2002.

From the date of acquisition to 31 December 2001, the acquisition contributed £33,000 to turnover, and a loss before and after interest of £26,000. The acquisition utilised £33,000 of the group's net operating cashflows.

In its last financial year to 31 March 2001, Natural Selection International S.A. made a profit after tax of £41,000. For the period since that date to the date of acquisition, the summarised results of Natural Selection International S.A. management accounts show:

	£'000
Turnover	2,013
Operating profit	167
Net interest receivable	1
Profit before taxation	168
Taxation	(43)
Profit attributable to shareholders	125

There is no difference between the profit stated above and the total recognised gains and losses for the period.

Notes to the financial statements (continued)

for the year ended 31 December 2001

15 Investments continued

Acquisition of Orient Sourcing Services Limited

On 14 December 2000, the group acquired the entire share capital of Orient Sourcing Services Limited. In view of the proximity of the acquisition to the financial year end, fair values ascribed to the assets and liabilities of Orient Sourcing Services Limited were provisional and subject to a final review by the directors at 31 December 2001.

The maximum consideration payable is £34.9m. £22,400,000 was paid on completion of the acquisition, satisfied by the issue of 1,437,781 new ordinary shares and £20,000,000 in Guaranteed Loan Notes. Ordinary shares to the value of £2,500,000 will be issued 16 months after the completion date, and a further amount (up to a maximum of £10,000,000) will become payable on 1 April 2003 if certain performance targets relating to Orient's profit on ordinary activities before taxation for each of the two calendar years 2001 and 2002 are achieved. This additional consideration will equal twice the amount by which the profit on ordinary activities before taxation exceeds £5,400,000 in 2001, plus twice the amount by which the profit on ordinary activities before taxation in 2002 exceeds that achieved in 2001. The additional consideration is subject to an overall maximum of £10,000,000. 75% of the additional consideration will be satisfied by the issue of Unsecured Loan Notes, and 25% by the issue of new ordinary shares.

The book and provisional fair values of the assets and liabilities acquired in the transaction are restated below along with the reviewed values at 31 December 2001:

	Book value £'000	Revaluation £'000	Provisional fair value £'000	Adjustments £'000	Final fair value £'000
Fixed assets	1,927	–	1,927	–	1,927
Stocks	3,364	–	3,364	–	3,364
Debtors	5,166	(627)	4,539	343	4,882
Cash	734	–	734	–	734
Creditors	(3,974)	161	(3,813)	(158)	(3,971)
Provision for liabilities and charges	(9)	–	(9)	–	(9)
Net assets acquired	7,208	(466)	6,742	185	6,927

	Provisional fair value £'000	Adjustments £'000	Revised fair value £'000
Consideration			
Shares issued	2,356	–	2,356
Loan notes issued	20,000	–	20,000
Deferred consideration	2,500	–	2,500
Contingent consideration	3,000	(2,000)	1,000
Total consideration	27,856	(2,000)	25,856
Cost of acquisition	691	–	691
	28,547	(2,000)	26,547
Goodwill	21,805	(2,185)	19,620

The goodwill arising from this acquisition is being amortised on a straight-line basis over ten years. Such a period is judged as the time over which the value of the underlying business is expected to exceed the value of the underlying assets.

The revaluation at 31 December 2000 was a provision against trade debtors to reflect the current estimate of their recoverability together with associated tax relief. The revaluation has been finalised at 31 December 2001 following a review of judgmental areas by the directors. In addition the amount of contingent consideration payable has been reassessed based upon current expectations for Orient Sourcing Services Limited.

Notes to the financial statements (continued)

for the year ended 31 December 2001

15 Investments continued

Disposal of Safety Footwear business

On 19 May 2001 the group sold the business and net assets of Lambert Howarth Safety Limited for a net cash consideration of £1,420,000 and a loss on disposal of £836,000 as follows.

	£'000	£'000
Net cash consideration arising from the sale		1,420
Net assets disposed of:		
Fixed assets	9	
Stock	858	
Debtors	1,154	
Creditors	(91)	
		1,930
Goodwill previously written off against reserves		(326)
Loss on disposal		(836)

The results of the Safety Footwear business have been shown as discontinued operations in these financial statements.

