

DAWSON INTERNATIONAL PLC



Report & Financial Statements  
15 MONTH PERIOD ENDED 2 APRIL 2011



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## Financial Highlights

	<b>15 month period ended 2 April 2011 £000</b>	12 month period ended 2 January 2010 £000
Continuing Operations:		
Turnover	<b>38,095</b>	36,591
Operating profit before exceptional items	<b>115</b>	2,888
Operating profit after exceptional items	<b>1,902</b>	3,444
Pre tax profit	<b>2,506</b>	2,057
Discontinued Operations:		
Operating loss after exceptional items	<b>(1,728)</b>	(2,409)
Loss on disposal	<b>(2,500)</b>	(5,200)
Pre tax loss	<b>(4,228)</b>	(7,609)
Combined Operations:		
Loss after tax	<b>(3,481)</b>	(5,843)
Net pension scheme liabilities	<b>(11,544)</b>	(19,246)
Net funds	<b>10,157</b>	12,343
Net assets	<b>4,582</b>	1,494
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Basic and diluted loss per share (pence)	<b>(1.6)p</b>	(2.6)p
Adjusted (loss) earnings per share (pence)	<b>(0.5)p</b>	0.5p
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## Operational Highlights

### Continuing Operations:

- 15 month reporting period includes an additional, seasonally loss-making first calendar quarter
- Excellent performance by both Knitwear divisions
- Results achieved in challenging conditions with significant increases in raw material prices
- Central costs increased due to high pension related fees and charges
- Recovered £1.7 million of debt due from previous joint venture partner
- Decrease in pension liabilities due to strong asset performance
- Ongoing discussions with Pension Trustees to resolve long term pension funding

### Discontinued Operations:

- Strategically important disposal of Dawson Home Group post year end
- Estimated net proceeds of £6.0 million in 2011/12

## Chairman's Statement

In this, my second year as Chairman of Dawson, I am pleased to report that our cashmere businesses again performed well in challenging circumstances. However, the results of the Home Furnishings business were disappointing, impacted by rising raw material costs and continuing difficulties in the retail market. The Board had previously agreed that it should focus its strategy on developing the cashmere businesses which are Dawson's core competencies and in light of the ongoing difficulties facing the Home Furnishings business during the period, came to the conclusion that the business should be sold. The business was sold on 17 May 2011, generating estimated net proceeds of £6.0 million. Therefore, the results presented here concentrate on continuing operations comprising our UK and US Knitwear businesses.





### Dawson Forte

Dawson Forte sources cashmere garments from China for US private label retail programmes and its own branded cashmere collection 'Kinross'.

As we stated in last year's annual report, one of our key strategic objectives is to finalise negotiations with the Pension Trustees on an affordable arrangement that addresses the Company's commitments to its pension plan members, retains the resources necessary to fund growth and allows shareholders to share equitably in the future benefits of the business. The Directors believe that the size of the pension deficit relative to the reduced activities of the Company makes an affordable long term recovery plan more challenging and are working with the Trustees of the schemes to explore what options are open to secure members' benefits without compromising the future of the business. Whilst it is frustrating that we are not yet able to report an outcome from our protracted and expensive negotiations, the funds generated from the disposal of the Home Furnishings business will assist in the determination of a satisfactory solution to this ongoing process.

“Both the UK and US Knitwear businesses performed well, returning operating profits of £0.7 million and £2.3 million respectively”

### Performance

The Company has changed its accounting reference date from 31 December to 31 March. This is intended to reduce the seasonal fluctuation between first and second half results and to align the budgeting process with order intake for the coming season better. Reported results are therefore for the 15 month period to 2 April 2011 and include an additional first calendar quarter, which is seasonally loss-making for the Group. In this additional first quarter, continuing operations recorded sales of £1.6 million (2010: £2.6 million) and an operating loss of £1.7 million (2010: £1.5 million loss).

The pre-exceptional operating profit from continuing operations was £0.1 million for the 15 month period to 2 April 2011 compared with a pre-exceptional operating profit of £2.9 million for the 12 month period to 2 January 2010. Both the UK and US Knitwear businesses performed well, returning operating profits of £0.7 million and £2.3 million respectively. These results were achieved against a background of rapidly escalating cashmere prices which increased by around 40% in 2010 and a further 20% in the first part of 2011.

While strenuous efforts were made to reduce central costs, including the downsizing and relocation of the Corporate Office, the benefits of these savings were outweighed by an increase in pension costs, both the pension protection fund levy and advisors fees incurred, as we continue to negotiate a strategy to address the plan deficits. It is vital that we conclude these discussions as quickly as possible to stem these costs.

We recorded net exceptional income of £1.8 million for the period (2010: £0.6 million). Further proceeds of £2.7 million from our previous joint venture partner, King Deer, were recognised during the period, however, it was necessary to increase our provision for US environmental remediation costs by £0.6 million to reflect revised estimates of the remediation period. We also incurred one-off restructuring costs of £0.3 million.



## Barrie

Barrie operates at the top end of the luxury cashmere knitwear market with its brands John Laing, Barrie and Glenmac. It designs, develops and manufactures highest quality cashmere knitwear for some of the world's most prestigious couture houses.

The sale of the Home Furnishings business to Brookmann Home Limited was completed on 17 May 2011. The consideration was based on net asset value at completion which, after estimated costs of £0.5 million, is expected to generate funds of £6.0 million. £4.0 million of the consideration was paid on completion with the balance payable over a period not exceeding six months. As security for this deferred consideration, the Company has retained stocks of £2.5 million which Dawson Home Group Limited has contracted to repurchase over this period.

Further details on all of the above are given in the Business and Financial Review.

### Pensions

The pension scheme liabilities reported in the balance sheet are calculated in accordance with IAS 19. On this basis, the liabilities reduced from £19.3 million to £11.5 million, mainly due to strong asset performance in the period.

However, as noted in the last annual report, the level of contributions paid by the Company is based on a full actuarial valuation of scheme liabilities which is updated by the independent scheme actuary every three years. A triennial valuation is currently being finalised which is expected to show a significantly higher deficit than both the current IAS 19 valuation and the last triennial valuation, mainly due to changes in assumptions made by the scheme actuary concerning life expectancy and discount factors. This likely escalation of the deficit represents a significant challenge for the UK business in terms of the prospective future demands for increased financial support which may be placed on it by the pension schemes and discussions are ongoing with the Pensions Trustees and the Pensions Regulator at considerable expense to agree a sustainable way forward. Those discussions are considering a range of options for dealing with the pension deficit. The length of time taken to resolve this issue is indicative of the complexity of the situation and the challenge of funding such significant deficits.

### Funding

Our funding position is currently strong with cash and deposits of £10.2 million at 2 April 2011 (2 January 2010: £12.3 million). During the period, we extended our US facility with Bank of America for a further three years and entered into a three year facility agreement with GE Commercial Finance Limited in the UK, replacing our previous facility with Gmac Commercial Finance Limited on broadly similar terms. Our funding position was further strengthened after the period end by the disposal of the Home Furnishings business as noted above. It must be recognised however, that our seasonal working capital requirements absorb some of these funds mid-year and that a solution to the pensions issue is also likely to absorb a significant proportion of these funds.

### Board and Management

In September 2010 we advised of the departure of Andy Bartmess and the appointment of Jim Carrie, the Managing Director of Barrie Knitwear, as Chief Operating Officer and myself as Executive Chairman. Since September Jim has overseen a closer working relationship between the two knitwear businesses, which he now heads. With the sale of Dawson Home Group in May 2011, his focus is now exclusively the knitwear businesses, whilst my responsibilities are corporate matters and a resolution to the pension issue. On 2 August 2011 Giovanni Ghione left the Board and I would like to thank him for his valuable contribution during his term of office which has seen significant change in the Group. I am pleased to welcome Jim Carrie to the Board following his appointment on 8 August 2011.

### Employees

I would again like to acknowledge the very difficult challenges faced by employees in all of our Group businesses during these turbulent economic times. I thank everyone for their continued dedication and efforts to sustain existing business and their creative approach to maximising opportunities as they emerge.

### Outlook

It is clear that our trading results for 2011/12 will be impacted by the recent increases in cashmere raw material prices discussed above, reducing margins in both of our knitwear businesses but particularly so in the case of the US Knitwear business. We intend to make the investments and decisions necessary to ensure both businesses are well placed and resourced to benefit from returning stability in the raw material market, when this comes, although this is unlikely in the short term.

Our key priority is to resolve our pension funding issues as quickly as possible in a manner which takes full account of the financial circumstances of the Company, and recognises fairly the interests of all stakeholders in the Company.

**David Bolton** | Chairman

## Business Review

During the period, the Board resolved to focus on the development of its core cashmere businesses. Subsequently there was an approach to the Company to acquire the Home Furnishings business and a sale was concluded on 17 May 2011. The continuing operations are therefore separated into two reporting divisions: UK Knitwear and US Knitwear. In addition there is a central administrative function. The operations of each division are reviewed in the following sections of this report, as are the results of the discontinued Home Furnishings division.

During the period, the Company changed its accounting reference date from 31 December to 31 March. The statutory accounts are therefore for the 15 month period ended 2 April 2011 with a comparative period of 12 months to 2 January 2010. The unaudited proforma results for the 12 month periods to 2 April 2011 and 3 April 2010 are derived from the statutory and management accounts and are provided to illustrate trading performance of continuing operations over a comparable trading period.

The following sections contain a number of forward looking statements regarding the prospects of the Group and its individual businesses which may not be realised and should therefore be treated with an appropriate degree of caution.

### UK Knitwear

Extracted from:

	Audited Statutory Results		Unaudited Proforma Results	
	15 month period ended 2 April 2011 £000	12 month period ended 2 January 2010 £000	12 month period ended 2 April 2011 £000	12 month period ended 3 April 2010 £000
Revenue	9,040	7,896	7,937	7,725
Operating profit before exceptional items	743	1,133	1,084	1,071
Exceptional items	-	(125)	-	-
Average capital employed*	(139)	(101)	(10)	(91)

\*Average capital employed is derived from management accounts and comprises fixed assets, working capital and provisions.

The UK Knitwear division comprises the Barrie Knitwear business, based in Hawick, Scotland. It manufactures highest quality cashmere garments at its factory in the Scottish Borders and sells to some of the world's most prestigious couture houses, department stores and private label retail outlets.

### Performance

The result for the 15 month period to 2 April 2011 demonstrates the seasonality of the business with sales up £1.1 million compared with the previous 12 month period but operating profit down £0.4 million. The first calendar quarter of the year is the manufacturing off-peak period and contract business is accepted at a lower margin to contribute to overhead recovery.

Performance for the 12 month period to 2 April 2011 was consistent with the comparative period and the results of both are very satisfactory. This is particularly so given the increase in cashmere fibre prices over the past 18 months. Prices rose by around 40% in 2010 and have increased again by around 20% in 2011. The impact on reported results to date has been mitigated by the utilisation of yarn stocks which were purchased or contracted before these price increases but the ongoing price increases will inevitably impact on future margins.

Demand from couture customers remains strong and the business takes pride in its ability to supply these high specification, technically demanding products. The business is also focussed on promoting its own label garments, *Barrie*, *John Laing* and *Glenmac*, and attended a number of trade shows during the period, including Pitti Uomo in Florence and the MRket shows in New York and Las Vegas.

The business is working closely with the US Knitwear division and Jim Carrie, managing director of the UK division, now heads both businesses in his role as Group Chief Operating Officer. It is expected that this closer relationship will create opportunities to increase the sales of our high quality Scottish-made product both in the USA and in the emerging Chinese market.

### Outlook

2011/12 has started positively with the order book filled through to the end of the calendar year. As noted above however, it has not been possible to fully pass on the increase of cashmere yarn prices and it is expected that margins in the coming year will be lower than in recent years.

Web sites: [www.johnlaing-cashmere.co.uk](http://www.johnlaing-cashmere.co.uk)  
[www.barrie.co.uk](http://www.barrie.co.uk)

## Business Review (continued)

### US Knitwear

Extracted from:

	Audited Statutory Results		Unaudited Proforma Results	
	15 month period ended 2 April 2011 \$000	12 month period ended 2 January 2010 \$000	12 month period ended 2 April 2011 \$000	12 month period ended 3 April 2010 \$000
Revenue	45,202	44,994	42,814	46,093
Operating profit before exceptional items	3,669	5,918	4,545	6,039
Exceptional items	(160)	–	(160)	–
Average capital employed	4,770	4,549	5,691	4,827
	£000	£000	£000	£000
Revenue	29,055	28,695	27,518	29,334
Operating profit before exceptional items	2,358	3,774	2,921	3,907
Exceptional items	(103)	–	(104)	–
Average exchange rate	1.556	1.568	1.556	1.546

The US Knitwear division comprises the Dawson Forte Cashmere business based in Boston and New York, USA. Dawson Forte sources cashmere garments from China for US private label retail programmes and its own branded cashmere collection 'Kinross'.

#### Performance

As with the UK Knitwear division, the result for the 15 month period to 2 April 2011 demonstrates the seasonality of the business with sales up \$0.2 million compared with the previous 12 month period but operating profit down \$2.2 million. Sales in the first quarter of the calendar year were \$1.1 million and the operating loss \$1.3 million.

Sales in the 12 month period to 2 April 2011 of \$42.8 million were \$3.3 million (7%) lower than in the comparative period and operating profit of \$4.5 million was \$1.5 million (25%) lower. As noted above, cashmere fibre prices rose by around 40% in 2010 and have increased again by around 20% in 2011. As the US Knitwear division does not hold stocks, the increase in 2010 has a more immediate impact than on the UK Knitwear division and this is reflected in the reduction in sales and in margins, the latter reducing by around 2% compared with the previous period.

The business aims to secure and grow its private label business by continuing to offer exceptional service and support. It is pleasing to have secured the cashmere knitwear programme for Patagonia, the US outdoor specialist, which has stringent quality, environmental and social compliance requirements. The business has lost one significant customer during the year who has chosen to source directly.

Simultaneously, the business is seeking to increase its support for the large number of customers who sell the *Kinross* branded label. The "Gold Store Initiative" was introduced in 2010 providing advertising and inventory support to five key customers who committed more retail floor space to our product. This proved successful and is being rolled out to 40 more customers in 2011.

The product line is being expanded both to grow existing sales and to create a product offering in the seasonally quieter first half of the calendar year. This in turn has required us to engage additional resource and to expand and strengthen our supplier factory base, moving into new geographical areas where appropriate. Management are working closely with the UK Knitwear division to market a 'made in Scotland' product in the USA and will pursue opportunities through this relationship to market sourced products in the UK and Europe.

#### Outlook

Sales for 2011/12 are likely to be below 2010/11 levels with one major customer deciding to source directly. However we are successfully seeking to widen our customer base as the new relationship with Patagonia demonstrates. It is clear however that the recent rise in cashmere prices will have a significant negative impact on margins in 2011/12 as it is not possible to pass these on in full to customers. While the coming year is expected to be difficult it is vital to continue to invest in the growth opportunities identified.

Web site: [www.kinrosscashmere.com](http://www.kinrosscashmere.com)

## Business Review (continued)

### Central Costs

Extracted from:

	Audited Statutory Results		Unaudited Proforma Results	
	15 month period ended 2 April 2011 £000	12 month period ended 2 January 2010 £000	12 month period ended 2 April 2011 £000	12 month period ended 3 April 2010 £000
Payroll costs	820	821	610	785
Legal, professional and treasury fees	358	355	197	336
Other costs	141	257	160	176
Costs before pensions, exchange and exceptional items	1,319	1,433	967	1,297
Pension related costs	1,513	795	1,279	813
Exchange loss (gain)	154	(209)	154	(363)
Total costs	2,986	2,019	2,400	1,747
Net exceptional income	1,890	681	1,890	428

During the period, the company downsized its Corporate Office function and relocated to shared premises with the UK Knitwear division in Hawick, Scotland. The Corporate Office provides administrative and treasury functions to group businesses. All costs not directly incurred or attributable to these businesses are borne centrally.

Significant savings have been achieved in payroll and professional fees however central costs overall have increased due to the continued escalation in pension related costs.

Pension related charges in the 15 month period to 2 April 2011 were £1.5 million (12 months to 2 January 2010: £0.8m). In addition, the Group made deficit repair contributions of £0.5 million (£0.6 million), resulting in a total cash cost of £2.0 million (£1.4 million). Charges to the Income Statement comprised the pension protection fund levy of £0.7 million (£0.4 million) and adviser fees of £0.8 million (£0.4 million). All pension fees, with the exception of investment manager fees are borne by the Company.

Payroll costs comprise the remuneration, inclusive of pension costs, of the Executive Directors and the corporate office staff and the fees paid to the Non-Executive Directors. Further detail of the remuneration and fees of the Directors is given in the Directors' Report on Remuneration.

The level of legal, professional and treasury fees reflects the relative complexity of the Group with its overseas operations, legacy issues from discontinued operations and restructuring activities. These costs have continued to reduce as the group structure has simplified.

Other costs are mainly the administrative and facility costs associated with running the central function and any legacy costs associated with discontinued activities.

An exchange loss of £0.2 million was recorded in the 15 month period to 2 April 2011 compared with a gain of £0.2 million in the 12 month period to 2 January 2010.

