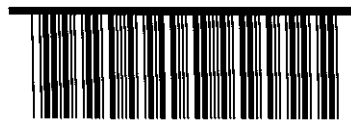


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JOHNSON

SERVICE GROUP PLC

ANNUAL REPORT 2002



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...the leader in textile aftercare

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JOHNSON

SERVICE GROUP PLC

Johnson Service Group is a long-established company focused on the provision of workplace support services and retail drycleaning.

Our businesses have strong market positions, leading brands and nationwide representation.

Our aim is to achieve long term growth in shareholder value by creating a culture that allows us to:

- provide excellent and innovative services to our customers
- continue to raise our standards of quality, efficiency and convenience
- support, motivate and empower our people at all levels
- maximise the value of our existing brands and assets
- develop complementary activities both organically and by acquisition

CHAIRMAN'S STATEMENT

Against a difficult market background, this has been a year of radical change strengthening our management and central functions, re-examining our strategy and creating the right framework for future growth. Our overriding aim is to ensure that we derive full benefit from the strength of the Group's brands, market positions and nationwide coverage. We will achieve this by refocusing on the needs of our customers, by enhancing our services and above all by creating a new and positive culture, thereby realising the full potential of our people.

"This has been a year of radical change strengthening our management and central functions, re-examining our strategy and creating the right framework for future growth."

Financial results

Our results for the year reflected the challenging economic environment and difficult trading conditions noted in the interim report. Turnover was in line with the previous year at £219.2m (2001: £220.4m), while operating profit was £21.6m (2001: £25.0m) and adjusted operating profit (which excludes goodwill amortisation) was 10.5% lower at £26.3m (2001: £29.4m). This figure is stated after charging one-off costs relating to management changes, plant and shop closures and environmental matters totalling £5.9m (2001: £5.3m) and additional pension costs of £1.6m. Of the one-off costs £3.9m (2001: £4.2m) related to UK textile rental, £0.5m (2001: £0.2) to Irish textile rental and £1.5m (2001: £0.9m) to GB drycleaning.

Pre-tax profit was £15.0m (2001: £19.3m) and fully diluted earnings per share were 16.2p (2001: 22.5p). Adjusted pre-tax profit (which excludes goodwill amortisation and exceptional items) was 11.4% lower at £21.0m (2001: £23.7m) and adjusted fully diluted earnings per share were 26.6p (2001: 30.2p), a reduction of 11.9%.

Cash generation remained strong, in spite of the reduction in profit, and this was reflected in a £0.4m decrease in the Group's interest charge to £5.3m and a £15.1m reduction in year-end debt to £61.9m. Interest was covered 5 times by adjusted operating profit.

The Board recommends a maintained final dividend of 13.6p per share which, together with the interim dividend of 4.0p paid in October, makes a total for the year of 17.6p, the same as in 2001.

Operations

The performance of Johnsons Apparelmaster was affected by further deterioration in the trading climate, particularly in the manufacturing sector. Although the contractual nature of the workwear rental business afforded some short term protection to profits, and rigorous measures were taken to reduce costs, it became clear to the Board that a new approach was required to stabilise and restore the business. The new management team appointed in the second half has created a number of new initiatives designed to achieve this, all of which are based on a more customer-focused

CHAIRMAN'S STATEMENT

and flexible approach to our offer. The national sales force is being rebuilt, redirected and reinvigorated under a new Sales & Customer Service director, and we have recently launched a range of new products and services designed to attune our business more closely with changes in the workwear market place. Action is also being taken to improve efficiency and consistency, enhance plant utilisation, and create a unified national culture behind the market-leading Johnsons Apparelmaster brand.

Stalbridge Linen Services, our value-added niche business which is UK market leader in the leisure, professional catering and corporate entertainment sectors, achieved further growth despite increasing competition in its sector.

CCM, our garment sourcing and manufacturing business, produced strong results and made good further progress in both market and service penetration.

JWS, our washroom services business, exceeded expectations and continued to build its national presence through two bolt-on acquisitions.

The continuing disappointing results of our business in Ireland, Connacht Court Group, have been addressed by empowering local management to make the necessary changes. Until an acceptable performance is achieved, this business will report directly to the new Group Chief Executive.