During the period to the sale of its business assets, the Safety Footwear business contributed £2,107,000 to turnover, and a loss before and after interest of £67,000. The Safety Footwear business utilised £1,027,000 of the group's net operating cashflows.

16 Stocks

	2001 £'000	Group 2000 £'000
Raw materials and consumables	369	306
Work in progress	183	170
Finished goods and goods for resale	22,369	21,296
	22,921	21,772

The company held no stock.

17 Debtors

	Group		Company	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Trade debtors	11,797	12,206	–	–
Amounts due from group undertakings	–	–	14,839	13,484
Other debtors	519	449	105	290
Prepayments and accrued income	1,010	1,898	185	71
	13,326	14,553	15,129	13,845

All debtors fall due within one year.

Notes to the financial statements (continued)

for the year ended 31 December 2001

18 Creditors: amounts falling due within one year

	Group		Company	
	2001	2000	2001	2000
	£'000	£'000	£'000	£'000
Guaranteed Unsecured Loan Notes 2003 (see note 19)	6,000	6,000	6,000	6,000
Unsecured Loan Notes 2009 (see note 19)	800	–	800	–
Bank overdrafts (unsecured)	2,377	241	5,112	6,182
Trade creditors	7,554	8,571	56	238
Amounts owed to group undertakings	–	–	9,242	1,235
Corporation tax	572	3,197	–	–
Other taxation and social security	1,980	3,766	214	1,778
Other creditors	981	164	345	97
Accruals and deferred income	4,070	2,660	1,019	1,352
Dividends payable	1,135	2,493	1,135	2,493
Contingent consideration	500	–	–	–
	25,969	27,092	23,923	19,375

Contingent consideration

Contingent consideration represents the amount estimated to be payable as additional consideration in the form of cash in respect of the acquisition of Natural Selection International S.A. (see note 15).

19 Creditors: amounts falling due after more than one year

	Group		Company	
	2001	2000	2001	2000
	£'000	£'000	£'000	£'000
Guaranteed Unsecured Loan Notes 2003	14,000	20,000	14,000	20,000
Less: due within one year	(6,000)	(6,000)	(6,000)	(6,000)
	8,000	14,000	8,000	14,000
Unsecured Loan Notes 2009	–	800	–	800
Overseas taxation	178	213	–	–
Deferred income	254	298	–	–
Contingent consideration	750	2,250	–	–
	9,182	17,561	8,000	14,800

Guaranteed Unsecured Loan Notes 2003

The Guaranteed Unsecured Loan Notes 2003 were issued as part of the consideration for the acquisition of Orient Sourcing Services Limited on 14 December 2000. The guarantors are Barclays Bank Plc and ABN AMRO Bank NV.

Interest is payable quarterly in arrears, with the first payment being made on 30 June 2001. The rate of interest is 1/2% below the base rate of Barclays Bank Plc.

A loan note holder may require the company to redeem all or part of the loan notes (in amounts or integral multiples of £500,000) on 31 December 2001 or on any subsequent interest payment date up to and including 12 December 2003. The company has a revolving credit facility of £20million with Barclays Bank Plc and ABN AMRO Bank NV to provide finance for redemption. Under the terms of the facility agreement, the company is required to deposit £3million with Barclays Bank Plc on 30 June and 31 December in each year with a final payment of £5million on 31 December 2003.

Notes to the financial statements (continued)

for the year ended 31 December 2001

19 Creditors: amounts falling due after more than one year continued

Unsecured Loan Notes 2009

The Unsecured Loan Notes 2009 were issued as part of the consideration for the acquisition of Fast Forward Holdings Limited.

Interest is payable twice yearly in arrears on 30 June and 31 December in each year, with the first payment being made on 30 June 2001. The rate of interest on the Loan Notes from 23 November 1999 up to and including 31 December 2004 is 6.5%. Thereafter, up to the redemption date on 31 December 2009, the interest rate will be 1% above the base rate of Barclays Bank Plc.

