DAWSON INTERNATIONAL PLC

LOCHLEVEN MILLS
KINROSS KY13 8GL

Monday 5 September 2005

INTERIM STATEMENT FOR THE PERIOD ENDED 2 JULY 2005

TURNAROUND STRATEGY MAKES EXCELLENT PROGRESS

KEY POINTS

- Turnover increased by £17.3 million to £45.2 million
- Excluding acquisitions and disposals, turnover increased by 44 per cent
- Pre-exceptional operating loss reduced by £2.6 million to near break-even
- Further significant operational improvement across the continuing businesses
- Restructuring of Dorma ahead of schedule

Commenting on the interim financial results for the period ended 2 July 2005, chairman Mike Hartley said:

"Further significant operational improvement has been delivered in the first half of the financial year. The turnaround strategy has made excellent progress with financial performance approaching break-even. The Scottish based Todd & Duncan and Barrie cashmere businesses achieved substantial improvements in turnover and operating profits. The recently announced investment of almost £2 million in Todd & Duncan will lead to further improvements and the restructuring of the Dorma business acquired earlier this year is ahead of schedule."

For further information please contact:

Mike Hartley, Chairman, Dawson International	**07711 734631 or 0207 448 1000**
Zoe Biddick, Biddicks	**0207 448 1000**
Jon Fitzpatrick, Bell Lawrie	**0141 221 7733**

Website: www.dawson-international.co.uk

Chairman's Statement

Overview

Further significant operational improvement has been delivered in the first half of the financial year. The turnaround strategy has made excellent progress with financial performance approaching break-even. The cashmere businesses reported improvements in turnover and operating profits. Restructuring of the Dorma business acquired earlier this year is ahead of schedule.

Turnover in the first half increased by £17.3 million to £45.2 million. The Group operating loss before goodwill and exceptional items reduced from £2.8 million to £0.2 million.

Results

In 2005 the Group implemented FRS17 (Retirement Benefits) and FRS20 (Share-based Payment). Prior year figures have been restated accordingly. The impact of FRS17 was outlined in the 2004 Annual Report and at the Annual General Meeting on 29 June 2005.

The results for the six months to 2 July 2005 include Dorma, which was acquired on 14 February while those for 2004 include Ballantyne, which was disposed of on 31 March 2004 and Joseph Dawson, which was disposed of on 15 October 2004.

Turnover increased by £17.3 million to £45.2 million. Excluding acquisitions and disposals the increase was £7.4 million (44 per cent). The operating loss before goodwill and exceptional items was reduced from £2.8 million to £0.2 million.

Operating exceptional charges were £0.7 million, £0.6 million reorganisation costs at Dorma and £0.1 million costs of transferring the Company's share listing to AIM.

The net interest charge was £1.0 million, an increase of £0.1 million.

The Dorma business was acquired for £8.7 million, inclusive of deferred consideration of £0.3 million and transaction costs. Net assets at acquisition were £16.2 million resulting in negative goodwill of £7.5 million of which £1.4 million was credited to profit and loss in the period. The evaluation of net assets acquired and therefore negative goodwill are provisional, subject to completion of the fair value assessment.

The cash outflow from operating activities in the period was £7.3 million (2004: £7.4 million outflow). Net debt was £8.5 million as at 2 July 2005 (2004: £4.8 million).

Loan Stock and Pensions

With Loan Stock conversions having taken place earlier this year, the outstanding Loan Stock has been reduced to £5.4 million (plus premium) and it will be a key priority to redeem this at the earliest opportunity. The Board is considering exercising the authority granted to it at the Annual General Meeting to make an equity placement of up to 25,550,000 shares for cash which could be used to fund part of this Loan Stock redemption.

Measures are in hand to reduce the final salary pension schemes' deficit. The schemes have been closed to new members and inflationary increases for existing employee members have been capped for future service. We anticipate making further proposals to the Trustees to tackle these deficits.