Johnsons Drycleaning performed in line with expectations and remained a significant cash generator. We have continued to expand our presence in convenient locations, notably through the opening of additional drive-in stores, while our 'Cleanology' initiative to enhance quality and service was successfully extended to over 300 branches during the year.

Pensions

All our businesses have borne significantly increased costs following the actuarial valuation of the Johnson Group Staff Pension Scheme, a defined benefit scheme, in April 2002. Like many other companies, we have been forced to take action to limit our liabilities, which have increased because of a combination of increasing life expectancy and falling stock market values. The defined benefit scheme was substantially closed to new entrants in January 2002.

As disclosed in the interim report, cash contributions to our pension schemes, totalling £4.0m per annum, were recommenced with effect from July 2002. We are actively seeking ways to reduce the cost materially in the full financial year 2003.

Board and management

As shareholders will be aware from my statement in last year's annual report, we had at that time identified a successor for the

CHAIRMAN'S STATEMENT

position of Chief Executive. This was the result of a search instigated in 2001. I am delighted to welcome Stuart Graham, formerly Group Chief Operating Officer of ISS, who joined us in June 2002.

We were pleased to welcome Michael Gatenby to the Board as a non-executive director in September 2002, following the resignation of Tony Davidson earlier in the year. Peter Robinson, whose retirement was announced in the interim report, left the Board in November 2002. He was replaced as managing director of Johnsons Apparelmaster by David Toon, who formerly occupied the same position at CCM. Kevin Mayes, previously finance director of CCM, was promoted to become managing director there.

A number of other senior management appointments and promotions have been made to strengthen the business and in particular to fill the skill gaps identified by Stuart Graham during his intensive review of the Group.


On behalf of the Board, I would like to record our appreciation of the tremendous energy and intellect, both enhanced by long experience of the support services sector, which Stuart has brought to bear since his appointment, and of the considerable progress he has made in finding new ways forward. I am confident that the Board and our employees throughout the Group will respond positively to the challenges ahead.

Outlook

Trading in the current year is likely to remain difficult, with no sign of an upturn in economic activity at present. Geopolitical considerations have added an extra uncertainty to the situation at the time of writing.

Notwithstanding the challenging environment, the Group will continue to concentrate on managing its assets effectively, as well as pursuing opportunities, both organic and by acquisition, to help it return to top line growth.

I am encouraged by the robustness of our retail drycleaning business, and by the growth prospects of Stalbridge, CCM and JWS. I have already referred to the unsatisfactory performance of Connacht Court, where further steps have been taken to improve performance. Johnsons Apparelmaster is a challenge, but I am confident that the new management team will re-establish the business on a growth path.



John Hancox
Chairman
4 March 2003

CHIEF EXECUTIVE'S REVIEW OF OPERATIONS

I joined the Group in June 2002 and since then have devoted my time to a comprehensive review of its businesses and prospects, and beginning implementation of a number of initiatives. We have a range of important strengths not least of which are our leading market positions, well-known brands and a number of excellent people within the Group. Nevertheless it became clear during this period that there were critical skill gaps in a number of areas, and that the Group had failed to derive full benefit from two major acquisitions in recent years, Connacht Court in Ireland and Semara. Following identification of the problems, the actions taken so far have been concentrated on getting the right people into the right positions, with the capability and determination to implement collectively strategies that will achieve growth in shareholder value, from a solid base of performance-focused culture.

PEOPLE AND CULTURE

Any support services company is, by definition, 'a people business'. I believe that the Company had given insufficient attention to the needs and potential of its own employees, and in many areas it had also failed to recognise and respond to the changing requirements of customers. In consequence, our business loss rate was unacceptably high and new sales were significantly short of our target. This needed to be addressed immediately. A further major priority has been to develop a new, people-focused culture in all divisions, in which management and employees are consulted and know that their opinions will be valued. Loyalty and enterprise will now be recognised. We are building a Group in which staff at all levels are ultimately to be incentivised and rewarded through a combination of performance related schemes, in which their interests are totally aligned with the provision of both outstanding customer service and increasing shareholder value. This will reflect both the short and long term values that we intend to identify, create and deliver. The process has started and will roll out over the next 12 months.

