

## Movements in shareholders' funds

for 52 weeks ended 29 June 2002

	Notes	2002 £'000	2001 (restated) £'000
<b>Profit after tax attributable to shareholders</b>		<b>7,352</b>	4,515
Dividends		(4,435)	(4,490)
<b>Retained profit attributable to shareholders</b>	26	<b>2,917</b>	25
New share capital issued	26	1	–
<b>Net increase in shareholders' funds</b>		<b>2,918</b>	25
Opening shareholders' funds – as originally reported		49,227	49,097
Prior period adjustment – FRS19	14	(9,130)	(9,025)
<b>Opening shareholders' funds – as restated</b>		<b>40,097</b>	40,072
<b>Closing shareholders' funds</b>		<b>43,015</b>	40,097

## Consolidated cash flow statement

for 52 weeks ended 29 June 2002

	Notes	2002 £'000	2001 £'000
<b>Cash inflow from operating activities</b>	27	<b>21,160</b>	21,117
Returns on investments and servicing of finance	28	(3,489)	(4,155)
Taxation	28	507	902
Capital expenditure and financial investment	28	(2,754)	(1,587)
Equity dividends paid		(4,486)	(4,492)
<b>Cash inflow before use of liquid resources and financing</b>		<b>10,938</b>	11,785
Management of liquid resources	28	(2,292)	264
Financing – issue of shares	28	1	–
– decrease in debt	28	(10,752)	(10,716)
<b>(Decrease)/increase in cash in the period</b>	29	<b>(2,105)</b>	1,333

## Reconciliation of net cash flow to movement in net debt

for 52 weeks ended 29 June 2002

	Notes	2002 £'000	2001 £'000
<b>(Decrease)/increase in cash in the period</b>	29	<b>(2,105)</b>	1,333
Cash outflow from decrease in debt	29	10,752	10,716
Cash outflow/(inflow) from increase/(decrease) in liquid resources	29	2,292	(264)
<b>Change in net debt resulting from cash flows</b>	29	<b>10,939</b>	11,785
Inception of new finance leases	29	(3,675)	(4,168)
Translation difference	29	58	141
<b>Movement in net debt in the period</b>	29	<b>7,322</b>	7,758
<b>Net debt at beginning of period</b>	29	<b>(44,515)</b>	(52,273)
<b>Net debt at end of period</b>	29	<b>(37,193)</b>	(44,515)

## Accounting policies

The principal accounting policies adopted in the preparation of the financial statements are summarised below. They have all been applied consistently throughout the period and preceding period, with the exceptions explained below under 'Changes in financial information', and are judged to be the most appropriate to the Group's circumstances.

### Accounting convention

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of certain fixed assets, and in accordance with applicable accounting standards.

No profit and loss account is presented for Thorntons PLC, in accordance with Section 230 of the Companies Act 1985.

### Changes in financial information

In these financial statements, FRS19 'Deferred tax' has been adopted for the first time. As a result, the opening balances and comparatives for the 53 weeks ended 30 June 2001 have been restated. This is to provide in full for deferred tax arising from timing differences between the recognition of gains and losses in the financial statements and their recognition in a tax computation.

### Basis of consolidation

The consolidated financial information incorporates the financial statements of the Company and its subsidiaries and includes the Group's share of results and post-acquisition reserves.

### Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost or valuation, which may include interest costs accruing over the period from initial expenditure to completion of major capital projects. Specific internal employee costs incurred in implementing capital projects of the Group are capitalised within fixed assets in the related category as the project.

Valuations of freehold properties, from which the Group trades, are undertaken annually by a chartered surveyor who is an employee of Thorntons PLC. Every third year, the valuations are provided by an external firm of chartered surveyors. These valuations are compared with those already recognised in the financial statements and if not significantly different then no changes to the carrying values are made.

All tangible assets, other than land, are depreciated to write off the assets over their remaining useful lives by equal annual instalments, as follows:

*In equal annual instalments:*

Freehold premises	50 years
Short leasehold land and buildings	Period of the lease
Retail fixtures and fittings	5 years
Retail equipment	4 to 5 years
Retail shop improvements	10 years
Other equipment and vehicles	3 to 7 years
Manufacturing plant and machinery	12 to 15 years

### Investments in own shares and amortisation

Shares acquired on the stock exchange by employee benefit trusts are recognised on the balance sheet at cost on day of acquisition less amortisation, charged to the consolidated profit and loss account over the period to which the employees' performance relates, to a net realisable value.

### Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value. Cost includes materials, direct labour and an attributable proportion of manufacturing overheads according to the stage of production reached. Net realisable value is the estimated value which would be realised after deducting all costs of completion, marketing and selling.

### Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, with the following exceptions:

- deferred taxation assets are only recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted;
- provision is made for gains on disposal of fixed assets that have been rolled over into replacement assets only where, at the balance sheet date, there is a commitment to dispose of the replacement assets; and
- provision is made for the tax that would arise on remittance of the retained earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable.

Deferred taxation is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

**Accounting policies continued****Onerous leases**

When a leasehold property remains empty for longer than six months, then the lease is defined as onerous and all rentals and other property obligations are provided up to the expiry date of the lease. If a property is sublet externally, but at a level below the head rent then the lease is also classed as onerous, with the total amounts receivable and payable being provided. In all instances, the time value of money is considered, and if material, the provision is discounted to reflect this.

**Turnover**

Turnover comprises the sale of goods to customers outside the Group excluding value added tax.

**Pensions**

The charge to the consolidated profit and loss account for pensions is based on independent actuarial assessments, with any actuarial surplus being allocated over the average remaining service life of the current employees in the scheme. Any difference between the charge and the contributions paid is recognised in the balance sheet.

**Foreign currencies**

Transactions in foreign currencies are translated at the exchange rate ruling at the date of transaction or, when applicable, at forward cover contractual rates. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rates ruling at the balance sheet date and any exchange differences arising are taken to the consolidated profit and loss account.

**Operating leases**

The costs of all operating leases are charged against operating profit on a straight-line basis at existing rental levels. Rental income from operating leases is recognised on a straight-line basis over the period of the lease at current rental levels.

**Finance leases**

Fixed assets held under finance leases are capitalised in the balance sheet and depreciated over their expected useful lives. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the consolidated profit and loss account over the period of the lease.

**Derivatives and other financial instruments**

Financial instruments are utilised to support and raise finances for the trading operations of the Group. Interest is charged or taken to the consolidated profit and loss account as incurred or earned, except when interest is incurred on specific borrowings to finance major projects in the course of construction, when it is capitalised up to the time when the relevant asset is brought into use.

Where appropriate, the Group will enter into currency swap and interest rate swap agreements, in order to minimise relevant currency and interest rate exposure to the Group from the transaction.

Further details of the Group's approach to Treasury Management is contained within note 22 to the financial statements.

## Notes to the financial statements

**1 Turnover and segmental analysis**

	2002 £'000	2001 £'000
<b>Turnover, originating in the UK, sold to:</b>		
United Kingdom	163,250	159,375
Europe and the rest of the world	550	546
<b>Total turnover</b>	<b>163,800</b>	<b>159,921</b>

Profit before taxation and net assets relate solely to continuing operations in the UK.

**2 Other operating income**

	2002 £'000	2001 £'000
Rents receivable	109	106
Licensing royalties	189	–
Other amounts receivable	122	56
<b>Other operating income</b>	<b>420</b>	<b>162</b>

**3 Operating profit**

	2002 £'000	2001 £'000
<b>Operating profit is stated after charging:</b>		
Depreciation of owned tangible fixed assets	10,270	10,914
Depreciation of tangible fixed assets held under finance lease	3,103	2,203
Amortisation of investments in own shares	113	–
Operating lease rentals – land and buildings	18,035	17,901
– other	758	638
Rents payable in relation to shop turnover	415	385
Auditors' remuneration – parent company	58	60
– other	2	2
Corporation tax fees paid to auditors	87	134
Other non audit remuneration paid to auditors	58	43
Loss on disposal of fixed assets	405	73

**4 Directors' emoluments**

	2002 £'000	2001 £'000
Salaries and taxable benefits	999	1,360
Pension scheme contributions	99	115
<b>Directors' emoluments</b>	<b>1,098</b>	<b>1,475</b>

Pension scheme contributions above represent the total contributions made by the Company on behalf of all the Directors, of which £52,000 (2001: £92,000) was to approved pension arrangements and £47,000 (2001: £23,000) to unapproved pension arrangements.

Details of individual Directors' emoluments and interests in the shares of the Company are fully disclosed in the Report on Directors' Remuneration.