A holder may require the company to redeem all or part (in amounts or integral multiples of £10,000) on 30 June 2001 or on any subsequent interest payment date up to and including 31 December 2009. The holders have given a written undertaking that they will not seek redemption before 30 June 2002.

Deferred income

Deferred income represents government grants on fixed assets which income is released to the profit and loss account over the useful economic lives of the relevant assets.

Contingent consideration

Contingent consideration represents the amount estimated to be payable as additional consideration in the form of unsecured loan notes in respect of the acquisition of Orient Sourcing Services Limited.

20 Provisions for liabilities and charges

	Deferred taxation £'000
Group	
At 1 January 2001	171
Transfer to profit and loss account	(3)
At 31 December 2001	168

Deferred taxation provided arises as follows:

	Amount provided	
	2001	2000
Group	£'000	£'000
Accelerated capital allowances	168	171

There is no liability to deferred taxation within the company.

Notes to the financial statements (continued)

for the year ended 31 December 2001

21 Called up share capital

Group and company	2001 £'000	2000 £'000
Authorised		
30,000,000 ordinary shares of 10p each (2000: 30,000,000)	3,000	3,000
Allotted and fully paid		
At 31 December 2000		
22,644,092 (1999: 21,145,737) ordinary shares of 10p each	2,264	2,115
Allotted during the year		
– in respect of acquisitions	–	143
– on exercise of share options	5	6
At 31 December 2001		
22,693,842 (2000: 22,644,092) ordinary shares of 10p each	2,269	2,264

The total cash consideration received for the shares on the exercise of share options was £56,474.

The company has granted options as follows:

Type of scheme	Number of shares subject to options	Period of options	Date exercisable	Exercise price per share
Executive	70,000	7 years	15 September 2003	195.00p
Save as you earn	28,727	6 months	1 December 2001	190.00p
Save as you earn	15,751	6 months	28 September 2002	257.60p
Save as you earn	212,396	6 months	1 July 2004	126.67p
Options granted at 31 December 2001	326,874			

The following options have lapsed during the year due to performance criteria not being met:

Type of scheme	Number of shares subject to options	Period of options	Date exercisable	Exercise price per share
Executive	230,216	7 years	29 March 2002	205.00p
Executive	150,000	7 years	23 November 2002	265.00p
Options lapsed during 2001	380,216			

22 Deferred shares

Under the terms of the sale and purchase agreement for Orient Sourcing Services Limited, ordinary shares to the value of £2,500,000 are due to be issued to the vendors on 15 April 2002. At a market price of 135p at 31 December 2001 (2000: 170p), this would represent 1,851,852 shares. (2000: 1,470,588 shares). These have been included in the company balance sheet at nominal value.

23 Contingent shares

This represents the amount estimated to be payable as additional consideration in the form of ordinary shares in respect of the acquisition of Orient Sourcing Services Limited (see note 15). At a market price of 135p at 31 December 2001 (2000: 170p), this would represent 185,185 shares (2000: 441,176 shares). These have been included in the company balance sheet at nominal value.

Notes to the financial statements (continued)

for the year ended 31 December 2001

24 Share premium account and reserves

Group	Share premium account £'000	Capital redemption reserve £'000	Group merger reserve £'000	Profit and loss account £'000
At 1 January 2001	634	93	20,131	20,921
Retained loss for the year	–	–	–	(6,578)
Goodwill previously written off against reserves	–	–	–	5,493
Premium on shares issued during the year	51	–	–	–
Exchange difference arising on consolidation	–	–	–	(18)
At 31 December 2001	685	93	20,131	19,818

Company	Share premium account £'000	Capital redemption reserve £'000	Other reserve £'000	Profit and loss account £'000
At 1 January 2001	634	93	4	6,349
Retained loss for the year	–	–	–	(2,175)
Premium on shares issued during the year	51	–	–	–
At 31 December 2001	685	93	4	4,174

The cumulative goodwill resulting from acquisitions which has been written off to reserves, after adjusting for goodwill attributable to subsidiary undertakings sold or operations discontinued (see note 5(b)), was £616,000 at 31 December 2001 (2000: £6,109,000).