Customers, too, will be consulted on a more regular and structured basis, to ensure that we are meeting their constantly evolving needs. This is a process that has been neglected, and one that we are especially keen to put right. Our drycleaning business has already begun to recognise this, through the rationalisation of its shop network and the opening of new branches in highly convenient locations, whether they be drive-ins, retail parks or within supermarkets. In the coming months, we shall also be ensuring that our textile rental operations are properly structured to meet the needs of an evolving economy where the traditional heavy

"The fundamentals of our business are once again strong, and initiatives have been taken to identify areas with potential for profitable growth. What we are building today must be able to stand the test of time from every perspective."

ABOVE: DAVID TOON & DAVID BRYANT
BELOW: KEVIN MAYES & SHAUN MASON

CHIEF EXECUTIVE'S REVIEW OF OPERATIONS

manufacturing base has shrunk dramatically, but new growth areas have developed in the hospitality industry, food and other service sectors. We will ensure that our services offer is adapted and constantly re-tuned to meet the ever-changing needs of this twenty-first century customer base, through a reduced emphasis on traditional workwear rental and a growing focus on the sale and laundering of all forms of corporate wear. As a first important stage in this strategy Johnsons "Masterplan", our new branded offering, was launched nationally on 1 March 2003.

At the centre, we have also acted rapidly to close the gaps identified in our finance, purchasing and administrative functions. These are now filled and are operating very effectively under the leadership of CFO Mike Sutton. Paul Davis and John Johnstone have been recruited to strengthen the Group's finance team bringing with them incremental skills from global businesses. Our management information systems are already much improved. This process will continue to evolve and be supported by action already taken in the IT area to increase our server capacity. I anticipate, too, further progress as all our head office departments are comprehensively reviewed and overhauled in the months ahead, and propose to report further on this in our interim results statement. Whilst we shall be centrally strengthened initially, our goal of a smaller centre remains to be fulfilled as the operating companies mature, leading to effective self-sufficiency.

We have also made important senior appointments with the recruitment of Simon Moate as Director - Corporate Strategy, to support me in both the evolution and implementation of each identified initiative, and Christine Jenkins who was promoted to Director of Human Resources, a key position within a people company and previously unfilled.

DIVISIONAL STRATEGY AND PERFORMANCE

Our two core activities are both essentially concerned with textile aftercare. We have appointed and confirmed the senior management who are to manage them, and provided them with an appropriate infrastructure; in this Review the managing directors each report on the progress of their own business to date.

The key performance areas requiring immediate action on my appointment were textile rental in both the UK and Ireland, and washroom services. Significant management and structural changes have already been made in each of these areas. Textile rental had been underperforming from various perspectives for a considerable time. Whilst early actions are under way, market conditions are against us and the launch of "Masterplan" is designed clearly to address this. Our drycleaning business requires new revenue streams and with the operational and marketing focused infrastructure now in place, I believe that it is well positioned to deliver improved performance.

CHIEF EXECUTIVE'S REVIEW OF OPERATIONS

Johnsons Apparelmaster This business is the UK market leader in the laundering and rental of workplace clothing. It immediately became clear to me that the major Semara acquisition had not been properly integrated, and that the sales, service and profitability had suffered severe strain as a result. To address these issues, a number of management changes were made. David Toon was promoted from within the Group to become Managing Director of Johnsons Apparelmaster, Nick Tree was recruited externally as Director, Sales & Customer Service, the former regional structure was abolished and Chris Sander was promoted to the new position of National Operations Director.

David Toon writes: Despite the cushion afforded by our contractual structure and an acquisition in 2001 Johnsons Apparelmaster turnover, excluding acquisitions, was 5.3% lower than in the previous year. This net reduction includes business lost on annualised basis of some £7.7m in 2002.

The serious decline in sales and customer retention reflected not only the difficult economic environment resulting in the contraction of our established customer base, but also the failure to win new business which had a major impact. We have moved swiftly to address the issues we identified as the cause of this. The national sales team has been completely reorganised and redirected under the new Sales & Customer Service Director, with a clear and unified reporting structure. In addition, our national call centre has for the first time been integrated and co-ordinated with the activities of the field sales force, with IT support.

Further new initiatives designed to modernise our product and service offering, and to ensure that it is attuned to our customers' requirements, are currently being launched under the "Masterplan" brand. This will be supported by appropriate investment in new technology and marketing, to which inadequate attention has been paid in recent years.