Net exceptional income of £1.9 million was recorded in the 15 month period to 2 April 2011 (12 month period to 2 January 2010: £0.7m). Exceptional income of £2.7 million resulted from the re-instatement of a long standing debt due from the Company's former joint venture partner, of which £1.6 million has been received and £1.1 million is due by 31 December 2011. This was partly offset by £0.2 million reorganisation costs to restructure the Corporate Office function and a charge of £0.6 million to increase the provision for US environmental remediation costs.

## Business Review (continued)

### Discontinued Operations

Extracted from:

	Audited Statutory Results 15 month period ended 2 April 2011			Unaudited Proforma Results 12 month period ended 2 January 2010		
	Dawson Home Group £000	Todd & Duncan £000	Total £000	Dawson Home Group £000	Todd & Duncan £000	Total £000
Revenue	38,476	–	38,476	36,292	14,625	50,917
Loss before exceptional items	(1,472)	–	(1,472)	(1,482)	(927)	(2,409)
Pre disposal exceptional costs	(256)	–	(256)	–	–	–
Loss on disposal of business	(2,500)	–	(2,500)	–	(5,200)	(5,200)
Loss for the period from discontinued operations	(4,228)	–	(4,228)	(1,482)	(6,127)	(7,609)

#### Dawson Home Group

The sale of Dawson Home Group Limited to Brookmann Home Limited was completed on 17 May 2011. Immediately prior to the sale £2.5 million of stock was transferred from Dawson Home Group Limited to its parent company and will be sold back to Dawson Home Group Limited over a period not exceeding 6 months. The consideration was based on the net asset value of the business at completion, less a discount of £2.0 million. Disposal costs are estimated at £0.5 million.

During the 15 month period to 2 April 2011 the business incurred a trading loss of £1.5 million. This was partly as a result of the increase in world cotton prices which more than doubled during the period. While this could be regarded as a short term issue, the Board determined that the business had not demonstrated sufficient progress to achieve an adequate level of profitability in an acceptable timescale and it should therefore focus its resources on developing its core cashmere businesses.

The Company had guaranteed the lease obligations of Dawson Home Group Limited in respect of its administrative offices in Manchester and this guarantee is expected to remain in place until expiry of the initial term of the lease in 2017. The annual cost of the lease is £0.3 million.

#### Todd & Duncan

As detailed in last year's annual report, the sale of the Todd & Duncan business to Ningxia Zhongyin Cashmere Company Limited ("Zhongyin") was completed on 28 August 2009.

As part of the sale two supply agreements were entered into:

- (i) The UK Knitwear division signed a four year supply agreement at arm's length to source yarn from Todd & Duncan Limited at historical levels.
- (ii) The US Knitwear division signed a four year agreement to offer a minimum level of garment orders to Zhongyin each year.

These arrangements have operated satisfactorily throughout the period.

## Business Review (continued)

### Business Risks

In common with all businesses, the Group is exposed to various risks and uncertainties, which could have a material effect on future results. There are review processes in place which seek to identify these risks and mitigate them where possible. The principal risks identified and the actions taken to mitigate them are as follows:

#### Customer and Supplier Dependency

Although the businesses each have fairly wide and diverse overall customer bases, each also has a small number of large customers. The loss of any of these customers could severely impact sales and profits. Each division also sources its products from a handful of high quality suppliers. While the loss of any one of these would not have the same impact as the loss of a large customer, it would be disruptive and could cause short-term delivery issues.

Group personnel work very hard to maintain and enhance their relationships with key customers to ensure the continuity of these relationships. This area has been one of the Group's key strengths and a significant element of its recent success. Group companies also maintain close contact with their supply base, with frequent factory visits and often with quality control personnel working in the factories during order production to ensure issues are identified well in advance and to minimise the risk of supply disruption.

#### Key Personnel

Each business relies on a core of highly-qualified, talented and experienced managers and staff. The loss of any of these key individuals can lead to short-term negative impact to sales or operations.

The Group closely monitors its relationships with these key individuals and has incentive programmes in place to ensure their contributions are adequately rewarded. This creates an environment that encourages the retention of key individuals and ensures that they have incentives in place to continue to perform and excel. As a result, the Group has an excellent record of retaining these individuals. For the businesses operating in the UK, the Group also has employment contracts in place for these individuals with adequate notice periods to minimise business disruption.

### Overseas Competition

Each business faces competition from low cost overseas competitors. There is the risk that customers, especially in difficult economic times, will choose to move their orders to these low cost competitors.

This risk is not a new one and Group companies have successfully competed against low cost foreign competitors over a number of years. They do this by offering products and customer service that are superior to those offered by low cost competitors.

### Fashion Trends

The products of each business are to some extent fashion items and therefore subject to consumer tastes and fashion trends. If the Group's divisions design products that do not adequately reflect fashion trends, or do not appeal to core customers, sales can be negatively impacted. Due to the seasonality of sales and relatively long lead times, it is necessary to produce some goods in advance of the selling season, at a time when fashion trends and customer demand are uncertain. This creates stock dormancy risk.

Group designers work very closely with customers to ensure that finished products appeal both to trade customers and consumers. The fact that most of the Group's products are designed to the specific needs of an individual customer also helps to minimise this risk. Designers spend a great deal of time monitoring conditions at retail and attending trade and fashion shows to stay abreast of the latest trends.

## Business Review (continued)

### Political

Each business sources product from countries where political systems and economic circumstances can be subject to some instability. This causes a risk of supply disruption. There is also the possibility of protectionist actions by the governments of countries in which the Group operates. This creates a risk of short-term supply disruptions and cost increases.

Group sourcing personnel spend a great deal of time in source countries to ensure they have the latest information on local conditions. In the case of China, the Knitwear division maintains a local office with full-time staff permanently resident in the country. The Group also closely monitors political developments in the countries where it operates to ensure it has as much advance warning as possible of new legislation or regulations that could impact its businesses and take appropriate action to mitigate any associated risk.

### Financial

#### *Foreign exchange risk*

For the Group's UK based business most product is sold in Euros. It also has an indirect exposure to the US Dollar as cashmere fibre is traded in that currency. As a result, exchange rate movements can have a significant impact on the short-term profitability of this business. Results are most exposed to negative impact by the Euro weakening against Sterling. The Group seeks to minimise this risk by entering into forward foreign exchange contracts. In 2010/11, it was the policy of the Group not to account for such contracts as cash flow hedges but to take any unrealised gain or loss to profit and loss in the period arising. This can result in timing differences in reported profits between accounting periods.

#### *Price risk*

Each business is exposed to the impact of price swings in commodities such as cashmere fibre, cotton and wool. These prices are monitored closely and, to the extent the market allows, reflected in the prices that Group companies charge for their products.

#### *Funding risk: working capital cycle and facilities*

Both of the Group's businesses are highly seasonal and as a result have working capital patterns with significant peaks at certain times of the year. For these businesses to operate, adequate financing must be in place to fund working capital, including these working capital peaks. The Group finances its businesses through its own resources and with asset-backed financing facilities in the UK and USA.

Both facilities are for three year terms, expiring in February 2014 and June 2013 respectively. As is normal, the facility agreements include certain financial covenants and business performance targets, non compliance with which could cause the facilities to be withdrawn before the end of their term.

The Group monitors cash flow and cash flow projections by business and this information is reviewed by Group finance management on a daily basis. To the extent cash flow forecasts deviate from plan, corrective actions are taken to ensure the Group maintains adequate headroom between its borrowing capacity and its cash needs. Both Knitwear divisions are primarily private label businesses that manufacture or source a high proportion of their goods against firm customer orders. Therefore, the working capital and funding requirements of these businesses automatically adjust; when sales are strong working capital levels tend to be high and when sales fall working capital levels fall as well.

#### *Pensions*

The Group has two defined pension schemes in the UK which are closed to new members and a defined benefit scheme in the USA which is closed to all members. As discussed in the Chairman's Statement the liabilities of these schemes are substantial in relation to the size of the Group and are sensitive to changes in factors outside of management control. There is a risk therefore that the Group may be unable to fund these liabilities in the future which could result in the insolvency of all or part of the Group.

The Group is engaged in positive dialogue with the Pension Trustees and the Pensions Regulator to agree a way forward that is acceptable to all parties. Based on these discussions, the Directors see little likelihood of a deficit contribution notice that would jeopardise the going concern status as any insolvent realisation that this would trigger would disadvantage all stakeholders.

# Financial Review

Extracted from:

	Audited Statutory Results		Unaudited Proforma Results	
	15 month period ended 2 April 2011 £000	12 month period ended 2 January 2010 £000	12 month period ended 2 April 2011 £000	12 month period ended 3 April 2010 £000
<b>Income Statement Summary</b>				
Continuing operations:				
Revenue				
UK Knitwear	9,040	7,896	7,937	7,725
US Knitwear	29,055	28,695	27,518	29,334
	<b>38,095</b>	<b>36,591</b>	<b>35,455</b>	<b>37,059</b>
Operating profit before exceptional items				
UK Knitwear	743	1,133	1,084	1,071
US Knitwear	2,358	3,774	2,921	3,906
Central overheads	(2,986)	(2,019)	(2,400)	(1,747)
	<b>115</b>	<b>2,888</b>	<b>1,605</b>	<b>3,230</b>
Exceptional items	1,787	556		
Operating profit after exceptional items	<b>1,902</b>	<b>3,444</b>		
Net finance costs				
- on borrowings	(234)	(498)		
- on pension obligations	838	(889)		
Taxation	(1,759)	(291)		
Continuing operations profit after tax	<b>747</b>	<b>1,766</b>		
Discontinued operations loss after tax	(4,228)	(7,609)		
Loss after tax	<b>(3,481)</b>	<b>(5,843)</b>		
Average USD exchange rate	<b>1.556</b>	<b>1.568</b>		

## Presentation of Results

Comments below refer to the statutory accounts unless otherwise stated.

The Home Furnishings business was sold on 17 May 2011 and so is reported as a discontinued operation in all periods.

### Operating results – continuing operations

Revenues from continuing businesses rose by £1.5 million to £38.1 million with £1.6 million generated in the additional three month period. Operating profit before exceptional items fell from £2.9 million to £0.1 million with an operating loss of £1.7 million incurred in the additional three month period:

- The UK Knitwear division reported revenues up £1.1 million at £9.0 million of which £1.1 million was generated in the additional three month period. Pre-exceptional operating profit fell from £1.1 million to £0.7 million with a loss of £0.2 million in the

additional three month period. Proforma revenues for the 12 month period to 2 April 2011 increased by £0.2 million compared with the previous 12 month period, with pre-exceptional operating profits unchanged at £1.1 million.

- The US Knitwear division reported revenues up £0.4 million at £29.1 million with £0.5 million generated in the additional three month period. Pre-exceptional pre tax profit fell from £3.8 million to £2.4 million with a loss of £0.8 million in the additional three month period. Proforma revenues for the 12 month period to 2 April 2011 were down £1.8 million compared with the previous 12 month period, with pre-exceptional operating profits down £1.0 million. There was no significant exchange rate effect.
- Central costs for the 15 month period to 2 April 2011 were £3.0 million compared with £2.0 million for the 12 month period to 3 January 2010, an increase of £1.0 million of which £0.7 million

## Financial Review (continued)

was pension related cost. £0.6 million of costs were incurred in the additional three month period of which £0.4 million was pensions related cost. Proforma costs for the 12 month period to 2 April 2011 were £2.4 million, £0.6 million higher than in the comparative 12 month period.

The performance of each division is discussed in the Business Review above. The results of the Knitwear divisions remain satisfactory having been achieved in a very challenging economic environment. In particular, both divisions are having to manage a significant increase in cashmere raw material prices which increased by around 40% in 2010 and have again increased by around 20% in 2011. While cashmere fibre is only part of the cost of cashmere yarn for the UK Knitwear division and cashmere garments for the US Knitwear division, it is a significant proportion and has resulted in price increases which could not be fully passed on to customers. The impact on the UK Knitwear division was less pronounced as it was able to utilise existing stocks.

### Exceptional Items – continuing operations

Net exceptional income for the 15 month period to 2 April 2011 was £1.8 million (12 month period to 2 January 2010: £0.6 million).

Exceptional income of £2.8 million was recognised in the current period. As noted in last year's annual report, the Company agreed a payment plan with Inner Mongolia King Deer Cashmere Company Limited ("King Deer") in March 2009 for the repayment of a long standing debt of approximately \$10.4 million which had been fully provided in prior years and received payments totalling \$1.5 million in the 12 month period to 2 January 2010. Payments totalling \$2.5 million (£1.7 million) were received in the current period and a debtor of \$1.8 million (£1.1 million) was also recognised at the period end in respect of payments which are due by December 2011. The payment plan was restructured during the current period such that the remaining \$4.6 million of debt now has no fixed repayment term but is secured against a 9% equity stake in King Deer. This amount is fully provided given the uncertainty as to timing and value of realisation.

Exceptional charges totalling £0.9 million were recognised in the current period: £0.1 million in respect of restructuring costs at the US Knitwear division, £0.2 million in respect of restructuring costs at the Corporate Office and an increase of £0.6 million in US environmental provisions.

Further details are given in note 4 to the financial statements.

### Net Finance Costs

Net finance costs, excluding pension related items, for the 15 month period to 2 April 2011 were £0.2 million on average net funds of £10.4 million (12 month period to 2 January 2010: £0.5 million on average net debt of £2.1 million). Effective interest rates are high due to the geographical spread of funds, the seasonal nature of the businesses which results in a significant inflow of funds in the final months of the year and the high fixed cost element of the Group's asset based lending facilities.

Net finance income on pension obligations for the 15 month period to 2 April 2011 was £0.8 million (12 month period to 2 January 2010: £0.9 million cost). This is a notional figure only, calculated as the expected return on scheme assets in the year less the unwinding of one year's discount on pension obligations. The expected rate of return on assets for the 15 month period to 2 April 2011 was 7.4% compared with 5.6% in the previous period. In both periods the actual return on assets exceeded the expected return.

### Taxation

A tax charge of £1.8 million for the 15 month period to 2 April 2011 was incurred (12 month period to 2 January 2010: £0.3 million). A charge of £1.9 million for the reversal of the deferred tax asset was offset by a current year tax credit of £0.1 million. The deferred tax asset was released in full during the period, £0.7 million due to the utilisation of prior period tax losses in the USA and the balance on the basis that the current volatility in cashmere prices makes short term profitability in the USA insufficiently certain to justify recognition of the asset at this time.

### Earnings Per Share

The basic loss per share for the 15 month period to 2 April 2011 was 1.6 pence (12 month period to 2 January 2010: 2.6 pence loss). The adjusted loss per share, calculated on the results of continuing operations before exceptional items was 0.5 pence (12 month period to 2 January 2010: 0.5 pence earnings). The weighted average number of shares in issue was 225.2 million (225.2 million).

### Dividends

No dividends were paid or proposed in the year.

### Balance Sheet

	2 April 2011 £000	2 January 2010 £000
<b>Balance Sheet Summary</b>		
Fixed assets	647	1,068
Working capital	1,881	8,180
Provisions	(2,005)	(2,166)
Other financial liabilities	(106)	(51)
Net assets of disposal group	5,201	–
Net tax asset	351	1,366
Pension obligations	(11,544)	(19,246)
Net funds	10,157	12,343
Net assets	4,582	1,494

## Financial Review (continued)

### Fixed Assets

Fixed assets reduced by £0.4 million in the period, £0.2 million of which was due to the reclassification of Dawson Home Group into Net assets of disposal group. Capital expenditure was £0.2 million and depreciation £0.4 million.

### Working Capital

Working capital reduced by £6.3 million in the period. A reduction of £7.2 million resulted from the reclassification of Dawson Home Group into Net assets of disposal group while an increase of £1.1 million resulted from the recognition of a debt which had previously been provided.

### Provisions

Provisions were £2.0 million at 2 April 2011 (2 January 2010: £2.2 million), comprising £0.2 million for reorganisation costs, £1.3 million for environmental liabilities, £0.2 million for the cost of exiting an onerous lease and £0.3 million for customer claims and unfunded retirement benefits. A charge of £0.6 million was made in the period to increase the provision for US environmental remediation costs to reflect a longer expected remediation period.

### Other Financial Liabilities

As noted below, the policy of the Company is to enter into forward foreign exchange contracts to protect against the impact of unfavourable exchange movements on its forecast Euro sales and US Dollar purchases. These are not designated as cash flow hedges, instead any unrealised gains or losses arising on open contracts at the end of the year are taken to the Income Statement in the period and an asset or liability recorded in the balance sheet. At the period end the unrealised loss was £0.1 million (2 January 2010: £0.1 million).

### Net Assets of Disposal Group

As required by IFRS 5, the assets and liabilities of the Home Furnishings business which was sold on 17 May 2011 are classified separately on the balance sheet as held for sale at the period end. Liabilities include a provision of £2.5 million for the loss on sale.

### Net Tax Recoverable

Tax recoverable of £0.4 million at 2 April 2011 relates to an estimated repayment due in the USA. The net tax recoverable balance of £1.4 million at 2 January 2010 comprised a deferred tax asset of £1.8 million offset by a current tax liability of £0.4 million.