25 Cash flow analysis

(a) Reconciliation of operating profit to net cash inflow from operating activities	2001 £'000	2000 £'000
Operating profit	5,903	9,834
Amortisation of goodwill	3,440	1,558
Depreciation charges	1,022	903
Loss/(profit) on sale of fixed assets	45	(41)
Deferred income - grants	(95)	(134)
(Increase)/decrease in stocks	(2,132)	73
Decrease/(increase) in debtors	705	(2,760)
Decrease in creditors	(661)	(6,618)
Exceptional items	(1,064)	–
Net cash inflow from operating activities	7,163	2,815

(b) Capital expenditure and financial investment	2001 £'000	2000 £'000
Purchase of tangible fixed assets	(1,322)	(4,954)
Sale of tangible fixed assets	3,131	74
Grants received	8	177
Capital expenditure and financial investments	1,817	(4,703)

Notes to the financial statements (continued)

for the year ended 31 December 2001

25 Cash flow analysis continued

(c) Reconciliation of net cash flow to movements in net debt

	2001 £'000	2000 £'000
Decrease in cash in year	(5,886)	(9,191)
Cash outflow – hire purchase repayments	–	4
Change in net debt resulting from cash flows	(5,886)	(9,187)
Loan notes cancelled	–	1,000
Loan notes issued as consideration for acquisition (see note 19)	–	(20,000)
Loan note deposit made	6,000	–
Contingent consideration for acquisition	1,000	(2,250)
Movement in net debt	1,114	(30,437)
Net (debt)/funds at 1 January	(15,626)	14,811
Net debt at 31 December 2001	(14,512)	(15,626)

(d) Analysis of net debt

	31 December 2000 £'000	Cash flow £'000	Other non-cash changes £'000	31 December 2001 £'000
Cash at bank	7,665	(3,750)	–	3,915
Bank overdrafts	(241)	(2,136)	–	(2,377)
	7,424	(5,886)	–	1,538
Loan notes	(20,800)	6,000	–	(14,800)
Contingent consideration	(2,250)	–	1,000	(1,250)
Net debt	(15,626)	114	1,000	(14,512)

26 Operating lease commitments

At 31 December 2001, the group had annual commitments under non-cancellable operating leases as set out below:

	2001		2000	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Operating leases which expire:				
– within one year	–	12	–	53
– in the second to fifth years	522	94	64	124
– over five years	258	3	158	–
	780	109	222	177

27 Contingent liabilities

The group's bankers have provided guarantees in favour of HM Customs & Excise on behalf of subsidiary undertakings. The amounts guaranteed are £2,000,000 (2000: £2,900,000).

The parent company has given guarantees in respect of bank overdrafts of its subsidiary undertakings which at 31 December 2001 amounted to £2,377,000 (2000: £241,000).

Notes to the financial statements (continued)

for the year ended 31 December 2001

28 Financial instruments

Disclosures on financial risk management, treasury policies and the use of financial instruments are included in the Financial review on pages 12 and 13.

(a) Short-term debtors and creditors

Short-term debtors and creditors have been excluded from all the following disclosures, other than the currency risk disclosures.

(b) Interest rate risk of financial liabilities

The interest rate risk and currency profile of the group's financial liabilities at 31 December 2001 was:

	Floating rate financial liabilities £'000	2001 Fixed rate financial liabilities £'000	Total £'000	Floating rate financial liabilities £'000	2000 Fixed rate financial liabilities £'000	Total £'000
Sterling	16,323	800	17,123	20,000	800	20,800
Other EU currencies	54	–	54	25	–	25
US Dollars	–	–	–	213	–	213
Other currencies	–	–	–	3	–	3
	16,377	800	17,177	20,241	800	21,041

The group's financial liabilities consist of loan notes (issued as part of the consideration for the acquisition of Fast Forward Holdings Limited in 1999 and Orient Sourcing Services Limited in 2000), finance leases and bank overdrafts.