Operational performance needs to improve and, with support from our new Chief Executive and the Johnsons Apparelmaster senior management team, we shall strengthen our processing capabilities, simultaneously reviewing our logistics and support methodology, which was not carried through following the Semara acquisition. This will provide us with potential to improve upon our efficiencies and service delivery consistency, while assisting the creation of a more cohesive national brand and company culture. It will also entail streamlining our production facilities and improving their efficiencies, with capital expenditure where appropriate. Operations will be run on a national basis, led by Chris Sander who has many years of experience in our business.

The objectives of these changes are clear. We wish for the future to return the business both to organic sales growth, and to improved profitability.

CHIEF EXECUTIVE'S REVIEW OF OPERATIONS

Stalbridge Linen Services is the UK market leader in premium linen hire for the leisure, professional catering and corporate entertainment sectors, including the growing market for chef's wear and hospitality, and has an excellent track record. During the year it again achieved sales progress, reflecting its expansion to operate nationwide from five locations across the UK. From a strong Southern base, it has grown into the Midlands and further onwards into Scotland, creating a truly national brand and the market leadership that we seek. A bolt-on acquisition took place at the end of 2002 that will both consolidate and complete our UK coverage.

CCM This is a successful business, acquired with Semara, traditionally involved in garment manufacturing but with substantial scope for development in sourcing and added-value services. Kevin Mayes, who was promoted to the role of Managing Director in November, writes: *The company made good progress in the second half, broadening our product and service range and further progressing our strategic decision to move away from UK manufacturing to new supply lines in the Far East. An important contract was secured with Arco, the United Kingdom's leading supplier of safety clothing and equipment maintenance products, to procure, store, decorate and distribute both work and casual wear. Valued at £30m over five years, this project involved specifying, building and fitting out a new 30,000 sq ft garment distribution centre in Lancashire.*

JWS Our washroom services division continued to build critical mass in line with our previously announced objectives. Profitability, however, remained an issue. Once break-even was reached during the third quarter, the company was required to increase its performance over a much shorter period and, by the year-end, to be both self-sufficient and profitable in line with Group projections.

Shaun Mason, Managing Director, writes: *We reached break-even point and made an operating profit for the year, ahead of schedule, in line with the Group's new strategic objectives and understanding of our business. National coverage was achieved through two further bolt-on acquisitions, and the potential, long promised, began to be realised. Customer retention rates were well over 90%, and we extended our product range to reflect increased demand.*

The year also saw an expanded sales team with IT support, and the launch of new sales literature. A notable success was the contractual award for the 2002 Commonwealth Games in Manchester. The next steps for the business are to improve profitability and to complete our comprehensive geographical coverage.

Connacht Court Group As the Chairman has stated, the performance of our business in Ireland was again unacceptable;

CHIEF EXECUTIVE'S REVIEW OF OPERATIONS

indeed, it has produced consistently worsening returns since its acquisition in 1998. Adjusted operating profit for the year declined to nil (2001: £1.5m) on turnover of £17.9m (2001: £18.4m). Yet the business is a market leader, with a strong and loyal customer base, and clear potential to achieve improved returns.

We have transferred the control of the workwear business in Northern Ireland to Johnsons Apparelmaster, where it can be more effectively managed. Dublin, Galway and Spiddal in the Republic of Ireland have a materially different set of problems, rooted in failed integration and central neglect. Following the changes to senior management referred to in the interim report the newly empowered and incentivised team are now addressing their market place in a much more decentralised and entrepreneurial fashion, reporting directly to me. New management information systems have been introduced, with appropriate IT support.

Historically, the company's strengths lay in linen hire and laundry and we have reverted to these in response to market demands, as well as continuing to focus on our textile rental business. JWS, CCM and Apparelmaster will also provide support to their hitherto neglected sister company where appropriate.

The new team in Ireland have responded to this opportunity with enthusiasm, and clear targets and expectations have been set to return the business to an acceptable level of performance. The longer term future of this business will be continually reviewed in the light of the progress they are able to achieve.