IAS12 requires that deferred tax liabilities are provided in full and that deferred tax assets be recognised to the extent they are considered recoverable. A deferred tax asset of £1.8 million was recognised at 2 January 2010 in respect of unexpired operating losses brought forward which could be set off against the prospective profits of the US Knitwear division. £0.7 million of this asset was utilised during the year and the balance of £1.1 million has been de-recognised on the basis that the current volatility in cashmere prices makes it insufficiently certain at the present time that the remaining losses will be utilised in the foreseeable future.

### Pension Obligations

Pension obligations are calculated by applying IAS19 which specifies that assets are measured at market value at the balance sheet date and liabilities are measured by discounting projected future benefit payments at good quality corporate bond rates. The projected future benefit payments are based on a number of actuarial assumptions such as life expectancy and inflation.

On this basis the liability reduced from £19.2 million to £11.5 million in the period despite the UK schemes discount rate for liabilities reducing from 5.8% to 5.6%. The improvement was driven mainly by an increase in the market value of assets during the period. Contributions by the Company were £0.7 million (12 month period to 2 January 2010: £0.8 million) of which £0.2 million (£0.2 million) was current service cost and £0.5 million (£0.6 million) additional contributions to reduce the deficit. An additional deficit repair contribution of £1.8 million was made after the period end.

### Funding and Facilities

Net cash and deposits reduced by £2.1 million during the 15 month period to 2 April 2011, from £12.3 million to £10.2 million. Funds are absorbed mid year due to seasonal working capital requirements and fell to a minimum of £5.2 million in August 2010.

Borrowing facilities comprise a £10 million working capital facility with GE Commercial Finance which funds the Group's UK operations and a \$15 million working capital facility with Bank of America which funds the Group's US operation. The funding capacity of each facility varies according to the working capital of the respective businesses. Both are three year facilities. The GE facility expires in February 2014 and the Bank of America facility expires in June 2013.

### Going Concern

In carrying out their duties in respect of going concern, the Directors have reviewed the Group's financial position and cash flow forecasts for a period of 12 months from the date of signing these Group financial statements. These have been based on a comprehensive review of revenue, expenditure and cash flows, taking into account the likelihood of recovering the balance of King Deer debt and the deferred consideration from the disposal of Dawson Home Group Limited and specific business risks and the uncertainties brought about by the current economic environment.

The key assumption made in these forecasts is that there is no demand for a pensions' deficit repair contribution beyond the means of the Group to pay.

Based on current negotiations with the Trustees and the Pensions Regulator, the Directors see little likelihood of a deficit contribution notice that would jeopardise the going concern status as any insolvent realisation that this would trigger would disadvantage all stakeholders.

On this basis, the Group's forecasts and projections, taking account of reasonably possible changes in trading performance and other business risks, show that the Group should be able to operate within the level of its current and forecast facilities. Accordingly, the Directors have continued to adopt the going concern basis of preparing the financial statements.

## Financial Review (continued)

### Treasury

The Group's funding policy is to negotiate sufficient facilities to cover forecast net borrowings for the following 12 month period with adequate headroom against identified risks.

The Group's policy on currency risk is to minimise the impact of currency risk on currency transaction flow through use of forward foreign exchange contracts. Due to uncertainty of timing of future cash flows these are not accounted for as cash flow hedges. Instead, all gains and losses are recognised in the Income Statement in the

period arising. This can result in timing differences with gains or losses on forward foreign exchange contracts marked to market at each reporting period.

Translation exposures on foreign currency net assets and income streams are not hedged.

**David Bolton** | Chairman

**David Cooper** | Finance Director

## Board of Directors

### +\*~ David Bolton (60)

Appointed Non-Executive Director on 29 July 2008 and Interim Chairman on 8 May 2009. The position of Chairman was confirmed on 9 March 2010. He is a chartered accountant with over 30 years experience in a variety of financial management positions across a range of industries, with particular expertise in improving operational performance and delivering business integration through acquisition. Currently Finance Director of computer software company, K3 Business Technology Group plc.

### David Cooper (53)

Appointed Finance Director of Dawson International PLC on 1 January 2002, having previously been Group Financial Controller and Company Secretary. He joined the Company as Group Financial Accountant in 1986 and is a member of the Institute of Chartered Accountants of Scotland.

### Giovanni Ghione

Appointed Director and Deputy Chairman on 1 February 2010 and resigned from the Board on 2 August 2011. He had previously been a Non-Executive Director of Dawson International PLC between 2002 and 2006 and Deputy Chairman from 2004 to 2006.

### +\*~ Jan G Holmstrom (58)

Appointed Non-Executive Director on 29 July 2008. A professional management consultant with a wealth of experience of working in Sweden, the UK and in the Far East. He is currently Managing Director of Browallia AB, in Sweden, a subsidiary company of Bronsstadet AB. Browallia manages Bronsstadet's foreign investments. Other directorships include Browallia Holdings Limited, Johnson and Starley Limited, The Union Discount Company of London Limited, Chapelthorpe Plc, Densitron Technologies plc and 21st Century Technology plc.

### Jim Carrie (59)

Appointed Chief Operating Officer in September 2010 and joined the Board on 8 August 2011. A Fellow Chartered Management Accountant, he has held a number of senior management and finance roles in the Company since joining in 1982. Prior to joining Dawson he held senior finance roles in Courtaulds plc.

### Andy Bartmess

Appointed to the Board on 15 February 2006 and appointed Chief Executive Officer on 1 January 2007, he resigned on 30 September 2010. He was formerly President of Dawson Forte Cashmere, the Group's US Knitwear division.

+ Member of the Audit Committee

\* Member of the Remuneration Committee

~ Member of the Nominations Committee

# Accounts

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## Directors' Report

The Directors present their report and the audited consolidated financial statements of the Company for the financial period ended 2 April 2011.

### Business Activities

The names and activities of the Group's principal businesses are set out on page 55. A review of the activities of the Group for the period is given in the Business Review and Financial Review on pages 5 to 14.

### Review of the Business

A review of the business which includes the financial results for the year, key performance indicators, the financial position at the year end, likely future developments and the principal risks and uncertainties facing the Group are contained in the Chairman's Statement and the Business Review and Financial Review on pages 2 to 14.

### Subsequent events

On 17 May 2011 the Home Furnishings business, Dawson Home Group Limited, was sold for a net consideration of approximately £6.0 million. A provision of £2.5 million for loss on sale is included in the results for the year.

### Going Concern

As discussed in the Chairman's Statement on page 4 current economic conditions present some challenges to Group performance. The Group has also identified a number of business specific risks and uncertainties which are discussed in the Business Review on pages 9 and 10.

The Group's projections, taking account of the risks outlined, show that the Group should be able to operate within its current banking facilities. As a result, the Directors have a reasonable expectation that the Group has 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 financial statements.

### Dividends

No interim or final dividend was paid or is proposed.

### Substantial Shareholders

As at 8 August 2011 the Company had been notified of the following interests amounting to 3 per cent or more in its share capital:

Leeds Group plc	28.8%
Pontek Ltd	10.6%
Fairmont Investment Trading Limited	8.3%
Salt SS	8.9%
Global Asset Management	7.8%
Brookwell	5.2%
S di Canossa	5.0%

### Directors

The names and biographical details of the present Directors are set out on page 14.

Andrew Bartmess resigned from the Board of Directors on 30 September 2010 and Giovanni Ghione, who was appointed a Director and Deputy Chairman of the Company on 1 February 2010, resigned from the Board on 2 August 2011.

Jim Carrie was appointed to the Board on 8 August 2011 and, being eligible, offers himself for election.

Jan Holmstrom retires by rotation from the Board at the Annual General Meeting and, being eligible, offers himself for re-election.

The interests of the Directors in the share capital of the Company are set out in the Directors' Report on Remuneration on pages 17 to 19.

### Annual General Meeting

The Notice convening the Annual General Meeting for 30 September 2011 and the Resolutions to be considered at that meeting are set out on page 59. There is no Special business to be proposed at the meeting.

### Employees

The Group provides all employees with equal opportunities for advancement regardless of their age, sex, race, creed or sexual orientation and encourages, where possible, the recruitment, training and career development of disabled people and any employees who may become disabled. It is also the Group's policy to encourage the spread of information regarding developments affecting both the Group and an employee's workplace.

### Environment

The Group is conscious of the need to protect the quality of the environment and strives to meet or exceed applicable regulations at all locations.

### Supplier Payment Policies

It is the policy of the Group to agree terms of payment when orders for goods and services are placed and to adhere to these arrangements when making payment. Purchases made by the Company itself are, with very few exceptions, made from subsidiaries and do not, therefore, involve taking credit from external suppliers. The average length of credit provided by suppliers was 31 days compared with 32 days in the period to 2 January 2010.

### Auditor

The Directors who held office at the date of approval of this Directors' Report confirm that:

- So far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware;
- Each Director has taken all the steps he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

The Company's auditor, Deloitte LLP has indicated that it is willing to continue in office and, accordingly, a Resolution proposing its formal appointment will be put to the Annual General Meeting.

By order of the Board

**David Cooper** | Secretary, 8 August 2011

## Directors' Report on Remuneration

As an AIM listed Company, Dawson International PLC is not required to comply with Schedule 8 of the Companies Act, however the Directors feel it is appropriate to provide the following information to shareholders.

### The Remuneration Committee

The Remuneration Committee is chaired by Jan G Holmstrom and is composed of the Board Chairman, and the Non-Executive Directors.

The role of the Committee is to make recommendations to the Board on all aspects of conditions of employment of the Company's Executive Directors and on the terms and conditions of employment of senior management. It determines the structure of remuneration packages and sets the criteria for performance related components. The Committee may, at its discretion, seek external advice at the expense of the Company when setting remuneration levels. In the absence of any proposed changes to remuneration policy no external advice was sought in the year.

### Remuneration Policy

The Committee aims to ensure that remuneration packages are offered which are designed to attract, retain and motivate high calibre Executive Directors and senior management.

As recommended by provision B.1.1 of the Combined Code performance related remuneration forms a significant proportion of the overall remuneration package of the Executive Directors and is designed to align their interests with those of the shareholders.

In addition to their basic salary the Executive Directors and senior management have had the potential to earn a bonus of between 25 per cent and 100 per cent of basic salary, dependent on grade, through achievement of business performance targets and/or achievement of specific personal and strategic goals.

The share options held by Directors during the financial period and the performance criteria which are required to be met to enable their exercise are disclosed in table D.

The Board believes that it is in the best interests of the Company for the Executive Directors to accept external non-executive positions as this adds to the depth of their experience. The policy of the Board is that Executive Directors may accept external non-executive appointments and may retain any fees earned.

### Directors' Emoluments

Directors' emoluments are summarised in table A.

The Chairman's fee is currently £75,000 per annum.

Non-Executive Directors' fees are currently £20,000 per annum with additional fees of £2,500 paid for chairing Board committees.

### Retirement Benefits

David Cooper participates in the Dawson International Staff Retirement Benefits Plan which normally provides a pension at age 65 equal to two thirds of final pensionable salary after 40 years' service, with attaching widows' pension and lump sum death in service benefit. These benefits have been enhanced with a normal retirement age of 60 and the grant of a pension of two thirds final salary, inclusive of benefits earned in previous employments. Only basic salary is pensionable.

### Service Contracts

The Chairman has a service contract with the Company which commenced on 30 September 2010. The notice periods to be given by the Company and the Chairman are three months and three months respectively.

Jan G Holmstrom has a formal engagement letter for services but does not have an employment contract with the Company.

The service contract of David Cooper commenced on 1 January 2002. The notice periods to be given by the Company and David Cooper are twelve months and three months respectively.

The service contract of Jim Carrie commenced on 30 September 2010. The notice periods to be given by the Company and Jim Carrie are twelve months and three months respectively.

## Directors' Report on Remuneration (continued)

**Table A – Directors' Emoluments**

	Fees £000	Basic salary £000	Compensation for loss of office £000	Bonus £000	Taxable Benefits <sup>(i)</sup> £000	15 month period to 2 April 2011 Total £000	12 month period to 2 January 2010 Total £000
D Bolton <sup>(ii)</sup>	34	44	–	–	–	78	40
D G Cooper	–	160	–	5	14	179	151
J G Holmstrom	28	–	–	–	–	28	32
Former Directors:							
A D Bartmess	–	172	158	–	16	346	267
G C Ghione	26	–	–	–	–	26	–
M G Hartley	–	–	–	–	–	–	151
S B Russell	–	–	–	–	–	–	9
	88	376	158	5	30	657	650

(i) Taxable benefits comprise private health care cover and company car option.

(ii) D Bolton received a fee in respect of his services as Non-Executive Chairman for the period to 30 September 2010 and a salary in respect of his services as Executive Chairman thereafter.

**Table B – Retirement Benefits**

	Accrued benefit Increase in period			Transfer value of accrued benefit <sup>(i)</sup>		
	At 2 April 2011 £000	Including inflation £000	Excluding inflation £000	At 2 April 2011 £000	At 2 January 2010 £000	Increase less Directors' contributions £000
D G Cooper	63	4	4	1,157	1,105	39

(i) Transfer values are calculated by the scheme actuary. Due to the deficits in the pension schemes, transfer values are currently being reduced to reflect the level of underfunding. Correspondingly the transfer value of accrued benefit noted above would be reduced significantly were DG Cooper to choose to transfer out of the scheme at this time.

**Table C – Directors' Shareholdings**

	2 April 2011 Number	2 January 2010 Number
D Bolton	100,000	100,000
D G Cooper	25,000	25,000
J G Holmstrom	–	–

No Director had any beneficial interest in the shares of any subsidiary undertaking.

## Directors' Report on Remuneration (continued)

**Table D – Share Options**

		Exercise price Pence	Number of share options		Vesting date	Expiry date
			2 April 2011 000s	2 January 2010 000s		
D G Cooper	Standard	10.5	400	400	16.05.2008	15.05.2015
	Super	10.5	400	400	16.05.2010	15.05.2015
	Standard	7.625	1,250	1,250	21.04.2009	20.04.2016
	Super	7.625	500	500	21.04.2011	20.04.2016

- (i) The exercise of standard options is subject to the achievement of targets of sustained improvement in the underlying performance of the Group as specified by the Directors at the date of grant.
- (ii) The exercise of super options is subject to the achievement of targets of exceptional financial performance by the Group as specified by the Directors at the date of grant.
- (iii) The market price of the Company's shares at the year end was 1.52 pence. The range during the period was 3.0 pence – 1.25 pence.

The auditors are required to report on the information contained in tables A – D.

On behalf of the Board

**Jan G Holmstrom** | Chairman of the Remuneration Committee, 8 August 2011

## Statement of Directors' Responsibilities in Respect of the Report and Financial Statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial period. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and Article 4 of the IAS Regulation and have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Group and the Company's ability to continue as a going concern.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### Responsibility Statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the management report, which is incorporated into the Directors' Report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

**David Bolton** | Chairman

**David Cooper** | Finance Director

8 August 2011

## Independent Auditors' Report to the Members of Dawson International PLC

We have audited the financial statements of Dawson International PLC for the 15 month period ended 2 April 2011 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Balance Sheets, the Consolidated Cash Flow Statement, the Reconciliation of Movement in Net Funds, the Consolidate Statement of Changes in Equity and the related notes 1 to 27 and company related notes 1 to 8. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective Responsibilities of Directors and Auditor

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on Financial Statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 2 April 2011 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### Opinion on Other Matters Prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

### Matters on Which We are Required to Report by Exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

### Other matters

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the provisions of the Companies Act 2006 that would have applied were the company a quoted company.

### Alan Fendall (Senior Statutory Auditor) for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor  
Manchester, England, United Kingdom.  
8 August 2011

## Consolidated Income Statement

For the 15 month period ended 2 April 2011

	Note	15 month period ended 2 April 2011 £000	Re-presented* 12 month period ended 2 January 2010 £000
<b>Continuing operations</b>			
Revenue	2	38,095	36,591
Cost of sales		(28,721)	(26,337)
Gross profit		9,374	10,254
Other operating income		124	66
Selling and distribution costs		(1,624)	(1,318)
Administrative expenses	4	(7,759)	(6,114)
Operating profit before exceptional items	2, 3	115	2,888
Exceptional administrative items	2, 4	1,787	556
Operating profit	2, 3	1,902	3,444
Finance income	7	10	15
Finance costs	7	(244)	(513)
Net finance income (expense) on pension assets/liabilities	20	838	(889)
Profit before taxation		2,506	2,057
Taxation	8	(1,759)	(291)
Profit for the period from continuing operations		747	1,766
<b>Discontinued operations</b>			
Loss for the period from discontinued operations	5	(4,228)	(7,609)
<b>Loss for the period</b>		<b>(3,481)</b>	<b>(5,843)</b>

### Basic and Diluted earnings (loss) per share

From continuing operations	9	0.3p	0.8p
From continuing and discontinued operations	9	(1.6)p	(2.6)p

\*Comparative information has been represented to reclassify the results of the Home Furnishings division to discontinued operations.