The floating rate borrowings bear interest based on relevant national LIBOR equivalents.

Fixed rate financial liabilities

	2001 Weighted average interest rate	2001 Weighted average period for which rate is fixed Years	2000 Weighted average interest rate	2000 Weighted average period for which rate is fixed Years
Sterling	6.5	3	6.5	4

Notes to the financial statements (continued)

for the year ended 31 December 2001

28 Financial instruments continued

(c) Interest rate risk of financial assets

The interest rate risk and currency profile of the group's financial assets at 31 December 2001 was:

	Cash at bank £'000	2001 Short- term deposits £'000	Total £'000	Cash at bank £'000	2000 Short- term deposits £'000	Total £'000
Currency						
Sterling	679	–	679	5,029	2,076	7,105
Other EU currencies	659	–	659	293	–	293
US Dollars	2,138	–	2,138	191	–	191
Other currencies	439	–	439	76	–	76
	3,915	–	3,915	5,589	2,076	7,665
Floating rate	3,915	–	3,915	5,589	2,076	7,665
Fixed rate	–	–	–	–	–	–
	3,915	–	3,915	5,589	2,076	7,665

The above book values represent the fair values of the financial assets.

Floating rate cash earns interest based on relevant national LIBID equivalents.

(d) Maturity of financial liabilities

The maturity profile of the carrying amount of the group's financial liabilities, other than short-term trade creditors and accruals was:

	Debt £'000	Other financial liabilities £'000	Total £'000
At 31 December 2001			
Within 1 year or on demand	6,800	2,877	9,677
Between 1 and 2 years	6,000	750	6,750
Between 2 and 5 years	2,000	–	2,000
	14,800	3,627	18,427
At 31 December 2000			
Within 1 year or on demand	6,000	241	6,241
Between 1 and 2 years	6,800	–	6,800
Between 2 and 5 years	8,000	2,250	10,250
	20,800	2,491	23,291

The above book values represent the fair values of the financial liabilities.

The above debt comprises loan notes issued in relation to acquisitions. The loan notes constitute unsecured obligations of the company. If the revolving credit and guarantee facility of £20 million with Barclays Bank Plc and ABN AMRO Bank NV had not been in place, the full £20 million liability would need to have been classified as falling due within one year.

Notes to the financial statements (continued)

for the year ended 31 December 2001

28 Financial instruments continued

The other financial liabilities represent deferred and contingent consideration on the acquisitions of Orient Sourcing Services Limited and Natural Selection International S.A.

(e) Borrowing facilities

The group had the following undrawn borrowing facilities available at 31 December in respect of which all conditions precedent had been met at that date:

	2001 Floating rate £'000	2000 Floating rate £'000
Expiring within 1 year	12,000	14,213
Expiring between 1 and 2 years	6,000	6,000
Expiring between 2 and 5 years	2,000	8,000
	20,000	28,213

All borrowings are in respect of floating rate facilities, there are no fixed rate borrowing facilities within the group.

(f) Currency exposures

This table shows the extent to which group companies have monetary assets and liabilities in currencies other than their local currency. Foreign exchange differences on retranslation of these assets and liabilities are taken to the profit and loss account.

	Net foreign currency monetary assets / (liabilities)				
	Sterling £'000	Other EU currencies £'000	US Dollars £'000	Other currencies £'000	Total £'000
Functional currency of group operation					
Sterling	–	(3,035)	778	390	(1,867)
Other EU currencies	–	–	–	–	–
At 31 December 2001	–	(3,035)	778	390	(1,867)
Sterling	–	(2,580)	(432)	191	(2,821)
Other EU currencies	–	(9)	–	–	(9)
At 31 December 2000	–	(2,589)	(432)	191	(2,830)

(g) Forward contracts

As explained in the accounting policy notes to the financial statements, the group's policy is to hedge foreign currency risk using forward currency contracts for foreign currency purchases. The table below shows the extent to which the group has off-balance sheet (unrecognised) and on balance sheet (deferred) gains and losses in respect of financial instruments used as hedges at the beginning and end of the year. It also shows the amount of such gains and losses which have been included in the profit and loss account for the year and those gains and losses which are expected to be included in next year's or later profit and loss accounts.