The Pensions Bill and the resultant Pension Protection Fund Levy is a piece of ill-conceived Government legislation. Whilst the level of levy is a matter of some uncertainty, we estimate on the basis of initial consultation papers that it may be of the order of £375,000 to £700,000 for 2006 diverting funds which would otherwise have been invested in the business or indeed the pension funds. We do however believe that the level of funding to deal with this and the annual cash cost of our pensions fund deficit is within the cash generating ability of our trading businesses.

Fibres & Yarns

Todd & Duncan

The Todd & Duncan cashmere yarns business had another much improved first half year with increased turnover and significant margin improvements across the product range. To ensure long-term competitiveness by improving productivity and customer service and thereby generate additional profit, the business has embarked upon a £2 million capital investment programme in new equipment and refurbishment across all departments. Once fully implemented, the investment and other related operational changes are expected to reduce costs by over £1 million per annum. The project, which entails a complete reconfiguration of the factory site, is expected to be completed during 2006.

Knitwear

Barrie

The new energy and drive to transform the Barrie business in 2004 has reaped considerable rewards in the first half of 2005. Since gaining its independence through the sale of Ballantyne Cashmere last year, Barrie has been able to focus on its niche market and benefit from increased demand for high margin haute couture cashmere garments. Both turnover and profit have significantly increased against the same period last year.

Sourced Garments

United States of America

The Dawson Forte business generates 90 per cent of its revenues in the four month period from July to October and is therefore loss making in the first half of the year. Order books are on target and the business is expected to deliver another highly satisfactory full year result.

Europe

Dawson Cashmere Company (DCC), designs and sources cashmere knitwear from China which has been distributed and marketed in Europe through a third party. The business is to expand through the creation of its own distribution network to retailers, a move that will incur a short term cost but will build a strong foundation for future growth and create a business with real enterprise value.

The Kinross Cashmere Europe business was set up in November 2004 to market the Dawson Forte product range across Europe.

The full year results of these businesses will inevitably be adversely impacted by the sudden, mid year re-introduction of quotas on Chinese garments.

Dorma

The restructuring of the Dorma business acquired earlier this year is ahead of schedule, despite market conditions negatively affecting sales. Ongoing operating costs have already been significantly reduced, all product sourcing is now from low cost locations and there has been a major release of cash from stock reduction. The full benefits of the programme are, however, being constrained by the sharp downturn in the UK retail sector, particularly affecting home products.

In July, the EU's somewhat misguided, panic protectionist measures to restrict the sourcing of certain product categories from China by re-introducing a quota system were announced to widespread dismay. These new quota limits for the full year were almost exhausted by the time they were introduced. China has been playing an important role in Dorma's new sourcing strategy and much management effort has been focused on ensuring the quality and consistency of supply expected by our customers. Dorma has a long pipeline of product development involving technically demanding fabric development. As country of origin for bedlinen is defined by the origin of fabric production, the necessary re-sourcing changes will be particularly disruptive, costly and bad for customer service with no compensating benefit for EU manufacturing businesses. Furthermore new product to revitalise the Dorma range was being developed primarily in China and will now be delayed. Whilst Dorma will make good progress against its historical performance, Chinese quota imposition will take the edge off its rapidly improving performance.

Outlook

The Scottish based cashmere businesses of Todd & Duncan and Barrie have further built on last year's much improved performance. Capital investment and management initiatives will enable Todd & Duncan to make further progress. Dawson Forte has a strong order book which should deliver another good year. Development of the European sourced cashmere business will have a modest negative impact in the short term but should start delivering results next year. The rapid change programme at Dorma is transforming that business and I remain of the view that we can achieve turnaround by the end of its second year of ownership.