## Consolidated Statement of Comprehensive Income

For the 15 month period ended 2 April 2011

	Note	15 month period ended 2 April 2011 £000	12 month period ended 2 January 2010 £000
Loss for the period		(3,481)	(5,843)
Other comprehensive income:			
Exchange differences on translation of foreign subsidiaries		181	(577)
Actuarial gain (loss) on defined benefit pension obligations	20	6,388	(12,373)
Other comprehensive income (loss) for the period		6,569	(12,950)
<b>Total comprehensive income (loss) for the period</b>		<b>3,088</b>	<b>(18,793)</b>

## Consolidated Balance Sheet

As at 2 April 2011

	Note	2 April 2011 £000	2 January 2010 £000
<b>Non-current assets</b>			
Intangible assets	10	1	143
Property, plant and equipment	11	646	925
Deferred tax asset	12	–	1,750
<b>Total non-current assets</b>		<b>647</b>	<b>2,818</b>
<b>Current assets</b>			
Inventories	13	2,684	8,309
Trade and other receivables	14	2,581	9,350
Income tax recoverable		351	–
Cash and cash equivalents	15	10,157	12,343
Disposal group held for sale	5	11,636	–
<b>Total current assets</b>		<b>27,409</b>	<b>30,002</b>
<b>Total assets</b>		<b>28,056</b>	<b>32,820</b>
<b>Current liabilities</b>			
Trade and other payables	16	3,384	9,479
Income tax payable		–	384
Provisions	19	495	1,144
Other financial liabilities	18	106	51
Liabilities directly associated with disposal group held for sale	5	6,435	–
<b>Total current liabilities</b>		<b>10,420</b>	<b>11,058</b>
<b>Non-current liabilities</b>			
Provisions	19	1,510	1,022
Retirement benefit obligations	20	11,544	19,246
<b>Total non-current liabilities</b>		<b>13,054</b>	<b>20,268</b>
<b>Total liabilities</b>		<b>23,474</b>	<b>31,326</b>
<b>Net assets</b>		<b>4,582</b>	<b>1,494</b>
<b>Equity</b>			
Share capital	22	51,989	51,989
Share premium account	23	5,489	5,489
Translation reserve	23	421	240
Retained earnings	23	(53,317)	(56,224)
<b>Total equity</b>		<b>4,582</b>	<b>1,494</b>

The financial statements of Dawson International PLC (registered number SC54505) were approved by the Board of Directors and authorised for issue on 8 August 2011. They were signed on its behalf by:

**David Bolton** | Chairman

**David Cooper** | Finance Director

## Consolidated Statement of Changes in Equity

	Share Capital £000	Share Premium £000	Translation Reserve £000	Retained Earnings £000	Total £000
At 3 January 2009	51,989	5,489	818	(38,056)	20,240
Total comprehensive income for the period	–	–	(578)	(18,215)	(18,793)
Share-based payments charge	–	–	–	47	47
At 2 January 2010	51,989	5,489	240	(56,224)	1,494
Total comprehensive income for the period	–	–	181	2,907	3,088
At 2 April 2011	51,989	5,489	421	(53,317)	4,582

## Consolidated Cash Flow Statement

For the 15 month period ended 2 April 2011

	15 month period ended 2 April 2011 £000	Re-presented 12 month period ended 2 January 2010 £000
<b>Continuing operations</b>		
<b>Cash flows from operating activities</b>		
Profit before tax	2,506	2,057
Depreciation	216	129
Net finance (income) expense	(604)	1,387
Share-based payment expense	–	47
	<b>2,118</b>	<b>3,620</b>
Increase in inventories	(1,455)	(90)
Decrease in receivables	1,458	1,360
Decrease in payables	(1,369)	(1,838)
Increase (decrease) in provisions	466	(8)
Cash generated by operations	1,218	3,044
Additional contributions to pension schemes	(480)	(606)
Taxes paid	(702)	(261)
<b>Net cash generated by operating activities</b>	<b>36</b>	<b>2,177</b>
<b>Cash flows from investing activities</b>		
Interest received	10	15
Proceeds from disposal of Todd & Duncan	–	5,426
Purchase of property, plant and equipment	(48)	(87)
Purchase of intangible assets	(47)	(1)
<b>Net cash (used) generated by investing activities</b>	<b>(85)</b>	<b>5,353</b>
<b>Cash flows from financing activities</b>		
Interest paid	(244)	(513)
Decrease in asset backed finance	–	(4,212)
<b>Net cash used by financing activities</b>	<b>(244)</b>	<b>(4,725)</b>
<b>Net cash (used) generated by continuing operations</b>	<b>(293)</b>	<b>2,805</b>
<b>Discontinued operations</b>		
Net cash (used) generated by operating activities	(1,960)	821
Net cash used by investing activities	(36)	(355)
<b>Net cash (used) generated by discontinued operations</b>	<b>(1,996)</b>	<b>466</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(2,289)</b>	<b>3,271</b>
Cash and cash equivalents at the beginning of the period	12,343	9,900
Exchange rate effects	103	(828)
<b>Cash and cash equivalents at the end of the period</b>	<b>10,157</b>	<b>12,343</b>

## Reconciliation of Movement in Net Funds

For the 15 month period ended 2 April 2011

	15 month period ended 2 April 2011 £000	12 month period ended 2 January 2010 £000
(Decrease) increase in cash and cash equivalents	(2,289)	3,271
Decrease in borrowings	–	4,212
Exchange rate effects	103	(828)
(Decrease) increase in net funds	(2,186)	6,655
Opening net funds	12,343	5,688
<b>Closing net funds</b>	<b>10,157</b>	<b>12,343</b>

## Notes to the Consolidated Financial Statements

### 1. Accounting policies

Dawson International PLC (“the Company”) is registered in Scotland. These financial statements consolidate the accounts of the Company and its subsidiary undertakings (together “the Group”) for the 65 weeks ended 2 April 2011. The comparative period is the 52 weeks ended 2 January 2010.

The financial statements were authorised for issue by the directors on 8 August 2011.

#### **Basis of preparation and significant accounting policies**

The Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU (“Adopted IFRSs”).

The Company has elected to prepare its Parent Company financial statements in accordance with UK GAAP; these are presented on pages 53 to 56.

In carrying out their duties in respect of going concern, the Directors have reviewed the group’s financial position and cash flow forecasts for a period of 12 months from the date of signing these financial statements. These have been based on a comprehensive review of revenue, expenditure and cash flows, taking into account specific business risks and the uncertainties brought about by the current economic environment.

The key assumption made in these forecasts is that there is no demand for a pensions’ deficit repair contribution beyond the means of the Group to pay. This assumption is based on the latest discussions with the Pension Scheme Trustees, however no agreement has yet been reached and therefore there remains uncertainty over the quantum and timing of further pension fund contributions. Based on current negotiations with the Trustees and the Pensions Regulator, the Directors see little likelihood of a deficit contribution notice that would jeopardise the going concern status as any insolvent realisation that this would trigger would disadvantage all stakeholders.

The Group’s business activities, together with the factors likely to affect its future development, performance and position, including the principal business risks, are set out in the Chairman’s statement and the Business Review on pages 2 to 10.

The Group’s working capital requirements are highly seasonal and are met, at certain points in the year by two separate working capital financing facilities, which fund the Group’s US and UK businesses respectively. During the period the Group renewed the working capital facility with Bank of America for the US based operations and entered into a new working capital facility with GE Commercial Finance for the UK businesses. Both facilities are for a period of 3 years with the Bank of America facility renewable in June 2013 and the GE facility renewable in February 2014. Post year-end the Group concluded the sale of the Dawson Home Group business and the UK facility is in the process of being restructured accordingly. The Group’s forecasts and projections, taking account of reasonably possible changes in trading performance and other business risks, show that the Group should be able to operate within the level of its current and forecast facilities.

After making enquiries and having taken the above factors into consideration, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

On 17 May 2011 the Group completed the sale of the Dawson Home Group business. The results of this division have therefore been reported as a discontinued operation and comparative figures restated accordingly.

## Notes to the Consolidated Financial Statements (continued)

### 1. Accounting policies (continued)

#### Adoption of new and revised standards

In the current period, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in the financial statements:

**IAS 23 (revised 2007) Borrowing Costs** has removed the option to expense all borrowing costs when incurred. This change has resulted in the borrowing costs associated with the new UK facility put in place during the period being capitalised and released over the facility term. Previously borrowing costs had been expensed when incurred.

At the date of authorisation of these financial statements, the following Standards and Interpretations that are expected to impact on the Group but which have not been applied in these financial statements, were in issue but not yet effective:

- IAS 24 Related Party Disclosures (2009)
- IFRS 9 Financial Instruments (2009)
- IFRS 9 Financial Instruments (2010)
- Improvements to IFRSs (2010)
- Amendments to IFRS 7 Financial Instruments: Disclosures
- Amendments to IAS 1 (June 2011) Presentation of Items of Other Comprehensive Income
- IAS 19 (revised June 2011) Employee Benefits
- IFRS 13 Fair value measurement
- IFRS 10 Consolidated financial statements

The Directors do not expect that the adoption of these Standards and Interpretations in future periods will have a material impact on the financial statements of the Group.

#### Basis of consolidation

The consolidated financial statements are prepared on the historical cost convention and are presented in Sterling, rounded to the nearest thousand.

#### *Subsidiaries*

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The accounting policies of subsidiaries are changed when necessary to align them with the policies adopted by the Group. As required by IFRS3, the purchase method of accounting is applied. Under this method the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated income statement from the date of acquisition or up to the date of their disposal.

#### *Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

## 1. Accounting policies (continued)

### Foreign currency

#### *Transactional*

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Exchange differences arising on translation are recognised in the Income Statement. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

The Group may enter into forward foreign exchange contracts with the objective of offsetting the exchange gains and losses arising on transactional exposures. Unless designated as a cashflow or fair value hedge in accordance with IAS 39 any such contract is carried in the balance sheet at fair value at the reporting date with any change in the fair value reported in the Income Statement in the period. If designated as a cashflow or fair value hedge any gain or loss arising is recognised in equity until maturity of the hedged transaction. To the extent that the hedge is ineffective any gain or loss is recognised in the Income statement in the period arising.

#### *Translation*

The assets and liabilities of operations outside the UK are translated to Sterling at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Sterling at the average rate for the period. Foreign exchange differences arising on retranslation of opening net assets or liabilities are recognised directly in equity.

Foreign exchange contracts may also be used to eliminate the translation exposure arising on loans between the Parent Company and overseas subsidiaries where the loans are denominated in the functional currency of the subsidiary.

### Operating segments

Operating Segments are aligned with those reviewed by the 'Chief Operating Decision Maker' which is considered to be the Board of Directors.

### Revenue

Revenue represents the net invoice value of goods and services supplied to customers and royalty income from licensing, excluding discounts, value added tax and other sales taxes. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

### Operating profit

Operating profit is stated after charging exceptional items, but before any finance income or expense.

### Royalty income

Royalty income represents revenue earned under license agreements. Income is recognised when a sale is made by the licensee and the royalty thereon is advised to the Group in accordance with the license agreement.

### Net financing costs

Finance income arising on funds invested by the Group is recognised in the Income Statement as it accrues, using the effective rate of interest method. Finance costs comprise interest payable on Group borrowings calculated using the effective interest rate method. Net Financing income or cost on defined benefit pension plans represents the difference between the expected return on defined benefit plan assets and the unwinding of the discount on plan liabilities in the year.

## Notes to the Consolidated Financial Statements (continued)

### 1. Accounting policies (continued)

#### Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the fair value of the consideration over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity acquired. When goodwill is positive it is recorded initially at cost and subsequently reduced for any impairment loss identified (see impairment policy below). When goodwill is negative it is recognised immediately in the Income Statement.

#### Intangible assets

Software licenses and implementation costs are capitalised at cost less accumulated amortisation. Amortisation is charged to the income statement on a straight-line basis over the estimated useful life of these software licenses. The annual rate used is as follows:

Software licenses	25%
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#### Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairments.

Depreciation is charged to the Income Statement to write off the cost, less expected residual values of property, plant and equipment on a straight line basis over their estimated useful lives. The annual rates used are as follows:

Land	Nil
Freehold buildings	2% – 4%
Leasehold buildings	Over the term of the lease, minimum 2%
Plant and machinery	10% – 25%

#### Inventories

Inventories are stated at the lower of cost, including manufacturing overheads where appropriate, and net realisable value. Net realisable value is estimated selling price in the ordinary course of business, less the estimated costs to completion and selling expenses.

The cost of inventories is based on standard costs. In the case of manufactured inventories and work in progress, costs include raw materials, other direct costs and related overheads based on normal operating capacity using standard costs.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits held with banks.

#### Impairment

##### Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

##### Non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

#### Non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of recognition.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will maintain a minority interest in its former subsidiary after the sale.

## 1. Accounting policies (continued)

### Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred taxation is recognised throughout the group using the balance sheet liability methods, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date or tax rates that are expected to apply in the period when the liability is settled or the asset is realised.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### Post retirement benefits

The Group operates both defined contribution and defined benefit post retirement benefit plans.

#### *Defined contribution plans*

A defined contribution plan is a post retirement benefit plan under which the Company pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Contributions are recognised in the Income Statement when they fall due.

#### *Defined benefit plans*

A defined benefit plan provides post retirement benefits based on final pensionable pay. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method.

The Group recognises all actuarial gains and losses arising from defined benefit plans directly in equity immediately.

The pension scheme deficits are recognised in full. The movement in the scheme deficit is split between operating charges, finance items and, in the consolidated statement of comprehensive income, actuarial gains and losses.

### Operating lease payments

Payments made under operating leases are recognised in the Income Statement on a straight-line basis over the term of the lease.

### Employee share schemes

The share option programme allows employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at the grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a Black-Scholes model, taking into account the terms and conditions upon which the share options were granted.

The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where variations are due only to share prices not achieving the threshold for vesting.

### Trade and other receivables

Trade and other receivables are stated initially at their fair value and subsequently at amortised cost using an effective interest rate less impairment losses. The fair value of trade and other receivables is estimated as the present value of future cash flows. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of provision is recognised in the Income Statement.

### Trade and other payables

The fair value of trade and other payables is estimated as the present value of future cash flows.

## Notes to the Consolidated Financial Statements (continued)

### 1. Accounting policies (continued)

#### Provisions

Provisions are recognised where a legal or constructive obligation has been incurred which will probably lead to an outflow of resources that can be reasonably estimated. Provisions are recorded for the estimated ultimate liability that is expected to arise, taking into account foreign currency effects arising from their translation from their functional currency into Sterling and the time value of money, where material.

#### Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants relating to property, plant and equipment are treated as deferred income and released to profit or loss over the expected useful lives of the assets concerned. Where grants have been received and conditions relating to receipt of the grants are not wholly fulfilled then these grants are held on the balance sheet until such time as the position is agreed with the grant provider.

#### Accounting estimates and judgments

The Board considered the relevance, selection, implications and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates. The key sources of estimation uncertainty were as follows:

##### *Employee retirement benefit scheme – defined benefit plans*

The determination of the Group's obligations and expense for defined benefit pensions is dependent on the selection, by the Board of Directors, of assumptions used by the pension scheme actuary in calculating these amounts. The assumptions applied are described in note 20 and include, amongst others: discount rate; expected return on plan assets; rates of increase in salaries; and mortality rates. While the directors consider that the assumptions are appropriate, significant differences in the actual experience, particularly in the volatile bond markets, or significant changes in assumptions may materially affect the amount of the Group's future pension obligations, actuarial gains and losses included in the Statement of Comprehensive Income and employee and finance income (costs) recognised in the Income Statement.

##### *Impairment*

Both financial and non-financial assets are assessed at each reporting date to determine whether there is any objective evidence of impairment. If so, then the recoverable amount of the asset is estimated and a charge made to the Income Statement. This requires a significant degree of judgment, both in estimating the fair value of the asset, were it to be sold on the open market, and in estimating the present value of future cash flows generated from its continued use.

##### *Inventories*

Inventories are stated at the lower of cost and net realisable value. Some items included in inventories are written down to their net realisable value based on assumptions about future demand and market conditions. If actual market conditions are less favourable than those projected by management, then inventory may be required to be written down by additional amounts.

##### *Environmental provisions*

The Group has provisions for environmental remediation costs which have arisen from its dyeing operations in the UK and the USA. In each case a remediation programme has been agreed with the relevant environmental agency. The principal method of remediation is extraction of contaminated ground water which is cleaned and returned. Future remediation expenses are affected by a number of uncertainties that include, but are not limited to the volume of remaining contaminant, the length of time required to complete extraction and escalation of costs during that period. Management believe that total environmental provisions are adequate based upon currently available information.

## 2. Segmental analysis

As required by IFRS 8 the segmental analysis below reflects internal reporting to the 'Chief Operating Decision Maker' which is considered to be the Board of Directors. The Board receives monthly reports which focus primarily on the operating results of the segments before exceptional charges and on working capital management. Borrowings and tax are managed on a group wide basis and so are not allocated across segments. Accordingly, net finance charges are not allocated across segments. The operating segments of continuing operations have been identified as the following:

### UK Knitwear

This segment comprises the Barrie business which manufactures cashmere and woollen garments which are sold mainly in the European market. It sells both to private label customers and under its own labels which include *Barrie*, *John Laing* and *Glenmac*.