Notes to the financial statements (continued)

for the year ended 31 December 2001

28 Financial instruments continued

Under the group's accounting policy, foreign currency liabilities which are hedged using forward currency contracts are translated at the contracted rates. Consequently, the carrying value of the relevant borrowing effectively includes the gain and loss on the hedging instrument. Such gains and losses are treated as deferred for the purpose of the table below:

Summary of Sterling movements in forward contracts.

	Unrecognised		Deferred	
	Gains £'000	Loss £'000	Gains £'000	Loss £'000
At 1 January 2001	337	1,602	114	679
Change in value from 1 January to settlement	174	416	–	–
	511	2,018	114	679
Included in current year income	(395)	(1,998)	(114)	(679)
Arising in current year but not included in current year income	(27)	618	–	–
Arising in current year and now deferred	(84)	(187)	84	187
At 31 December 2001	5	451	84	187
Gains/losses expected to be included in 2002 income	5	451	84	187
Gains/losses expected to be included in 2003 income or later	–	–	–	–

The group's policy is to mitigate exposure to fluctuations in exchange rates from trading transactions which are normally hedged using forward contracts. Contracts are only taken out where there is an underlying exposure with the objective of protecting margins. Speculative transactions are not undertaken. The board regards this policy as most appropriate for the business to manage risks where exchange rate volatility could equally erode as well as enhance profitability.

29 Capital commitments

	Group	
	2001 £'000	2000 £'000
Contracted for	80	410

30 Transactions with related parties

Financial Reporting Standard 8, "Related party transactions" requires the disclosure of the details of material transactions between the reporting entity and related parties. The group has taken advantage of exemptions under FRS8 not to disclose transactions between group companies.

During the year Orient Sourcing Services Limited, a subsidiary, paid £26,000 rent on properties owned by Rani Properties of which S Arora, director is the sole proprietor (2000: £nil).

Notes to the financial statements (continued)

for the year ended 31 December 2001

30 Transactions with related parties continued

During the year the company paid interest on loan notes (as described in note 19) and included within creditors are amounts accrued in respect of loan note interest as follows:

	Gross Interest paid		Amounts accrued	
	2001 £000	2000 £000	2001 £000	2000 £000
S Arora (director) and family	769	–	181	–
R A Brainin (director)	42	–	13	29
G T Hogarth (director)	42	–	13	29

During the year Lambert Howarth Portugal Produtos Em Pele, Ceramicas, Vidro E Texteis Lda., a subsidiary, paid £nil rent on properties owned by Alto da Torre S.A. a joint venture.

31 Post balance sheet events

On 4 February 2002, the group sold its long leasehold offices at 4 Fitzhardinge Street, London for the sum of £1,450,000.

On 1 February 2002, Paul Goldstone Trading Limited and its subsidiary Global Homeware Limited entered into members' voluntary liquidation.

Financial summary

	2001 £'000	2000 £'000	1999 £'000	1998 £'000	1997 £'000
Turnover	151,913	134,851	119,696	104,754	109,481
Operating profit before goodwill and exceptional items	9,462	11,409	12,091	7,871	7,152
Goodwill amortisation	(3,440)	(1,558)	(170)	–	–
Goodwill write-off	(5,493)	–	–	–	(225)
Exceptional items	(2,321)	–	–	(3,669)	(1,959)
Operating (loss)/profit	(1,792)	9,851	11,921	4,202	4,968
(Loss)/profit before taxation	(3,136)	9,760	12,045	4,068	4,586
Taxation	(1,626)	(3,455)	(3,839)	(1,474)	(1,676)
(Loss)/profit after taxation	(4,762)	6,305	8,206	2,594	2,910
Ordinary Dividends	(1,816)	(3,340)	(2,783)	(1,751)	(1,184)
(Loss)/profit Retained	(6,578)	2,965	5,423	843	1,726
Earnings per share before goodwill and exceptional items	25.0p	37.0p	56.7p	36.8p	33.2p
Basic	(21.0)p	29.7p	55.5p	18.6p	21.0p
Goodwill amortisation and write-off	39.4p	7.3p	1.2p	–	1.6p
Exceptional items	6.6p	–	–	18.2p	10.6p
Dividends per share	8.0p	15.0p	14.5p	12.5p	8.5p
Net assets	45,746	47,293	38,846	14,957	14,016
Net assets per share	201.6p	208.9p	183.7p	106.9p	100.7p