Johnsons Cleaners We are the market leader in drycleaning in the UK, yet with limited exposure to the most populous regions of the South East, including London. This alone affords significant potential for growth as we need to achieve true national coverage and market penetration, simultaneously enhancing the convenience, quality and availability of our brand. A number of marketing initiatives have been identified and these will be built upon either internally or within partnerships, as appropriate. The company needed a comprehensive review of its internal management structure, and this has been provided by the centre. Potential new revenue streams continue to be identified and worked with and, once these are permanently in place, will allow us to build upon a solid and sophisticated retail platform.

Managing Director David Bryant writes: *Turnover remained flat for the year at £71.6m as we reduced the total number of outlets, underperforming branches were closed and a smaller number of higher profile units in more convenient locations were opened.*

The key development for Johnsons Cleaners in 2002 was the creation of a new management structure that provided the energy, strong determination and capable resources needed to drive the business forward, and ensure that we are equipped to meet the

CHIEF EXECUTIVE'S REVIEW OF OPERATIONS

challenges and realise the opportunities before us. Paul Ogle was appointed Commercial Director and Ruth Wood Finance Director, both through internal promotion, giving us a much more conventional infrastructure. This, combined with total Group support, has enabled us to free our line management to run their businesses more responsively and ultimately with greater accountability. An improved and interactive IT infrastructure has also helped to provide financial information more speedily and more widely.

The strategic review process commenced during the latter part of the year identified a number of critical issues and new initiatives. Progress has already been made in removing some traditional barriers to allow new revenue streams to be developed and an enhanced business model delivered from the platform of our existing core activity. Central resources have also been made available and this will greatly assist us in both ensuring that we remain the nation's number one drycleaner, and in proactively strengthening our position and offering to our customers.

The "Cleanology" initiative, which involves advanced skills training for branch staff to enhance stain removal using ultra-sonic technology, has been rolled out to in excess of 300 units. We have also improved customer service by opening a new and highly skilled central customer service department in Rugby, alongside our technical centre, which in turn will become a commercial centre of excellence.

New drive-in branches were opened during the year in Rhyl, Leeds, Preston, Stourbridge and Liverpool. We also opened a new branch in Lincoln and in the commercial centre of Leeds, utilising the very latest environmentally friendly drycleaning solvent, which has been well received.

Johnsons Cleaners now has a clear focus and vision, which will enable us to move the business forward in a manner that is responsible, proactive and of the highest quality.

THE COMMUNITY AND THE ENVIRONMENT

In recent times there has been increasing emphasis on corporate social responsibility ("CSR") - the responsibility a Company has to its customers, employees, the community and the environment. Today being a 'Good Corporate Citizen' is an essential component of a company's sustainable business model.

The ideal is to embed CSR into the way in which the company conducts its business, by establishing common purpose and values. We recognise that this cannot be done all at once in every aspect of our Group and we view it as a series of steps moving through from a basic level of CSR to a more sophisticated approach. We already have some aspects of our CSR approach in place and senior management is committed to building on these foundations.

CHIEF EXECUTIVE'S REVIEW OF OPERATIONS

Health, safety and environmental matters On 1 September 2002 David Bryant, a Johnson Service Group PLC Director, was nominated as having Group responsibility for such matters and reports to the Board at each of its regular meetings.

A Group Environmental Committee has been established to consider the risks presented by environmental matters and to implement plans to clean up contaminated sites and to prevent future contamination. We are continuing the introduction of procedures to ensure that all our textile rental plants comply with ISO 14001 European Environmental Management Systems Standard. Approximately 50% of the Johnsons Apparelmaster plants are currently compliant and we anticipate all plants achieving compliance by the third quarter of 2003, before rolling the procedures out at Stalbridge facilities.

The community By promoting the return and reuse of hangers, Johnsons Cleaners is not only helping the environment but is also helping the community. As a result of the programme, over £19,000 was donated to Macmillan Cancer Relief in 2002. Our Bootle facility has been recognised by The Greater Merseyside Consortium for its involvement with young people through the Education Business Link programme. Johnson Group Cleaners Charity supports local registered charities.

THE FUTURE

Johnson Service Group has a unique heritage, with a history stretching back to the eighteenth century. My task is to ensure that it has an equally interesting future. The initiatives we have taken so far have been designed to address past failure to integrate acquisitions, and to identify areas with the potential for profitable growth along our present core activity baselines. What we are building today must be able to stand the test of time from every perspective. When we acquire next I shall ensure we are able to integrate.