Taken as a whole, I am confident that we can deliver significant improvements to operational and financial performance for the full year.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Period ended 2 July 2005

	Note	Acquisitions £m	Ongoing Operations £m	Unaudited 26 weeks to 2 July 2005 Total £m	Unaudited 26 weeks to 3 July 2004 Total *restated* £m	Audited 52 weeks to 1 January 2005 Total *restated* £m
Turnover	*2*	20.8	24.4	45.2	27.9	70.2
Operating profit/(loss)						
- base		(0.6)	0.4	(0.2)	(2.8)	0.9
- exceptional	*3*	(0.6)	(0.1)	(0.7)	(0.1)	(0.8)
- goodwill amortisation	*6*	1.4	-	1.4	-	-
		0.2	0.3	0.5	(2.9)	0.1
Exceptional gain on sale of Operations	*3*			-	4.3	3.0
Goodwill previously written off to reserves				-	(0.8)	(0.8)
				-	3.5	2.2
Profit on disposal of fixed assets				-	0.4	0.3
Profit on ordinary activities before interest	*2*			0.5	1.0	2.6
Interest and similar charges				(1.0)	(0.9)	(2.5)
(Loss)/profit on ordinary activities before taxation				(0.5)	0.1	0.1
Taxation	*5*			-	-	-
(Loss)/profit for the financial period transferred to reserves				(0.5)	0.1	0.1

CONSOLIDATED BALANCE SHEET

at 2 July 2005

	Note	Unaudited 2 July 2005 £m	Unaudited 3 July 2004 *restated* £m	Audited 1 January 2005 *restated* £m
Fixed assets				
Intangible assets - negative goodwill	6	(6.1)	-	-
Tangible assets		4.9	3.1	2.6
		(1.2)	3.1	2.6
Current assets				
Stocks		24.4	19.8	11.7
Debtors		25.3	20.2	13.1
Cash and deposits		5.1	7.8	11.9
		54.8	47.8	36.7
Creditors - amounts due within one year				
- borrowings		(8.3)	(3.4)	-
- other creditors		(15.2)	(14.3)	(9.3)
		(23.5)	(17.7)	(9.3)
Net current assets		31.3	30.1	27.4
Total assets less current liabilities		30.1	33.2	30.0
Creditors - amounts falling due after more than one year				
- borrowings		(5.3)	(9.2)	(5.7)
Provisions for liabilities and charges		(3.1)	(2.0)	(2.7)
Net assets excluding pension liability		21.7	22.0	21.6
Pension liability		(28.9)	(18.5)	(29.3)
Net assets including pension liability		(7.2)	3.5	(7.7)
Capital and reserves				
Called up share capital		50.9	50.8	50.8
Share premium		0.4	-	-
Profit & loss account		(58.5)	(47.3)	(58.5)
	7	(7.2)	3.5	(7.7)

CONSOLIDATED CASH FLOW STATEMENT

Period ended 2 July 2005

	Unaudited 26 weeks to 2 July 2005	Unaudited 26 weeks to 3 July 2004 *restated*	Audited 52 weeks to 1 January 2005 *restated*
	£m	£m	£m
Reconciliation of operating profit/(loss) to net cash (outflow)/inflow from operating activities			
Operating (loss)/profit before exceptional items and goodwill	(0.2)	(2.8)	0.9
Depreciation	0.5	0.5	0.8
Loss on disposal of fixed assets	-	-	0.1
Decrease/(increase) in stocks	0.2	(5.7)	(2.9)
(Increase)/decrease in debtors	(4.1)	(5.5)	0.3
(Decrease)/increase in creditors	(3.3)	6.4	2.8
Net cash (outflow)/inflow from operating activities before exceptional items	(6.9)	(7.1)	2.0
Reorganisation costs and utilisation of closure provisions	(0.4)	(0.3)	(1.6)
Net cash (outflow)/inflow from operating activities	(7.3)	(7.4)	0.4
Returns on investments and servicing of finance	(0.3)	(0.7)	(1.2)
Taxation	(0.1)	-	0.3
Capital expenditure			
- Purchase of tangible fixed assets	(0.9)	(0.4)	(0.5)
- Sale of tangible fixed assets	-	0.7	0.8
Net cash (outflow)/inflow from capital expenditure	(0.9)	0.3	0.3
Acquisitions & disposals			
- Acquisition of Dorma Group Limited	(8.4)	-	-
- Disposals	-	12.7	16.7
- Net cash balances acquired/(disposed of)	1.7	(0.2)	(0.2)
Net cash (outflow)/inflow from acquisitions and disposals	(6.7)	12.5	16.5
Financing			
- Net proceeds of Loan Stock issue	-	9.2	5.3
- Shareholder loan repaid	-	(3.3)	(3.3)
- Net movement in other loans	-	(0.2)	(0.2)
Net cash inflow from financing	-	5.7	1.8
(Decrease)/increase in cash	(15.3)	10.4	18.1