Notice of meeting

Notice is hereby given that the thirty-third Annual General Meeting of the company will be held at 26 Manchester Square, London W1U 3PZ on 8 May 2002 at 11.00 am for the purpose of considering and, if thought fit, passing the Resolutions set out below of which Resolution 7 will be proposed as a Special Resolution and the remainder as Ordinary Resolutions:

1. To receive and adopt the financial statements for the year ended 31 December 2001 together with the reports of the directors and auditors. (Resolution 1)
2. To declare a dividend. (Resolution 2)
3. To re-elect Mr G T Hogarth who retires in accordance with article 91. (Resolution 3)
4. To re-elect Mr R A Brainin who retires in accordance with article 91. (Resolution 4)
5. To re-appoint the auditors, PricewaterhouseCoopers, and to authorise the directors to fix their remuneration. (Resolution 5)
6. That the directors be generally authorised pursuant to and in accordance with Section 80 of the Companies Act 1985 to exercise for the period ending on 8 May 2007 all the powers of the company to allot or grant options over or make offers or agreements to allot or otherwise deal with or dispose of relevant securities up to an aggregate nominal amount of £230,615 which authorities shall allow and enable the directors to make offers and agreements which would or might require the making of allotments after the expiry of the period aforesaid. The authority conferred by this resolution shall be in addition to all existing powers conferred on the directors pursuant to Section 80 and in addition to the resolution passed at the Extraordinary General Meeting held on 14 December 2000.

For the purpose of this Resolution, words and expressions defined in or for the purpose of Part IV of the Companies Act 1985 bear the same meaning. (Resolution 6)

7. That conditional upon the passing of Resolution 6 above, the directors be empowered to allot and to make offers or agreements to allot equity securities for cash during the period ending at the conclusion of the next Annual General Meeting of the company after the passing of this Resolution as if Section 89(1) of the Companies Act 1985 did not apply to any such allotment, which power shall enable the directors to make offers and agreements which would or might require the making of allotments after the expiry of the period aforesaid. Provided that any allotments pursuant to such power, other than allotments by way of a Rights Issue, shall be limited in aggregate to the nominal amount of equity securities of £113,469.

For the purpose of this Resolution:

- i) "Rights Issue" means an offer of securities open for acceptance for a period fixed by the directors, to the holders of ordinary shares on the register on a fixed record date in proportion to the then holding of such shares (but subject to such exclusions or other arrangements that the directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws or the requirements of any recognised regulatory body or any stock exchange in any territory);
- ii) Words and expressions defined in or for the purposes of Part IV of the Companies Act 1985 bear the same meaning. (Resolution 7)

By order of the Board
J M Hogg
Company Secretary
8 April 2002

Registered Office:
26 Manchester Square
London
W1U 3PZ

Notice of meeting (continued)

Notes

1. A member entitled to attend and vote is entitled to appoint one or more proxies, who need not be members of the company, to attend and vote in their stead. A form of proxy is enclosed. Proxy forms, to be valid, must be received at Capita IRG Plc, Balfour House, 390/398 High Road, Ilford, Essex IG1 1BR not later than 48 hours before the time fixed for the meeting.
2. In accordance with the requirements of the Financial Services Authority, copies of the contracts of service of directors, where applicable, are available for inspection at the registered office of the company during usual business hours.
3. Subject to the declaration of the dividend, the final dividend will be paid on 14 May 2002 to members on the register at the close of business on 12 April 2002.



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Lambert Howarth Group p.l.c.