In many cases activity over the last few months has led to the acceleration of strategic initiatives already in place; in other areas it has required a re-evaluation of our strengths and weaknesses, coupled to our objectives, and the further formulation of new plans to take our business forward. There have been difficulties with this approach as we have been on unfamiliar ground to many, though I firmly believe today that our management team is together and working in one direction, with a genuine commitment to long term success.

Throughout the Group, the most important achievements of 2002 have been putting in place the right management structure and the right people, all of whom have considerable capability and capacity to ensure the delivery of our strategy; and creating an open and positive culture that puts people first, and ensures their

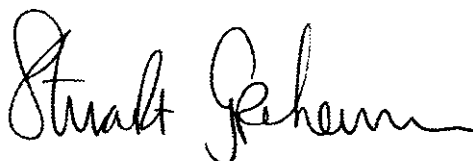
CHIEF EXECUTIVE'S REVIEW OF OPERATIONS

empowerment and motivation. 2003 will build from this foundation and we believe that the "Masterplan" initiative is a national first to market opportunity.

Central sourcing and purchasing initiatives are already bearing fruit and new long term strategic partnerships will be both exciting and have real benefits for Johnsons Apparelmaster and eventually all of our businesses. Additionally I believe there is much to be gained from relatively modest investment in the Group's operating and IT infrastructure.

Much remains to be done, but I feel confident that the fundamentals of our business are once again strong. The market for workplace support services and textile aftercare is growing, and the continuing trend towards outsourcing across the economy can only enhance this potential. We believe that a well-managed and efficiently structured business with a best-in-class product offering will enjoy a strong platform returning in due course to organic growth, and that there will be simultaneous potential for us to expand our existing core activities into complementary service areas that are compatible with the skills and culture of the Johnson Service Group, either by acquisition or organically.

I should especially like to thank my colleagues and our shareholders for their patience during what has clearly been a difficult period and I look forward to a successful long term future together.



Stuart Graham
Chief Executive
4 March 2003

FINANCIAL REVIEW

Results

As noted in the Chairman's Statement, the results for 2002 have been affected by one-off costs and increased pension costs.

The basis of the segmental analysis has been amended to reflect revised management responsibilities and Northern Ireland is therefore now included within UK textile rental. The segmental information for 2001 has been restated accordingly.

Taxation

The effective rate of taxation excluding goodwill amortisation and exceptional items was 27.6% (2001: 27.4%). The current tax charge has been affected by adjustments to taxation in respect of prior periods (see note 11).

Capital expenditure

Expenditure on assets was at a similar level to 2001 at £8.3m (2001: £8.1m). We are currently reviewing the method of financing asset purchases.

Investment in new rental stocks was reduced to £21.2m (2001: £24.1m) reflecting increased operational efforts and the disposal of the linen business.

Cash flow and borrowings

Net debt at December 2002 was reduced to £61.9m (2001: £77.0m) reflecting the continued strong cash flow from operations. Gearing (based on net assets excluding goodwill) was reduced from 269% to 220%. Although both the UK textile rental and GB drycleaning businesses are cash generative the lower level of capital expenditure required to support the drycleaning business results in a proportionately higher level of cash generation.

Approximately one third of the Group's cash flow from operating activities is absorbed by capital expenditure, largely in respect of the UK textile rental business.

Capital structure and treasury policy

Bank facilities are well in excess of funding requirements with borrowings provided by a medium-term committed multi-option facility.

Policies and strategies

The Group's financial instruments comprise borrowings, cash and various items such as trade debtors, trade creditors and provisions that arise directly from its operations. The main purpose of these financial instruments is to raise finance for Group operations.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. A Board Committee reviews and agrees policies for managing each of these risks and they are summarised below. The policies which are designed to mitigate the impact of fluctuations in interest and exchange rates are unchanged from previous years.