### US Knitwear

This segment comprises the Forte business which sources cashmere garments from China which are sold in the American market, primarily to large private label customers. It also sells to smaller boutique customers under its own *Kinross* label.

The results of discontinued operations are disclosed in note 5.

Unaudited proforma operating results for the 12 month period ended 2 April 2011 are given in note 27.

	Results for 15 month period ended 2 April 2011			
	UK Knitwear £000	US Knitwear £000	Unallocated Central £000	Total £000
Revenues from external customers	9,040	29,055	–	38,095
Cost of sales	(6,884)	(21,678)	(159)	(28,721)
Gross profit	2,156	7,377	(159)	9,374
Operating expenses	(1,413)	(5,019)	(2,827)	(9,259)
Operating profit before exceptional items	743	2,358	(2,986)	115
Exceptional items	–	(103)	1,890	1,787
Operating profit after exceptional items	743	2,255	(1,096)	1,902
Net finance charges				
– On funding facilities	–	–	(234)	(234)
– On net pension liabilities	–	–	838	838
Profit before tax from continuing operations	743	2,255	(492)	2,506

Revenues of the US Knitwear segment include amounts of £7.5 million and £7.2 million from customers which represented more than 10 per cent of group revenues.

	Results for 12 month period ended 2 January 2010			
	UK Knitwear £000	US Knitwear £000	Unallocated Central £000	Total £000
Revenues from external customers	7,896	28,695	–	36,591
Cost of sales	(5,691)	(20,900)	254	(26,337)
Gross profit	2,205	7,795	254	10,254
Operating expenses	(1,072)	(4,021)	(2,273)	(7,366)
Operating profit before exceptional items	1,133	3,774	(2,019)	2,888
Exceptional items	(125)	–	681	556
Operating profit after exceptional items	1,008	3,774	(1,338)	3,444
Net finance charges				
– On funding facilities	–	–	(498)	(498)
– On net pension liabilities	–	–	(889)	(889)
Profit before tax from continuing operations	1,008	3,774	(2,725)	2,057

Revenues of the US Knitwear segment include amounts of £9.7 million and £5.9 million from customers which represented more than 10 per cent of group revenues.

## Notes to the Consolidated Financial Statements (continued)

### 2. Segmental analysis (continued)

	Net assets at 2 April 2011			
	UK Knitwear £000	US Knitwear £000	Unallocated Central £000	Total £000
Non current assets	490	32	125	647
Inventories	1,376	1,308	–	2,684
Trade and other receivables	658	234	1,689	2,581
Cash and deposits	–	–	10,157	10,157
Tax recoverable	–	–	351	351
Disposal group held for sale	–	–	11,636	11,636
<b>Total assets</b>	<b>2,524</b>	<b>1,574</b>	<b>23,958</b>	<b>28,056</b>
Trade, other payables and provisions	(2,219)	(569)	(2,707)	(5,495)
Disposal group held for sale	–	–	(6,435)	(6,435)
Retirement benefit obligations	–	–	(11,544)	(11,544)
<b>Total liabilities</b>	<b>(2,219)</b>	<b>(569)</b>	<b>(20,686)</b>	<b>(23,474)</b>
<b>Net assets</b>	<b>305</b>	<b>1,005</b>	<b>3,272</b>	<b>4,582</b>
Capital expenditure	74	18	86	178
Depreciation	160	44	155	359

	Net assets at 2 January 2010				
	UK Knitwear £000	US Knitwear £000	Discontinued Operations £000	Unallocated Central £000	Total £000
Non current assets	576	57	301	1,884	2,818
Inventories	278	946	7,085	–	8,309
Trade and other receivables	1,413	2,049	5,394	494	9,350
Cash and deposits	–	–	–	12,343	12,343
<b>Total assets</b>	<b>2,267</b>	<b>3,052</b>	<b>12,780</b>	<b>14,721</b>	<b>32,820</b>
Trade, other payables and provisions	(2,050)	(1,888)	(5,326)	(2,432)	(11,696)
Income tax payable	–	–	–	(384)	(384)
Retirement benefit obligations	–	–	–	(19,246)	(19,246)
<b>Total liabilities</b>	<b>(2,050)</b>	<b>(1,888)</b>	<b>(5,326)</b>	<b>(22,062)</b>	<b>(31,326)</b>
<b>Net assets</b>	<b>217</b>	<b>1,164</b>	<b>7,454</b>	<b>(7,341)</b>	<b>1,494</b>
Capital expenditure	80	3	336	4	423
Depreciation	140	37	329	(48)	458

### Geographical information

The Group's revenue from external customers by geographical location is detailed below. Geographical information about the assets of the Group's only non UK business segment 'US Knitwear' is detailed above.

	15 month period ended 2 April 2011 £000	12 month period ended 2 January 2010 £000
<b>Revenue from external customers</b>		
United Kingdom	1,968	1,697
USA	29,777	29,072
France	5,290	5,011
Other European Countries	825	730
Rest of the world	235	81
	<b>38,095</b>	<b>36,591</b>

	Continuing operations		Discontinued operations		Total	
	15 month period ended 2 April 2011 £000	12 month period ended 2 January 2010 £000	15 month period ended 2 April 2011 £000	12 month period ended 2 January 2010 £000	15 month period ended 2 April 2011 £000	12 month period ended 2 January 2010 £000
<b>3. Operating Profit</b>						

**Operating profit is stated after charging (crediting):**

Cost of inventories recognised as an expense	<b>28,213</b>	26,549	<b>31,897</b>	40,239	<b>60,110</b>	66,788
Staff costs (note 6)	<b>7,889</b>	6,458	<b>3,069</b>	6,876	<b>10,958</b>	13,334
Net foreign exchange losses (gains)	<b>122</b>	(444)	<b>350</b>	(231)	<b>472</b>	(675)
Depreciation of property, plant and equipment	<b>216</b>	129	<b>53</b>	282	<b>269</b>	411
Amortisation of computer software	<b>–</b>	–	<b>90</b>	47	<b>90</b>	47
Loss (gain) on disposal of property, plant and equipment	<b>17</b>	(5)	<b>(9)</b>	4	<b>8</b>	(1)
Impairment (gains) losses recognised on trade receivables (note 14)	<b>(238)</b>	(124)	<b>30</b>	365	<b>(208)</b>	241
Operating lease rentals						
– plant and machinery	<b>1</b>	2	<b>23</b>	62	<b>24</b>	64
– other	<b>202</b>	167	<b>447</b>	343	<b>649</b>	510
Government grants towards						
– training costs	<b>2</b>	4	<b>–</b>	–	<b>2</b>	4
– market research costs	<b>5</b>	8	<b>–</b>	–	<b>5</b>	8
– efficiency projects	<b>13</b>	4	<b>–</b>	–	<b>13</b>	4
Auditors' remuneration (as analysed below)	<b>393</b>	143	<b>52</b>	38	<b>445</b>	181

**Auditors' remuneration:**

Audit of these financial statements	<b>82</b>	66	<b>–</b>	–	<b>82</b>	66
Audit fees for subsidiaries pursuant to legislation	<b>25</b>	14	<b>39</b>	26	<b>64</b>	40
<b>Total audit fees</b>	<b>107</b>	80	<b>39</b>	26	<b>146</b>	106
Pensions advice	<b>149</b>	31	<b>–</b>	–	<b>149</b>	31
Other services relating to taxation	<b>137</b>	32	<b>13</b>	12	<b>150</b>	44
<b>Total non-audit fees</b>	<b>286</b>	63	<b>13</b>	12	<b>299</b>	75

## Notes to the Consolidated Financial Statements (continued)

	15 month period ended 2 April 2011 £000	12 month period ended 2 January 2010 £000
<b>4. Exceptional administrative items – continuing operations</b>		
Reorganisation costs <sup>(i)</sup>		
– UK Knitwear	–	(125)
– US Knitwear	(103)	–
– Central	(249)	–
King Deer debt recovery <sup>(ii)</sup>	2,754	973
Environmental remediation costs <sup>(iii)</sup>	(615)	–
Property costs	–	(292)
	<b>1,787</b>	<b>556</b>

Total administrative expenses, net of the exceptional items noted above, were £5,972,000 (12 months to 2 January 2010: £5,558,000).

(i) Reorganisation costs comprise redundancy payments resulting from the restructuring of the operating divisions and corporate office.

(ii) In 2009, the Company agreed a payment plan with Inner Mongolia King Deer Cashmere Company Limited (“King Deer”) for the repayment of a long outstanding debt of approximately \$10.4 million which had been fully provided in previous years and received \$1.5 million (£1.0 million) in accordance with that plan. The payment plan was amended in January 2010 such that \$4.6 million of the remaining debt had no fixed repayment term but was secured against a 9% equity stake in King Deer. The remaining debt balance of \$4.3 million was scheduled for repayment in accordance with the amended plan.

During the current period, \$2.5 million (£1.7 million) was received in accordance with the amended payment plan and the remaining debt balance of \$1.8 million (£1.1 million) was re-instated as a debtor, resulting in total exceptional income of \$4.3 million (£2.8 million).

The balance secured against equity of \$4.6 million (£2.9 million) remains fully provided in the financial statements.

(iii) The Company is responsible for environmental remediation works stemming from previous manufacturing operations in the USA (2 locations) and the UK (1 location). The Company has recently been notified of a further possible contaminated site in the USA which is currently being investigated. The provision for remediation costs in the USA has been increased by \$1.0 million. Further details are given in note 19.

## 5. Discontinued operations

On 17th May 2011 the Company completed the sale of Dawson Home Group Limited. The consideration was based on net asset value at completion less a discount of £2.0 million. A provision for loss on disposal was made at 2 April 2011 comprising the discount to net asset value of £2.0 million and estimated costs of £0.5 million. The assets and liabilities of Dawson Home Group Limited have been classified as held for sale at 2 April 2011 as the Company was actively engaged in the sale of the business at that date.

On 28 August 2009 the Company completed the sale of the business, fixed assets and stocks of the Todd & Duncan yarn spinning division to Ningxia Zhongyin Cashmere Company Limited (“Zhongyin”). The consideration was based on the value of fixed assets and stocks at completion less a discount of £4.2 million. The Company incurred costs of £0.9 million in respect of the disposal.

The results of these discontinued operations are as follows:

	15 month period ended 2 April 2011			12 month period ended 2 January 2010		
	Dawson Home Group £000	Todd & Duncan £000	Total £000	Dawson Home Group £000	Todd & Duncan £000	Total £000
Revenue	38,476	–	38,476	36,292	14,625	50,917
Cost of sales	(32,275)	–	(32,275)	(29,407)	(13,201)	(42,608)
Gross margin	6,201	–	6,201	6,885	1,424	8,309
Operating expenses	(7,673)	–	(7,673)	(8,367)	(2,351)	(10,718)
Loss before exceptional items	(1,472)	–	(1,472)	(1,482)	(927)	(2,409)
Restructuring costs	(256)	–	(256)	–	–	–
Loss on disposal of business	(2,500)	–	(2,500)	–	(5,200)	(5,200)
Loss for the period from discontinued operations	(4,228)	–	(4,228)	(1,482)	(6,127)	(7,609)

## 5. Discontinued operations (continued)

The assets and associated liabilities of Dawson Home Group Limited which were classified as held for sale at 2 April 2011 were as follows:

	£000
Assets classified as held for sale:	
Intangible assets	90
Property plant and equipment	142
Inventories	7,486
Trade and other debtors	3,918
	11,636
Liabilities directly associated with disposal group held for sale:	
Trade and other payables	3,878
Provision for loss on sale	2,500
Other provisions	57
	6,435

There are certain ongoing obligations associated with each of the above transactions as follows:

### Dawson Home Group Limited

- (i) Prior to the sale, Dawson Home Group Limited transferred £2.5 million of inventory to its parent company and will repurchase that inventory over a period not exceeding six months.
- (ii) Dawson International PLC has guaranteed the lease obligations of Dawson Home Group Limited in respect of its administrative offices in Ardwick, Manchester. The lease expires in August 2017 and has an annual cost of approximately £0.3 million.

### Todd & Duncan

As part of the sale two supply agreements were entered into:

- (i) Barrie signed a four year supply agreement at arm's length to source yarn from Todd & Duncan Limited at historical levels.
- (ii) Dawson Forte signed a four year agreement to offer a minimum level of garment orders to Zhongyin each year.

## Notes to the Consolidated Financial Statements (continued)

	15 month period ended 2 April 2011 Number	12 month period ended 2 January 2010 Number
<b>6. Employees</b>		
<b>Average number of persons employed (including directors)</b>		
Production	146	297
Distribution	71	256
Administration	54	70
	<b>271</b>	<b>623</b>
<b>Aggregate employment costs (including directors)</b>	<b>£000</b>	<b>£000</b>
Wages and salaries	9,811	11,945
Social security costs	741	899
Share based payment expense (note 21)	–	47
Pension costs – Defined Benefit (note 20)	205	195
Pension costs – Defined Contribution (note 20)	201	248
	<b>10,958</b>	<b>13,334</b>

Details of the remuneration of the Directors are contained in the Directors' Report on Remuneration on pages 17 to 19.

	15 month period ended 2 April 2011 £000	12 month period ended 2 January 2010 £000
<b>7. Finance income/(costs)</b>		
Interest receivable on short-term deposits	10	15
<b>Finance income</b>	<b>10</b>	<b>15</b>
Interest payable on bank loans and overdrafts	(244)	(513)
<b>Finance costs</b>	<b>(244)</b>	<b>(513)</b>

	15 month period ended 2 April 2011 £000	12 month period ended 2 January 2010 £000
<b>8. Income tax expense</b>		
<b>(a) Recognised in the Income Statement</b>		
<b>Current tax expense</b>		
Current year	64	462
Adjustments in respect of prior years	(121)	79
Total current tax	(57)	541
<b>Deferred tax expense</b>		
Origination and reversal of timing differences	1,816	(250)
<b>Total income tax expense in the Income Statement</b>	<b>1,759</b>	<b>291</b>

**(b) Current and deferred tax recognised directly in equity**

There was no current or deferred tax charged or credited to any item recognised directly in equity.

	Period ended 2 April		Period ended 2 January	
	2011 %	2011 £000	2010 %	2010 £000
<b>(c) Reconciliation of effective tax rate</b>				
<b>Profit on ordinary activities before tax from continuing operations</b>		2,506		2,057
Income tax using the UK corporation tax rate of 28.0% (2010: 28.0%)	28%	702	28%	576
Effects of:				
Non-deductible expenditure	1%	30	1%	20
Income not taxed	-31%	(771)	-13%	(272)
Differences in effective overseas tax rates	3%	64	7%	146
Movement in deferred tax items not recognised	-9%	(233)	5%	95
Depreciation in excess of capital allowances	2%	60	5%	104
Movement in deferred tax items recognised	79%	1,983	-12%	(250)
Adjustment in respect of prior periods	-5%	(121)	4%	79
Movement in tax losses	2%	45	-10%	(207)
	<b>70%</b>	<b>1,759</b>	<b>14%</b>	<b>291</b>

**(d) Factors that may affect future charges**

The UK Corporation tax rate has been reduced to 26% with effect from 2 April 2011.

As detailed in note 12 there are significant unrecognised deferred tax assets in both the UK and USA for which no benefit has been recognised because it is not possible to say with reasonable assurance that sufficient future taxable profits will be available against which the Group can utilise the benefit thereon.

## Notes to the Consolidated Financial Statements (continued)

	15 month period ended 2 April 2011 pence	12 month period ended 2 January 2010 pence
<b>9. Earnings per share</b>		
<b>Basic and diluted earnings (loss) per share</b>		
Continuing operations	0.3	0.8
Discontinued operations	(1.9)	(3.4)
<b>Total basic and diluted loss per share</b>	<b>(1.6)</b>	<b>(2.6)</b>
<b>Adjusted (loss) earnings per share</b>		
Basic and diluted earnings per share from continuing operations	0.3	0.8
<i>Adjustments:</i>		
Reorganisation costs	0.1	–
King Deer debt proceeds	(1.2)	(0.4)
Property and environmental remediation costs	0.3	0.1
<b>Adjusted (loss) earnings per share</b>	<b>(0.5)</b>	<b>0.5</b>
	<b>000s</b>	<b>000s</b>
<b>Weighted average number of shares</b>		
Basic weighted average shares in issue during the period	225,158	225,158
Dilutive potential ordinary shares	–	–
	<b>225,158</b>	<b>225,158</b>

Total basic loss per share is calculated on the loss for the financial period of £3.5 million (12 month period to 2 January 2010: £5.8 million loss) and the weighted average number of shares during the period calculated in accordance with International Accounting Standard 33.

Diluted earnings (loss) per share adjusts for share options granted to employees where the exercise price is less than the average price of the Company's shares during the period and when their exercise would reduce earnings per share or increase loss per share.

Adjusted (loss) earnings per share is stated in order to give a comparable measure before exceptional items.