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

Period ended 2 July 2005

	Unaudited 26 weeks to 2 July 2005 £m	Unaudited 26 weeks to 3 July 2004 *restated* £m	Audited 52 weeks to 1 January 2005 *restated* £m
(Decrease)/increase in cash	(15.3)	10.4	18.1
Decrease in debt	-	3.5	3.5
Change in net debt resulting from cashflows	(15.3)	13.9	21.6
Loans disposed of	-	0.7	0.7
Loan Stock converted (net of issue costs)	0.4	(9.2)	(5.7)
Translation adjustments	0.2	(0.1)	(0.3)
Movement in net debt in the period	(14.7)	5.3	16.3
Net funds/(debt) at beginning of period	6.2	(10.1)	(10.1)
Net (debt)/funds at end of period	(8.5)	(4.8)	6.2

NOTES TO THE INTERIM REPORT

1 Basis of preparation

The interim report has been prepared on a basis consistent with the statutory financial statements for the 52 weeks to 1 January 2005 except for the implementation of FRS17 (Retirement Benefits) and FRS 20 (Share-based Payment).

FRS17 (Retirement Benefits) has been adopted in the current period. This required a restatement of 2004 results as follows: Opening shareholders funds were reduced by £21.0 million to incorporate the FRS17 pension liabilities at that date and to eliminate the prepayments and provisions reported under previous accounting guidelines. The operating profit for the year was increased by £1.1 million (interim: £0.8 million), interest charges increased by £0.2 million (interim: £0.1 million) and the gain on disposal of operations was increased by £0.8 million (interim: £0.8 million). Shareholders funds were reduced by £11.1 million (interim: nil) to incorporate the actuarial loss on the pension funds in the year.

FRS20 (Share-based Payment) has been adopted in the current period, superseding the previous guidance of UITF17. There was no significant impact on results or net assets in any of the reported periods.

The financial information contained in this report does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. It is unaudited but has been reviewed by the auditors. Figures for the 52 weeks ended 1 January 2005 are abridged and derived from the full statutory accounts which carry an unqualified auditor's report and which have been filed with the Registrar of Companies.

The interim report for the 26 weeks ended 2 July 2005 was approved by the directors on 2 September 2005.

2 Segmental analysis

	Turnover			Loss before interest		
	Unaudited 26 weeks to 2 July 2005 £m	Unaudited 26 weeks to 3 July 2004 £m	Audited 52 weeks to 1 January 2005 £m	Unaudited 26 weeks to 2 July 2005 £m	Unaudited 26 weeks to 3 July 2004 *restated* £m	Audited 52 weeks to 1 January 2005 *restated* £m
Fibres & Yarns						
- base	16.9	21.3	31.3	2.1	0.4	0.7
- exceptional				-	(0.1)	(0.3)
				2.1	0.3	0.4
Knitwear	3.5	6.1	10.1	0.6	(0.9)	(0.6)
Sourced Garments						
- base	5.2	2.3	31.1	(1.0)	(1.2)	3.1
- exceptional				-	-	1.5
				(1.0)	(1.2)	4.6
Home Furnishings						
- base	20.8	-	-	(0.6)	-	-
- exceptional				(0.6)	-	-
- goodwill amortisation				1.4	-	-
				0.2	-	-
Central overheads						
- base				(1.3)	(1.1)	(2.3)
- exceptional				(0.1)	-	(2.0)
				(1.4)	(1.1)	(4.3)
Intra Group turnover	(1.2)	(1.8)	(2.3)			
Group turnover / operating profit/(loss)	45.2	27.9	70.2	0.5	(2.9)	0.1
Profit on sale of operations				-	4.3	3.0
Goodwill previously written off to reserves				-	(0.8)	(0.8)
Profit on disposal of fixed assets				-	0.4	0.3
Profit on ordinary activities before interest				0.5	1.0	2.6