	2 April 2011 £000	2 January 2010 £000
<b>10. Intangible fixed assets – Computer software costs</b>		
<b>Cost</b>		
At beginning of period	630	1,925
Additions	47	59
Disposals	(13)	(1,354)
Reclassified as held for sale	(663)	–
At end of period	1	630
<b>Depreciation and impairment</b>		
At beginning of period	487	1,794
Charge for the period	90	47
Disposals	(4)	(1,354)
Reclassified as held for sale	(573)	–
At end of period	–	487
<b>Net book value</b>		
At beginning of period	143	131
At end of period	1	143

	Land and buildings £000	Plant and machinery £000	2 April 2011 Total £000	Land and buildings £000	Plant and machinery £000	2 January 2010 Total £000
<b>11. Property, plant and equipment</b>						
<b>Cost</b>						
At beginning of period	1,185	5,378	6,563	1,289	17,006	18,295
Additions	–	131	131	–	364	364
Disposals	–	(1,129)	(1,129)	(61)	(11,919)	(11,980)
Reclassified as held for sale	–	(1,092)	(1,092)	–	–	–
Translation adjustments	2	4	6	(43)	(73)	(116)
At end of period	1,187	3,292	4,479	1,185	5,378	6,563
<b>Depreciation and impairment</b>						
At beginning of period	1,056	4,582	5,638	1,118	14,892	16,010
Charge for the period	10	259	269	40	371	411
Disposals	–	(1,129)	(1,129)	(61)	(10,615)	(10,676)
Reclassified as held for sale	–	(950)	(950)	–	–	–
Translation adjustments	3	2	5	(41)	(66)	(107)
At end of period	1,069	2,764	3,833	1,056	4,582	5,638
<b>Net book value</b>						
At beginning of period	129	796	925	171	2,114	2,285
At end of period	118	528	646	129	796	925

## Notes to the Consolidated Financial Statements (continued)

	2 April 2011 £000	2 January 2010 £000
<b>12. Deferred tax asset</b>		
Temporary differences on property, plant and equipment	3,344	8,632
Other timing differences	3,027	5,733
Tax losses available to carry forward	16,940	21,645
Total deferred tax asset	23,311	36,010
Deferred tax asset not recognised		
– UK	(21,442)	(33,074)
– USA	(1,869)	(1,186)
Deferred tax asset recognised	–	1,750

The unrecognised deferred tax asset in the USA is subject to the provisions of s.382 of the Inland Revenue Service code which limits the amount of brought forward losses which can be offset against future taxable profits in the event of a 50 per cent change in the shareholder base of the parent company in any three year period.

The UK corporation tax rate has been reduced to 26% with effect from 2 April 2011. Accordingly deferred tax balances have been revalued to the rate of 26% in these financial statements.

	2 April 2011 £000	2 January 2010 £000
<b>13. Inventories</b>		
Raw materials	942	72
Work in progress	641	86
Finished goods	1,101	8,151
	2,684	8,309

	2 April 2011 £000	2 January 2010 £000
<b>14. Trade and other receivables</b>		
<b>Due within one year</b>		
Amounts receivable for the sale of goods	1,066	10,064
Allowance for doubtful debts	(268)	(1,557)
Net trade receivables	798	8,507
Other debtors	1,476	471
Prepayments and accrued income	307	372
	<b>2,581</b>	<b>9,350</b>

Of the trade receivables balances at the end of the period £313,000 was due from one customer of the Group. There were no other customers who represented more than 10% of the total balance of trade receivables.

At the end of each period the Group carries out a detailed review of the recoverability of debts and makes provision on a specific basis in respect of any debts considered doubtful.

	2 April 2011 £000	2 January 2010 £000
<b>Movement in the allowance for doubtful debts</b>		
Balance at beginning of period	1,557	1,709
Impairment losses recognised in period	97	640
Impairment losses from prior periods reversed in current period	(262)	(359)
Amounts written off during the year as uncollectable	(1,081)	(393)
Translation adjustments	(43)	(40)
Balance at end of period	<b>268</b>	<b>1,557</b>

Age profile of trade receivables	2 April 2011		2 January 2010	
	Not impaired £000	Impaired £000	Not impaired £000	Impaired £000
Fully performing	733	100	5,748	–
0-30 days overdue	62	16	1,942	–
30-60 days overdue	3	50	403	–
60-90 days overdue	–	24	18	–
90 days + overdue	–	78	396	1,557
	<b>798</b>	<b>268</b>	<b>8,507</b>	<b>1,557</b>

The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

At 2 April 2011 the Company had a debt of \$6.4 million due from Inner Mongolia King Deer Cashmere Company Limited (“King Deer”) of which \$1.8 million (£1.1 million) is due by 31 December 2011 and is recognised within other debtors. The balance of \$4.6 million (£2.9 million) has no repayment date and is secured against 9% of the equity of King Deer. The Company considers it inappropriate to recognise this balance at present due to uncertainty as to timing and value of realisation.

Further information on credit risk management is detailed in note 18.

## Notes to the Consolidated Financial Statements (continued)

	2 April 2011 £000	2 January 2010 £000
<b>15. Cash and cash equivalents</b>		
Bank current account balances	9,745	11,931
Bank deposit <sup>(i)</sup>	412	412
	<b>10,157</b>	<b>12,343</b>

(i) The bank deposit collateralises a duty deferment scheme guarantee given by Bank of Scotland.

The Group's exposure to interest rate risk and sensitivity analysis for financial assets and liabilities are disclosed in note 18.

	2 April 2011 £000	2 January 2010 £000
<b>16. Trade and other payables</b>		
Trade payables	1,464	5,912
Other payables	260	282
Other taxation and social security costs	136	478
Accruals and deferred income	1,524	2,807
	<b>3,384</b>	<b>9,479</b>

### 17. Borrowings

There were no borrowings at the start or the end of the financial period.

The Group has borrowing facilities in both the UK and the USA as follows:

#### GE Commercial Finance (3 year facility expiring February 2014)

UK operations are funded by a working capital facility provided by GE Commercial Finance Limited.

The facility limit is £10 million however the amount which may be drawn is restricted by, and varies according to the working capital employed by the UK businesses. Following the disposal of Dawson Home Group Limited on 17 May 2011, discussions are being held with GE Commercial Finance Limited to reduce the facility limit to a level which appropriately reflects the working capital levels of the remaining UK business. Funding is provided against eligible trade receivable balances and certain inventory categories subject to agreed limits. The interest rate applied to advances made against trade receivables is base rate + 2.0% and for advances against inventory is base rate + 2.25%. The facility is secured against the assets of the UK operations and by cross guarantees.

#### Bank of America (3 year facility expiring June 2013)

The US operation is funded by a working capital facility from Bank of America.

The facility limit is \$15 million however the amount which may be drawn is restricted by, and varies according to the working capital employed by the US business. Interest rates applied to both trade receivables and inventory is the greater of the Bank of America prime rate and the London Interbank Offered Rate (LIBOR) +2.0%. The facility is secured against the assets of the US operation.

Further details are given in note 18, Financial Instruments.

### 18. Financial instruments

Financial instruments arise from funding activities, principally cash retained within the business and borrowings, and from operating activities, principally trade receivables and trade payables, where there is a contractual obligation to receive or to deliver cash.

Cash and cash equivalents and trade and other receivables have been classified as loans and receivables, trade and other payables have been classified as financial liabilities, each measured at amortised cost.

Derivative financial instruments arise when contracts are entered into which are based on an underlying rate or index, such as forward currency contracts, which may result in the receipt or delivery of cash at some future date depending on changes in that rate or index.

The policy of the Group is that financial instruments, including derivative financial instruments, will not be held for speculative purposes. Derivative financial instrument contracts are entered into solely for the purpose of mitigating the risk of adverse movements in the underlying rate or index as discussed below:

**18. Financial instruments (continued)**

	2 April 2011 £000	2 January 2010 £000
<b>Analysis of financial instruments</b>		
<b>Financial assets</b>		
Cash and cash equivalents (note 15)	10,157	12,343
Net trade receivables (note 14)	798	8,507
	<b>10,955</b>	<b>20,850</b>
<b>Financial liabilities</b>		
Trade payables (note 16)	1,464	5,912
Fair value of forward foreign exchange contracts <sup>(i)</sup>	106	51
	<b>1,570</b>	<b>5,963</b>

**(i) Fair value of forward foreign exchange contracts**

During the year the Company entered into forward foreign exchange contracts to hedge some of its operational exposure to fluctuations in the Euro and the US Dollar. Euro contracts are placed primarily to protect the forecast income stream of the UK Knitwear business. US Dollar contracts were placed primarily to protect the forecast purchase commitments of the Home Furnishings business. The fair value of the unexpired contracts at 2 April 2011 was as follows:

	At 2 April 2011			At 2 January 2010		
	Term	Principal £000	Unrealised Gain/(loss) £000	Term	Principal £000	Unrealised Gain/(loss) £000
Euro	6 mths	€3,600	(£106)	12 mths	€4,500	(£51)
US Dollar	3-8 mths	\$7,383	(£77)	1-13 mths	\$9,530	£84

The Home Furnishings business was sold on 17 May 2011 and the unexpired forward contracts were closed out at that time. The unrealised loss of £77,000 on the US Dollar forward contracts at 2 April 2011 is therefore included within the provision for loss on disposal.

Euro forward foreign exchange contracts do not meet the criteria for hedge accounting thus are carried in the balance sheet as other financial liabilities at fair value at the reporting date with any change in fair value reported in the Income Statement in the year. At 2 April 2011 this resulted in an unrealised exchange loss of £106,000 (2 January 2010: unrealised exchange loss £51,000).

The fair value of the Group's financial assets and liabilities are not significantly different to their book values.

The main risks associated with financial instruments are liquidity risk, credit risk and market risk. Each of these is discussed below together with the policies adopted by the Board to mitigate them.

**Liquidity risk**

Details of the Group cash position are given in note 15 and details of borrowing facilities are given in note 17.

For both the UK and the US Knitwear businesses, demand is seasonal with the majority of sales occurring in the third quarter of the calendar year. This in turn results in a seasonal build up of working capital and therefore an increased funding requirement during the course of the year. This is particularly true for the US business which had funds of \$11.5 million at the start of the period and \$8.8 million at the end of the period but borrowings of \$1.6 million in its peak working capital month.

The US business normally distributes its profit after tax to the UK by dividend following the year-end audit of results. The facility agreement with Bank of America enables the US business to distribute 50% of profit after tax to the UK with any distribution above 50% subject to separate agreement.

All trade payables are expected to be paid in line with the standard terms offered by the Group's suppliers. These can vary from proforma payment to 90 days depending on the nature of the goods being purchased and the supplier.

While the funding position of the Group is currently strong, negotiations are continuing with the Pensions Trustees to address the deficits on the Group defined benefit pension plans and any agreement is likely to involve a significant payment into the plans.

The Board reviews liquidity as part of the budget approval process and subsequent quarterly forecast updates for the year against which actual performance is monitored.

## Notes to the Consolidated Financial Statements (continued)

### 18. Financial instruments (continued)

#### Credit risk

The credit rating of the Group's customers has a direct bearing on its ability to borrow funds. The Group's policy is therefore only to accept business from customers which have a satisfactory credit rating and to mitigate the risk of default with trade credit insurance where possible.

The average credit period taken on sales of goods is 10 days (2010 - 40 days). This is significantly lower than in the previous year due to the impact of the change in financial year end and seasonality of the businesses.

The Group closely monitors balances and makes provision for doubtful debts as appropriate. Trade receivables disclosed in note 14 include amounts which are past due at the reporting date but against which the Group has not recognised an allowance for doubtful receivables because there has not been a significant change in credit quality and the amounts are still considered recoverable.

#### Market risk

Market risk is the risk that changes in market prices, such as raw material prices, foreign exchange rates and interest rates will affect the Group's income or the values of any financial instruments held.

##### (i) Raw material prices

A significant element of the underlying cost of sales for both the UK and US Knitwear businesses is cashmere fibre which is of finite and variable supply causing volatility in price which, although difficult, is passed on through higher selling prices wherever possible.

##### (ii) Currency

For the UK Knitwear division, which has Sterling as its functional currency, a significant proportion of revenue is in Euros. The main element of cost of sales for this business is cashmere yarn, which is purchased in Sterling or in Euros, however as suppliers purchase cashmere fibre from China in US Dollars, there is an indirect exposure to the Remnimb and to the US Dollar. The Board regularly reviews the exposure to Euro receipts and US Dollar payments and can offset the risk of currency fluctuation by means of forward foreign exchange contracts.

For the US business, which has US Dollars as its functional currency, all purchases and sales are US Dollar denominated but again there is an indirect exposure to the Remnimb exchange rate which is not offset by use of financial instruments. The currency risk arising on translation of the US business's net assets is not offset by any financial instrument.

Principal exchange rates:	15 month period ended 2 April 2011		12 month period ended 2 January 2010	
	Average	Year end	Average	Year end
Euro	1.168	1.113	1.124	1.126
US Dollar	1.556	1.603	1.568	1.615

Currency profile of financial assets and financial liabilities:	2 April 2011					
	Sterling £000	Euro £000	US Dollar £000	US Dollar <sup>(i)</sup> £000	Other £000	Total £000
Trade receivables	266	392	9	131	–	798
Cash and cash equivalents	4,223	133	322	5,469	10	10,157
Trade payables	(942)	(123)	(127)	(272)	–	(1,464)
Other financial liabilities	–	(106)	–	–	–	(106)
	3,547	296	204	5,328	10	9,385

  

	2 January 2010					
	Sterling £000	Euro £000	US Dollar £000	US Dollar <sup>(i)</sup> £000	Other £000	Total £000
Trade receivables	4,690	1,765	60	1,992	–	8,507
Cash and cash equivalents	3,206	1,460	539	7,126	12	12,343
Trade payables	(2,639)	(228)	(1,817)	(1,228)	–	(5,912)
Other financial liabilities	–	(51)	–	–	–	(51)
	5,257	2,946	(1,218)	7,890	12	14,887

(i) US Dollar financial assets and liabilities for US Dollar functional business reported separately.

**18. Financial instruments (continued)****Market risk (continued)****(iii) Interest rates**

The Group borrows only at floating rates of interest and does not seek to offset this exposure by use of financial instruments.

Finance income and expense recognised in the Income Statement is analysed in note 7.

There is no finance income or expense recognised directly in equity, except for the foreign currency translation difference arising on the consolidation of foreign operations, which is included in the translation reserve.

**(iv) Sensitivity analysis**

The following sensitivity analysis estimates the impact of adverse movements in raw material prices, foreign currency exchange rates and interest rates. Each sensitivity assumes all other factors hold constant and that no derivative financial instruments are employed.

Sensitivity analysis	Basis	Impact	
		15 month period ended 2 April 2011 £000	12 month period ended 2 January 2010 £000
Raw material price	(i) Cashmere fibre prices increase 10% Increase in Knitwear divisions cost of sales	(2,081)	(1,178)
Foreign currency rates	(i) US Dollar strengthens \$0.05	UK Knitwear division cost of sales	(24)
		UK Knitwear division sales	8
		US Knitwear division Sterling reported profits	113
		<b>37</b>	<b>97</b>
	(ii) Euro weakens €0.05	Estimated impact on UK Knitwear division sales	(247)
Average net borrowings	(i) Interest rates increase by 1% Average net funds of £10.4 million (2010: Average net funds of £2.1 million)	<b>104</b>	21

## Notes to the Consolidated Financial Statements (continued)

<b>19. Provisions</b>		2 Jan 2010 £000	Charged £000	Utilised £000	Other movements £000	<b>2 April 2011 £000</b>
Reorganisation costs	(i)	791	364	(619)	(360)	<b>176</b>
Customer claims	(ii)	300	–	–	–	<b>300</b>
Environmental cleanup costs	(iii)	810	615	(140)	(12)	<b>1,273</b>
Post retirement benefits	(iv)	73	–	(9)	–	<b>64</b>
Onerous lease	(v)	192	–	–	–	<b>192</b>
		<b>2,166</b>	<b>979</b>	<b>(768)</b>	<b>(372)</b>	<b>2,005</b>

- (i) The provision for reorganisation costs relates mainly to the exit from the Home Furnishings business and the liquidation costs of overseas dormant companies. It is expected that these will be completed over the next 12 months.
- (ii) Provision exists at the end of the year for the return of knitwear garments from customers. At 2 April 2011 there was a reasonable expectation that significant costs in respect of re-work may be incurred over the course of the next 12-24 months.
- (iii) Provision has been made for environmental remediation costs which have arisen from previously owned dyeing operations in the UK and USA. In each case a long-term remediation programme has been agreed with the relevant environmental agency.
- (iv) Provision has been made for certain post retirement benefits which are not provided by either the Group's defined benefit or defined contribution schemes. The provision allows for pension benefits to be payable until 2020 at the current payment levels.
- (v) A provision has been made for the cost of early termination of the lease on a vacant property.

<b>Analysis of current and non current provisions</b>	<b>2 April 2011</b>		2 January 2010	
	<b>Current £000</b>	<b>Non current £000</b>	Current £000	Non current £000
Reorganisation costs	<b>176</b>	–	791	–
Customer claims	<b>150</b>	<b>150</b>	150	150
Environmental cleanup costs	<b>147</b>	<b>1,126</b>	180	630
Post retirement benefits	<b>6</b>	<b>58</b>	7	66
Onerous lease	<b>16</b>	<b>176</b>	16	176
	<b>495</b>	<b>1,510</b>	1,144	1,022

## 20. Retirement benefits schemes

The Group operates a number of pension schemes, the assets of which are held independently from the Group. The assets of the UK defined benefit plans are held in trustee administered funds.