The Fibres & Yarns segment includes the Joseph Dawson business which was disposed of on 15 October 2004.

The Knitwear segment includes the Ballantyne business which was disposed of on 31 March 2004.

As it was not possible to clearly distinguish the results of either the Joseph Dawson business or the Ballantyne business for financial reporting purposes neither was reported as a discontinued activity in 2004.

3 Exceptional charges	26 weeks to 2 July 2005 £m	26 weeks to 3 July 2004 *restated* £m	52 weeks to 1 January 2005 *restated* £m
Operating			
Reorganisation of the Dorma business	(0.6)	-	-
Reorganisation of the Fibres & Yarns business	-	(0.1)	(0.2)
Move to the Alternative Investment Market	(0.1)	-	-
Refinancing costs	-	-	(0.6)
Exceptional debtor provision	-	-	(1.5)
Release of supplier provision	-	-	1.5
	(0.7)	(0.1)	(0.8)
Exceptional gain/(loss) on sale of operations			
Disposal of the Ballantyne business	-	4.3	4.3
Disposal of the Joseph Dawson business	-	-	(1.3)
	-	4.3	3.0

4 Earnings per share	26 weeks to 2 July 2005 pence	26 weeks to 3 July 2004 *restated* pence	52 weeks to 1 January 2005 *restated* pence
Basic and diluted (loss)/profit per share	(0.5)	0.1	0.1
Goodwill	(1.3)	0.8	0.8
Exceptional profit on disposal of fixed assets	-	(0.4)	(0.3)
Profit on sale of operations	-	(4.2)	(3.0)
Other exceptional charges	0.7	0.1	1.0
Adjusted loss per share	(1.1)	(3.6)	(1.4)

Adjusted loss per share is calculated on the loss for the period before exceptional items and goodwill.

5 Taxation

The Group has significant tax losses available in both the UK and USA.

Consequently no significant tax charge or credit is anticipated in the current year.

6 Acquisition of Dorma Group Limited

The Company acquired Dorma Group Limited ("Dorma") on 14 February 2005. Dorma was acquired at an estimated discount to net asset value of £7.5 million, subject to completion of a fair value assessment. The business was loss making at acquisition and the Board are of the view that it will be a two year project to turn the business to profit. The negative goodwill is therefore being credited to the profit and loss account over this period.

		26 weeks to 2 July 2005	26 weeks to 3 July 2004	52 weeks to 1 January 2005
7	**Reconciliation of movements in shareholders funds**	£m	£m	£m
	At beginning of period	(7.7)	23.7	23.7
	Prior year adjustment (see note 1)	-	(21.0)	(21.0)
		(7.7)	2.7	2.7
	New share capital subscribed	0.6	-	-
	(Loss)/profit for the financial period	(0.5)	0.1	0.1
	Actuarial loss on pension scheme	-	-	(11.1)
	Equity settled transactions	-	-	0.1
	Goodwill previously written off to reserves	-	0.8	0.8
	Exchange differences arising on translation of overseas subsidiaries	0.4	(0.1)	(0.3)
		(7.2)	3.5	(7.7)