The principal plans are:

- Two defined benefit plans in the UK which are closed to new members.
- A defined benefit plan in the USA which is closed to all members.
- A defined contribution plan in the UK.
- A 401K plan in the USA.

### Defined contribution plans

The Group operates a defined contribution pension plan in the UK and a 401K plan in the USA. The pension costs charge for the period represents contributions payable by the Group to the schemes which amounted to £127,000 (12 months to 2 January 2010: £147,000) for the UK scheme and \$115,000/£74,000 (12 months to 2 January 2010: \$159,000/£101,000) for the US scheme.

### Defined benefit plans

In the UK full actuarial valuations are made triennially by an independent, professionally qualified actuary using the projected unit method. Between valuations the actuary performs regular funding updates which reassess the funding position of the plans. In the USA, full actuarial valuations are made annually by an independent, professionally qualified actuary using the projected unit method. Based on these, together with any other significant factors affecting the profile of the plans, the actuaries recommend variations to the funding rates to be applied in the year. As the plans are closed to new members it is likely that the current service cost will increase as the members of the plan approach retirement.

### IAS 19 Disclosures

For financial reporting purposes, defined benefit pensions plans are valued in accordance with IAS 19 which prescribes that scheme assets are valued at fair value at the reporting date and scheme liabilities are valued by discounting projected future benefit payments at high quality corporate bond rates of appropriate term.

The principal assumptions used and consequent valuations of the plans were as follows:

	UK schemes				USA	
	Staff	Works	Staff	Works	Closed scheme	
Principal assumptions	2 April 2011	2 January 2010	2 April 2011	2 January 2010	2 April 2011	2 January 2010
Discount rate for liabilities	5.6%	5.8%	5.6%	5.8%	5.0%	5.75%
Weighted average expected return on scheme assets <sup>(i)</sup>	7.6%	7.4%	7.0%	7.8%	8.0%	8.0%
Salary growth	2.5%	2.5%	3.5%	3.6%	n/a	n/a
Pension increases	2.4 - 3.6%	2.4 - 3.6%	2.4 - 3.6%	2.4 - 3.6%	n/a	n/a
Retail price inflation	3.3%	3.4%	3.3%	3.4%	n/a	n/a
Consumer price inflation	2.55%	n/a	2.55%	n/a	n/a	n/a
Life expectancy from age of 65						
– Male/female, currently aged 65	21.4/23.8	21.4/23.8	20.1/22.6	20.1/22.6	20.7	20.7
– Male/female, currently aged 45	23.1/25.0	23.1/25.0	21.8/23.9	21.8/23.9	23.6	23.6

- (i) The UK plans are invested in a Total Investment Governance Solution (TIGS). An analysis of the return on scheme assets by class of asset would not be meaningful due to the dynamic nature of the underlying investments. The expected return has been set based on the yield of fixed-interest government bonds, plus an allowance for expected outperformance on the return seeking element of the asset portfolio.

## Notes to the Consolidated Financial Statements (continued)

### 20. Retirement benefit schemes (continued)

Analysis of balance sheet deficit	2 April 2011			2 January 2010		
	UK £000	USA £000	Total £000	UK £000	USA £000	Total £000
Equities	44,791	1,655	46,446	21,272	4,579	25,851
Bonds	53,802	1,868	55,670	55,757	–	55,757
Other <sup>(i)</sup>	9,694	980	10,674	23,125	41	23,166
Total market value of assets	108,287	4,503	112,790	100,154	4,620	104,774
Actuarial value of liabilities	(118,122)	(6,212)	(124,334)	(117,921)	(6,099)	(124,020)
Net liability before deferred tax	(9,835)	(1,709)	(11,544)	(17,767)	(1,479)	(19,246)

No deferred tax asset has been recognised on the basis that the Group has yet to demonstrate a sufficient future income stream to utilise that asset.

(i) Other includes cash balances and property.

Sensitivity of the balance sheet deficit to changes in the principal actuarial assumptions	Pension Plans Deficit	
	Decrease £000	Increase £000
Corporate bond rates increase/(decrease) by 0.5%	8,546	(9,592)
Life expectancy reduces/(increases) by 1 year	3,685	(3,568)
Inflation reduces/(increases) by 0.25%	2,292	(2,489)

Movement in the fair value of scheme assets	2 April 2011	2 January 2010
	£000	£000
Fair value of scheme assets at beginning of period	104,774	98,392
Expected return on scheme assets	9,590	5,692
Actuarial gain recognised in equity	4,452	5,557
Contributions from employer	685	820
Contributions by members	82	111
Benefits paid	(6,832)	(5,306)
Exchange differences	39	(492)
Fair value of scheme assets at end of period	112,790	104,774

Movement in the liability for defined benefit obligations	2 April 2011	2 January 2010
	£000	£000
Liability for defined benefit obligations at beginning of period	124,020	105,122
Current service cost	205	195
Curtailment loss resulting from sale of Todd & Duncan	–	90
Interest costs	8,752	6,581
Actuarial (gain) loss recognised in equity	(1,936)	17,929
Contributions by members	82	111
Benefits paid	(6,832)	(5,306)
Exchange differences	43	(702)
Liability for defined benefit obligations at end of period	124,334	124,020

**20. Retirement benefit schemes (continued)**

	2 April 2011 £000	2 January 2010 £000
<b>Expense recognised in the Income Statement</b>		
<b>Operating profit – administrative expenses</b>		
Current service cost	(205)	(195)
Curtailment loss resulting from sale of Todd & Duncan	–	(90)
	<b>(205)</b>	<b>(285)</b>
<b>Net finance income (expense) on pension assets/liabilities</b>		
Expected return on pension scheme assets	9,590	5,692
Interest on obligations	<b>(8,752)</b>	<b>(6,581)</b>
	<b>838</b>	<b>(889)</b>

	2 April 2011 £000	2 January 2010 £000
<b>Actuarial gains (losses) recognised directly in equity</b>		
Cumulative amount of actuarial gains at start of period	6,992	19,364
Recognised gain (loss) during the period	6,388	(12,372)
Cumulative amount of actuarial gains at end of period	<b>13,380</b>	6,992

	UK £000	USA £000
<b>Contributions paid in the 15 month period to 2 April 2011</b>		
Employer	685	–
Employees	82	–
	<b>767</b>	<b>–</b>

On 1 July 2011 the Group made a deficit repair contribution of £1.8 million to the UK schemes. The estimated total value of contributions expected to be paid to the schemes during 2011/12 is £2.6 million. Employer contributions unpaid at year end were £47,000 (2010 £40,000).

	2 April 2011 £000	2 January 2010 £000	3 January 2009 £000	29 December 2007 £000	30 December 2006 £000
<b>History of experience gains and losses recognised in the Statement of Comprehensive Income:</b>					
Fair value of scheme assets	112,790	104,774	98,392	103,923	103,546
Present value of defined benefit obligation	(124,334)	(124,020)	(105,122)	(108,624)	(123,296)
Net retirement benefit obligation	<b>(11,544)</b>	(19,246)	(6,730)	(4,701)	(19,750)
Experience adjustment on scheme assets	4,452	5,557	(9,661)	1,331	(2,453)
Percentage of scheme assets	4%	5%	-10%	1%	-2%
Experience adjustment on scheme liabilities	1,936	1,293	(1,447)	7,101	2,011
Percentage of scheme liabilities	2%	1%	-1%	7%	2%

## Notes to the Consolidated Financial Statements (continued)

### 20. Retirement benefit schemes (continued)

#### Other disclosures

Membership as at 2 April 2011	Staff	Works	UK Total	USA
Active	17	37	54	–
Deferred	535	1,232	1,767	127
Retired	799	678	1,477	847
	1,351	1,947	3,298	974

Summary of last agreed actuarial valuations	Staff 5 April 06 £000	Works 5 April 06 £000	UK Total 5 April 06 £000	USA 31 March 11 £000
Market value of assets	78,898	22,241	101,139	4,474
Deficit – Ongoing basis	(10,299)	(6,923)	(17,222)	n/a
– IAS 19	(10,226)	(7,906)	(18,132)	(1,698)
– s.179 basis	(3,444)	(11,084)	(14,528)	n/a

A full actuarial valuation of the UK schemes was undertaken as at 5th April 2009. This valuation has not yet been finalised however the initial calculations indicated a combined deficit on an ongoing basis of £53.4 million. The significant increase in the deficit was due principally to a combination of lower assumed investment returns and increased longevity assumptions. The Company has engaged in protracted negotiations with the Pension Trustees to determine whether a realistic recovery plan can be agreed and the current view of both the Company and the Trustees is that this is unlikely to be the case. The Company and the Trustees are working closely together in conjunction with the Pensions Regulator to achieve the best possible solution.

### 21. Share-based payments

#### Employee share option scheme

The Group has an employee share option scheme which was established in 1996 and expired in 2006 whereby the Directors could grant options to eligible employees. Two types of option could be granted:

- Standard options, which are subject to the achievement of sustained improvement in the underlying financial performance of the Company as specified by the Directors at the date of grant. Standard options normally vest after three years, expire after ten years and lapse in the event of the participant leaving employment.
- Super options, which are subject to the achievement of exceptional financial performance of the Company as specified by the Directors at the date of grant. Super options normally vest after five years, expire after ten years and lapse in the event of the participant leaving employment.

In each case the option price could be no less than the higher of the nominal value of a share and the middle market quotation of the dealing day last preceding the date of grant.

	15 month period ended 2 April 2011		12 month period ended 2 January 2010	
	Number of share options 000s	Weighted average exercise price (p)	Number of share options 000s	Weighted average exercise price (p)
Outstanding at beginning of period	10,225	8.8	11,025	8.7
Lapsed	(1,150)	12.0	(800)	7.6
Outstanding at end of period	9,075	8.4	10,225	8.8
Exercisable at end of period	7,525	8.5	7,175	8.8

**21. Share-based payments (continued)**

For share options outstanding at 2 April 2011 the range of exercise prices and the average weighted remaining term to expiry were as follows:

	Number 000s	Term Years
<b>Share option scheme</b>		
10.5p	2,400	4.1
7.625p	6,675	5.0
	9,075	4.8

The fair value of options are calculated using the Black-Scholes model and are expensed to the Income Statement over the vesting period of the benefit. No options were granted or modified during the period and all have now vested. The amount expensed to the Income Statement in the period was £nil (12 months to 2 January 2010: £47,000).

	2 April 2011 £000	2 January 2010 £000
<b>22. Share capital</b>		
<b>Authorised share capital</b>		
2,526,207,225 ordinary shares of 1 pence each	25,262	25,262
101,505,975 deferred shares of 49 pence each	49,738	49,738
50,000,000 preference shares of £1 each	50,000	50,000
75,000,000 preference shares of \$1 each	46,000	46,000
	<b>171,000</b>	171,000
<b>Issued equity share capital</b>		
Allotted, called up and fully paid:		
225,158,542 ordinary shares of 1 pence each	2,251	2,251
101,505,975 deferred shares of 49 pence each	49,738	49,738
	<b>51,989</b>	51,989

	Share Premium £000	Translation Reserve £000	Retained Earnings £000	Total £000
<b>23. Reserves</b>				
At 3 January 2009	5,489	818	(38,056)	(31,749)
Retained loss for the period	–	–	(5,843)	(5,843)
Actuarial loss on defined benefit pension schemes	–	–	(12,373)	(12,373)
Share-based payments	–	–	47	47
Translation adjustments	–	(578)	1	(577)
At 2 January 2010	5,489	240	(56,224)	(50,495)
Retained loss for the period	–	–	(3,481)	(3,481)
Actuarial gain on defined benefit pension schemes	–	–	6,388	6,388
Translation adjustments	–	181	–	181
At 2 April 2011	5,489	421	(53,317)	(47,407)

	2 April 2011 £000	2 January 2010 £000
<b>24. Capital commitments</b>		
Capital expenditure contracted	8	1

The commitments at 2 April 2011 relate to contracts to purchase property, plant and equipment and are expected to be settled in 2011.

## Notes to the Consolidated Financial Statements (continued)

### 25. Contingent liabilities

The Company has guaranteed lease commitments of Dawson Home Group Limited until August 2017. The maximum commitment under this guarantee is approximately £2 million. No provision has been made as the Directors do not consider there is any probable loss.

	2 April 2011		2 January 2010	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
<b>26. Operating lease commitments</b>				
Total non-cancellable operating lease rentals are payable as follows:				
– within one year	425	13	493	22
– between two and five years	1,283	9	1,401	9
– after five years	430	–	810	–
	<b>2,138</b>	<b>22</b>	<b>2,704</b>	<b>31</b>

It is the Group policy to lease certain land and buildings and plant and equipment under operating leases. The average lease term for land and buildings is six years and for plant and equipment one year. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

### 27. Unaudited Proforma results for the year ended 2 April 2011

The group has changed its financial reporting reference date from 31 December to 31 March to reflect the seasonality of the business better and improve the budgeting process. The following unaudited proforma financial information compares the revenues and operating results of continuing operations before exceptional items and is derived from both statutory and management accounting information. Comparative unaudited proforma interim information is given to demonstrate the reduced impact of seasonality on reported results as previously the first half of the financial year was invariably loss making.

	6 month period to 4 September 2010 £000	12 month period to 2 April 2011 £000	6 month period to 5 September 2009 £000	12 month period to 3 April 2010 £000
<b>Continuing operations</b>				
Revenues				
UK Knitwear	4,893	7,937	4,634	7,725
US Knitwear	16,465	27,518	14,564	29,334
	<b>21,358</b>	<b>35,455</b>	19,198	37,059
Operating profit before exceptional items				
UK Knitwear	388	1,084	618	1,071
US Knitwear	2,376	2,921	2,011	3,906
Central overheads	(1,627)	(2,400)	(866)	(1,747)
	<b>1,137</b>	<b>1,605</b>	1,763	3,230

## Company Balance Sheet

As at 2 April 2011

	Note	2 April 2011 £000	2 January 2010 £000
<b>Fixed assets</b>			
Investments in subsidiaries	2	12,733	22,395
<b>Total non-current assets</b>		<b>12,733</b>	<b>22,395</b>
<b>Current assets</b>			
Debtors due within one year	4	29,594	27,690
Cash and cash equivalents		20	644
		<b>29,614</b>	<b>28,334</b>
<b>Creditors: amounts falling due within one year</b>	5	<b>(38,296)</b>	<b>(38,299)</b>
<b>Net current liabilities</b>		<b>(8,682)</b>	<b>(9,965)</b>
<b>Net assets</b>		<b>4,051</b>	<b>12,430</b>
<b>Equity</b>			
Share capital	6	51,989	51,989
Share premium account	7	5,489	5,489
Profit and loss account	7	(53,427)	(45,048)
<b>Equity shareholders' funds</b>		<b>4,051</b>	<b>12,430</b>

The financial statements of Dawson International PLC (registered number SC54505) were approved by the Board of Directors and authorised for issue on 8 August 2011. They were signed on its behalf by:

David Bolton | Chairman

David Cooper | Finance Director

## Notes to the Company Financial Statements

### 1. Accounting policies

#### **Basis of preparation**

The Company financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006 and applicable UK accounting standards (UK GAAP).

The financial statements have been prepared on the going concern basis. Details of the Board's considerations and conclusions regarding the appropriateness of this basis are included on page 25 of the Group Financial Statements.

No profit or loss account is presented as permitted by section 408 of the Companies Act 2006. The Company reported a loss for the 15 months to 2 April 2011 of £8,379,000 (12 months to 2 January 2010: £6,673,000 loss).

Under FRS1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that Dawson International PLC has included a consolidated cash flow statement within the Group accounts.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

#### **Fixed asset investments**

Investments in subsidiaries are stated at cost less provisions for impairment.

#### **Amounts receivable from subsidiary undertakings**

Amounts receivable from subsidiary undertakings are recorded at cost less any impairment provision. The ability of subsidiary undertakings to satisfy these obligations is kept under review and recognises that they may rely in turn on the settlement of inter-company balances owed by fellow subsidiary undertakings all of whom are under the control of the Company.

#### **Amounts payable to subsidiary undertakings**

Amounts payable to subsidiary undertakings are recorded at cost.

#### **Share-based payments**

The company has issued equity settled share-based benefits to certain employees. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at the grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a Black-Scholes model, taking into account the terms and conditions upon which the share options were granted.

#### **Retirement benefit obligation**

The Company is a participating employer in the defined benefit pension schemes operated by the Group but it is unable to identify its share of the underlying assets and liabilities of the schemes on a consistent and reasonable basis and therefore, as permitted by FRS17, 'Retirement Benefits', accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the Company's profit and loss account represents the contributions payable to the scheme in respect of the accounting period and no deficit is reflected in the Company balance sheet.

<b>2. Fixed asset investments</b>	2 January 2010 £000	Recognised in period £000	<b>2 April 2011 £000</b>
Gross carrying value	99,434	–	<b>99,434</b>
Provision for permanent diminution in value	(77,039)	(9,662)	<b>(86,701)</b>
Net book value	22,395	(9,662)	<b>12,733</b>

The Directors reviewed the carrying value of investments at the year end and considered whether any adjustment was required to the gross carrying value or to the provision for permanent diminution in value. Based on this review the Directors determined that an additional provision of £9,662,000 in respect of its investment in the US business should be recognised in the year.

The net realisable value of investments is based on the lower of cost and the value in use of the investments.

The principal subsidiary businesses are as follows:

<b>Business</b>	<b>Country of registration/ incorporation</b>	<b>Principal activity</b>
<b>Knitwear:</b>		
Barrie Knitwear*	Scotland	Manufacture, sourcing, distribution and marketing of <i>Barrie</i> , <i>Glenmac</i> and <i>John Laing</i> cashmere knitwear and contract haute couture.
Dawson Forte*	USA	Design, sourcing, distribution and marketing of Chinese cashmere knitwear.
<b>Other:</b>		
Dawson International Holdings (UK) Ltd.	Scotland	Management services and holding company.
Dawson International Group Services*	Scotland	Management services.

All companies' share capital is wholly owned and all operate principally in their country of incorporation.

+ Division of Dawson International Trading Ltd.

\* Not directly owned by Dawson International PLC

### 3. Employees

The emoluments of the Directors, who are the only employees of the Company, are given in the Directors' Report on Remuneration on pages 17 to 19.

<b>4. Debtors – due within one year</b>	<b>2 April 2011 £000</b>	2 January 2010 £000
Owed by subsidiary undertakings		
Gross	<b>32,269</b>	27,690
Less provision	<b>(3,800)</b>	–
Net	<b>28,469</b>	27,690
Other debtors	<b>1,125</b>	–
	<b>29,594</b>	27,690

The Directors reviewed the carrying value of amounts due by subsidiary undertakings at the year end and considered whether any adjustment was required to the carrying value. Based on this review the Directors determined that a provision of £3,800,000 should be recognised in the year.

At 2 April 2011 the Company had a debt of \$6.4 million due from Inner Mongolia King Deer Cashmere Company Limited ("King Deer") of which \$1.8 million (£1.1 million) is due by 31 December 2011 and is recognised within other debtors. The balance of \$4.6 million (£2.9 million) has no repayment date and is secured against 9% of the equity of King Deer. The Company considers it inappropriate to recognise this balance at present due to uncertainty as to timing and value of realisation.

## Notes to the Company Financial Statements (continued)

	2 April 2011 £000	2 January 2010 £000
<b>5. Creditors – amounts falling due within one year</b>		
Owed to subsidiary undertakings	38,281	38,280
Other creditors	15	19
	<b>38,296</b>	<b>38,299</b>

	2 April 2011 £000	2 January 2010 £000
<b>6. Share capital</b>		
<b>Authorised share capital</b>		
2,526,207,225 ordinary shares of 1 pence each	25,262	25,262
101,505,975 deferred shares of 49 pence each	49,738	49,738
50,000,000 preference shares of £1 each	50,000	50,000
75,000,000 preference shares of \$1 each	46,000	46,000
	<b>171,000</b>	<b>171,000</b>
<b>Issued equity share capital</b>		
Allotted, called up and fully paid:		
225,158,542 ordinary shares of 1 pence each	2,251	2,251
101,505,975 deferred shares of 49 pence each	49,738	49,738
	<b>51,989</b>	<b>51,989</b>

	Share premium £000	Profit and loss account £000	Total £000
<b>7. Reserves</b>			
At beginning of period	5,489	(45,048)	(39,559)
Retained loss for the period	–	(8,379)	(8,379)
At end of period	5,489	(53,427)	(47,938)

The retained loss for the year is stated after recognising impairment charges of £9,662,000 in respect of fixed asset investments and £3,800,000 in respect of amounts owed by subsidiary undertakings.

### 8. Contingent liabilities

The Company has guaranteed the obligations of Dawson Home Group Limited until August 2017, under a contract for the provision of administration facilities. The maximum liability under this guarantee at year end was approximately £2,000,000.

## Five Year Financial Record

Financial period	2011 15 months	2009 12 months	2008 12 months	2007 12 months	2006 12 months
<b>Results</b>					
<b>Continuing operations</b>					
Revenue	<b>38,095</b>	36,591	85,713	92,601	102,093
Operating profit (loss) before exceptional items	<b>115</b>	2,888	517	(2,713)	(1,511)
Exceptional items	<b>1,787</b>	556	1,342	1,657	(1,617)
Profit (loss) on ordinary activities before interest	<b>1,902</b>	3,444	1,859	(1,056)	(3,128)
Net finance income (charges)	<b>604</b>	(1,387)	(739)	(499)	(610)
Profit (loss) on ordinary activities before taxation	<b>2,506</b>	2,057	1,120	(1,555)	(3,738)
Taxation	<b>(1,759)</b>	(291)	(146)	(277)	(434)
<b>Profit (loss) after taxation from continuing operations</b>	<b>747</b>	<b>1,766</b>	<b>974</b>	<b>(1,832)</b>	<b>(4,172)</b>
Loss for period from discontinued operations	<b>(4,228)</b>	(7,609)	(498)	-	-
<b>(Loss) profit for period</b>	<b>(3,481)</b>	(5,843)	476	(1,832)	(4,172)
Adjusted (loss) earnings per share <sup>(i)</sup>	<b>(0.5)p</b>	0.5p	0.2p	(1.2)p	(1.2)p
2009 results have been re-stated to show the Dawson Home Group business as discontinued. Earlier years have not been re-stated.					
<b>Net assets</b>					
Intangible assets	<b>1</b>	143	131	486	552
Property, plant and equipment	<b>646</b>	925	2,285	4,040	5,025
Working capital and provisions	<b>(230)</b>	5,963	17,508	25,036	24,905
Net assets of disposal group held for sale	<b>5,201</b>	-	-	-	-
Net operating assets	<b>5,618</b>	7,031	19,924	29,562	30,482
Taxation and dividends	<b>351</b>	1,366	1,358	1,383	1,386
Net funds (debt)	<b>10,157</b>	12,343	5,688	(5,721)	(2,994)
Net assets excluding pension liability	<b>16,126</b>	20,740	26,970	25,224	28,874
Pension liability	<b>(11,544)</b>	(19,246)	(6,730)	(4,701)	(19,750)
Net assets	<b>4,582</b>	1,494	20,240	20,523	9,124
Capital expenditure	<b>178</b>	423	527	893	1,591
Net gearing <sup>(ii)</sup>	<b>nil</b>	nil	nil	28%	33%

(i) Adjusted earnings per share are based on the results of continuing operations before exceptional items.

(ii) Net gearing is defined as the ratio of total borrowings net of short-term investments, cash and deposits to equity shareholders funds.

## Information for Shareholders

### Financial calendar

Annual General Meeting	30 September 2011
2011/12 interim results announcement	November 2011
End of financial period	1 April 2012
2011/12 preliminary results announcement	June 2012

### Key advisers

Brokers/Nominated Adviser: W H Ireland Limited  
11 St James Square  
MANCHESTER  
M2 6WH

Auditor: Deloitte LLP  
(PO Box 500)  
2 Hardman Street  
MANCHESTER  
M60 2AT

Solicitors: Dundas & Wilson CS LLP  
191 West George Street  
GLASGOW  
G2 2LD

### Share dealing service

Stocktrade operate a telephone share dealing service which provides shareholders with a way of buying or selling the Company's shares or any other UK listed company shares. Commission is 0.5 per cent up to £10,000 and 0.2 per cent thereafter, subject to a £15 minimum. To use this service please call 0845 601 0995 and quote LOW C0175. Postal dealing packs are available on request.

### Registrars and dividend payments

Enquiries regarding shareholdings, lost certificates, change of address and dividend payments should be addressed to the Company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU. Telephone 0871 664 0300 (calls cost 10p a minute plus network extras, lines are open 8.30am-5.30pm Monday-Friday).

Requests for dividend payments to be made direct to a bank or building society account should also be made to the registrars.

## Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the thirty-eighth Annual General Meeting of Dawson International PLC will be held at the offices of Dundas & Wilson, Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2ET on Friday 30 September 2011 at 12 noon for the following purposes:

### **As Ordinary Business**

1. To receive and consider the Directors' Report and financial statements for the financial period ended 2 April 2011 (Resolution 1).
2. To adopt the Directors' Report on Remuneration for the financial period ended 2 April 2011 (Resolution 2).
3. To re-elect Jan Holmstrom retiring by rotation as a Director of the Company in accordance with the Company's Articles of Association (Resolution 3).
4. To elect Jim Carrie as a Director of the Company (Resolution 4).
5. To consider and, if thought fit, pass the following Resolution as an Ordinary Resolution of the Company:

"That Deloitte LLP be and are hereby appointed auditor of the Company to hold office from the conclusion of this meeting until the conclusion of the next general meeting at which financial statements are laid before the Company at a remuneration to be fixed by the Directors" (Resolution 5).

Dated: 8 August 2011

By order of the Board

David Cooper, Secretary

Burnfoot Industrial Estate

Hawick TD9 8RJ

## Notice of Annual General Meeting (continued)

### Notes

#### 1. Votes

In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, all shareholders who wish to attend and vote at the meeting must be entered on the Company's register of members no later than 6.00pm on Wednesday 28 September 2011 or, in the case of an adjournment, as at 48 hours prior to the time of the adjourned meeting. Changes to entries on the register after that time will be disregarded in determining the rights of any person to attend or vote at the meeting.

#### 2. Proxies

2.1 Members entitled to vote at the meeting may appoint a proxy or proxies to exercise all or any of their rights to attend and to speak and vote at a meeting of the Company. A member may appoint more than one proxy in relation to a meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by them. Such a proxy need not be a member of the Company and the appointment of such proxy does not preclude members from subsequently attending and voting in person at the meeting or adjournment of the meeting.

2.2 To be effective, the instrument appointing a proxy and any authority under which it is executed (or a copy of such authority notarially certified or certified in some other way approved by the Board) must be deposited with the Company's registrar, Capita Registrars, PXS, 34 Beckenham Road, Beckenham, BR3 4TU, not less than 48 hours (disregarding any day that is not a working day) before the time for holding the meeting or, in the event of an adjournment, not less than 48 hours (disregarding any day that is not a working day) before the time of the adjournment. A corporation must execute the form of proxy under either its common seal or the hand of a duly authorised officer or attorney. Any amendments made to the form of proxy must be initialled by the person who signs it.

2.3 CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual (available from <https://www.euroclear.com/site/public/EU/>). CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s) should refer to their CREST sponsors or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the Company's agent, Capita Registrars Limited (CREST Participant ID: RA10), no later than 48 hours (disregarding any day that is not a working day) before the time appointed for the meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service provider(s) are referred in particular to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5) of the Uncertificated Securities Regulations 2001.

## Notice of Annual General Meeting (continued)

- 2.4 Unless otherwise indicated the proxy will vote as they think fit or, at their discretion, abstain from voting. The 'Vote Withheld' option is to enable a member to abstain on any particular Resolution. Such a vote is not a vote in law and will not be counted in the votes 'For' and 'Against' a Resolution.
- 2.5 In the case of joint holders, the vote of the senior holder who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of other joint holders. For this purpose, seniority shall be determined by the order in which the names of such holders stand in the register of members in respect of the joint holding.
- 2.6 If more than one valid proxy appointment is submitted, the appointment received last before the latest time for the receipt of proxies will take precedence.
- 2.7 To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also applies in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded. Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact the Company's registrar, Capita Registrars, PXS, 34 Beckenham Road, Beckenham, BR3 4TU.

In order to revoke a proxy instruction you will need to send a signed hard copy notice clearly stating your intention to revoke your proxy appointment to the Company's registrar, Capita Registrars, PXS, 34 Beckenham Road, Beckenham, BR3 4TU to be received not less than 48 hours (disregarding any day that is not a working day) before the time for holding the meeting or in the case of a poll taken more than 48 hours after it is demanded, before the time appointed for taking the poll. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.

If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to the paragraph directly below, your proxy appointment will remain valid.

Appointment of a proxy does not preclude you from attending the meeting and voting in person. If you have appointed a proxy and attend the meeting in person, your proxy appointment will automatically be terminated.

### 3. Directors' Service Contracts

Copies of the Directors' service contracts and copies of the Non-Executive Directors' terms of appointment are available for inspection by members at the registered office of the Company during normal working hours on any weekday from the date of this notice until the date of the meeting and will be available for inspection at the place of the meeting from 15 minutes prior to the meeting until its conclusion.

### 4. Corporate Representatives

A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share.

### 5. Communication

Members who have general queries about the meeting should use the following means of communication (no other method of communication will be accepted):-

E-mail to: [enquiries@dawson-international.co.uk](mailto:enquiries@dawson-international.co.uk)

This e-mail address should only be used to communicate with the Company for enquiries regarding the AGM Notice and Proxy Card.



# Form of Proxy

(For use at the Annual General Meeting of Dawson International PLC ("the Company") to be held at the offices of Dundas & Wilson, Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2ET on 30 September 2011 at 12 noon and at any adjournment thereof.)

I/We being a member of the Company, holding \_\_\_\_\_ ordinary shares (see note 3) of one pence each in the capital of the Company hereby appoint the Chairman of the meeting, or \_\_\_\_\_ (see note 1) as my/our proxy vote for me/us on my/our behalf as indicated below at the Annual General Meeting of the Company to be held on 30 September 2011 and at any adjournment thereof.

If you are appointing more than one proxy please place an X in the box opposite.

Ordinary Business	For	Against	Vote Withheld (see note 6)
1 Adoption of Directors' Report and financial statements			
2 Adoption of Directors' Report on Remuneration			
3 Re-election of Jan Holmstrom* as a Director			
4 Election of Jim Carrie as a Director			
5 Appointment of Deloitte LLP as auditor			

+ Member of the Audit Committee

\* Member of the Remuneration Committee

~ Member of the Nominations Committee

Unless otherwise indicated, the proxy may vote as they think fit, or withhold their vote, on the above Resolutions or on other business conducted at the meeting.

Signed this \_\_\_\_\_ day of \_\_\_\_\_ 2011 (Please insert date and sign. If a corporation, see note 5)

Signature \_\_\_\_\_

Name of registered holder (IN BLOCK CAPITALS, PLEASE) \_\_\_\_\_

Address (IN BLOCK CAPITALS, PLEASE) \_\_\_\_\_

## Notes

- A member entitled to attend, speak and vote at the meeting is also entitled to appoint one or more proxies to attend, speak and vote instead of them. To appoint as a proxy a person other than the Chairman of the meeting insert the full name in the space provided. A proxy need not be a member of the Company. You can also appoint more than one proxy provided each proxy is appointed to exercise the rights attached to a different share or shares held by you. The following options are available:
  - To appoint the **Chairman** as your **sole proxy** in respect of all your shares, simply fill in any voting instructions in the appropriate box and sign and date the form of proxy;
  - To appoint a **person other than the Chairman as your sole proxy** in respect of all your shares, delete the words 'the Chairman of the meeting or' and insert the name and address of your proxy in the space provided. Then fill in any voting instructions in the appropriate box and sign and date the form of proxy;
  - To appoint **more than one proxy**, you may photocopy this form. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. If you wish to appoint the Chairman as one of your multiple proxies, simply write 'the Chairman of the meeting'. All forms must be signed and should be returned together in the same envelope.
- Unless otherwise indicated the proxy will vote as they think fit or, at their discretion, abstain from voting.
- Please enter number of ordinary shares of one pence each in the capital of the Company held by you. If no number is entered, it shall be presumed that the proxy is entitled to vote in respect of all such ordinary shares held by you as registered holder.
- To be valid for the meeting, this form of proxy should be completed, signed and lodged with the Company's registrars, Capita Registrars, PXS, 34 Beckenham Road, Beckenham, BR3 4TU during usual business hours not less than 48 hours (disregarding any day that is not a working day) before the time set for the meeting or in the event of an adjournment, not less than 48 hours (disregarding any day that is not a working day) before the time of the meeting, accompanied by any power of attorney under which it is executed (if applicable). Any alteration to this form of proxy must be initialled.
- A corporation must execute the form of proxy under either its common seal or the hand of a duly authorised officer or attorney.
- The 'Vote Withheld' option is to enable you to abstain on any particular Resolution. Such a vote is not a vote in law and will not be counted in the votes 'For' and 'Against' a Resolution.
- Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting should you subsequently decide to do so.
- In the case of joint holders, the vote of the senior holder who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of other joint holders. For this purpose, seniority shall be determined by the order in which the names of such holders stand in the register of members in respect of the joint holding.
- Any amendments made to this form of proxy must be initialled by the person who signs it.
- CREST members should use the CREST electronic proxy appointment service and refer to Note 2.3 of the Notice of Annual General Meeting in relation to the submission of a proxy appointment via CREST.
- If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.
- For details of how to change your proxy instructions or revoke your proxy appointment see the notes to the notice of meeting.





**DAWSON INTERNATIONAL PLC**  
Burnfoot Industrial Estate  
Hawick, TD9 8RJ  
Scotland