Turnover by business segment

	59%
	33%
	8%
£m	
129.7	UK TEXTILE RENTAL
71.6	GB DRYCLEANING
17.9	IR TEXTILE RENTAL

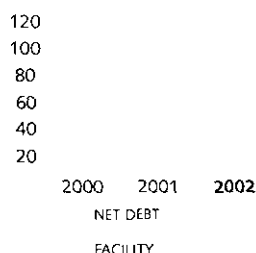
Dividend and adjusted EPS

		30.2	26.6
2001	17.6	17.6	
2002			
	DIVIDEND	EPS	

FINANCIAL REVIEW

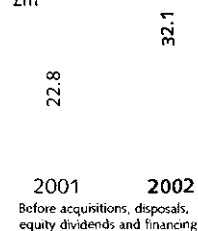
Net debt and banking facilities

£m



Free cash flow

£m



Before acquisitions, disposals, equity dividends and financing

Interest rate risk The Group finances its operations through a mixture of retained profit, bank borrowings and finance lease arrangements. The Group borrows in appropriate currencies at both fixed and floating rates of interest and has hedging products in place to provide fixed rate interest payments over a specified period. Whilst this means that the Group does not currently derive full benefit from lower market interest rates, there is an advantage to being able to forecast borrowings costs with a degree of certainty. At December 2002 a significant proportion of the Group's borrowings was at fixed rates.

Interest cover remains strong and is covered five times by adjusted operating profit.

As required by FRS13 the fair value of the interest rate risk hedges has been disclosed in note 32.

Liquidity risk The Group's policy on liquidity is to ensure that it has a committed borrowings facility available, for the period to January 2005, to provide continuity of funding. The current facility, which is of the multi-option type, includes an overdraft facility to allow short-term flexibility. Additional facilities to fund acquisitions are negotiated when required.

Foreign currency risk The Group has one significant overseas investment, Connacht Court Group Limited, which operates in the Republic of Ireland and whose revenues and expenses are denominated in Euro. In order to protect the Group's Sterling balance sheet from the movements in the Euro/Sterling exchange rate, the Group finances the majority of its net investment in this subsidiary by means of Euro borrowings.

No transactional foreign currency hedges are performed by the Group's subsidiaries.

Details of the numerical results of the above policies are disclosed in note 32 to the financial statements.

Changes in accounting policy FRS19, Deferred Taxation, has been introduced and in accordance with the requirements of the standard, the prior year has been restated.

The effects of the prior year adjustment are summarised in note 2.

Accounting standards There has been a change in the transitional rules regarding the implementation of FRS17, Retirement Benefits. In accordance with these transitional rules the Group has given the additional disclosures required but has not implemented the standard fully. Had the net position of the post retirement benefits been included in the balance sheet at 28th December 2002, net assets would have decreased by £24.2m (2001: increased by £2.2m).

Pension schemes – Comparison of valuation bases

As with most companies, the recent decline in the UK stock market and longer life expectancy has had an impact on the level of the surplus/deficit in the Group's pension funds and also on the level of funding which the Company is required to provide.

FINANCIAL REVIEW

The Group currently accounts for pension costs under SSAP 24. To provide clarity and assist in the understanding of our pension arrangements, the graph opposite summarises the balance sheet positions for the main UK pension funds under the existing pension accounting standard, SSAP 24 and the new standard FRS 17.

Actuarial valuations of the Johnson Group Staff Pension Scheme and the Johnson Group Retirement Plan were performed at 5th April 2002 and details of the actuarial position at that date have also been included.

It is important to note that FRS 17, which is planned to be fully implemented in 2005, takes a snap shot of the pension position at a particular point in time and consequently the declining stock market of the last 12 months, has contributed to turning the net asset as measured under FRS 17, of £6.7 million at December 2001 in to a net liability of £18.7 million at December 2002. The actuarial position, however, which is the basis of funding decisions and takes a longer term view, shows the net deficit at 5th April 2002 was £0.5 million.

As a consequence of the actuarial valuation in April 2002, with effect from 1st July 2002, the Company has discontinued the pension contribution holiday with respect to the Johnson Group Staff Pension Scheme and increased the level of contributions to the money purchase part of the Johnson Group Retirement Plan. This has resulted in additional cash outflow of £1.5 million in the second half of 2002.

As a result of the actuarial valuation the increase in SSAP 24 cost with effect from 1st July 2002, was £1.6 million.

Given the level of the actuarial deficit, the Directors do not believe the situation gives rise to significant concern. However a review of current pension arrangements is ongoing, which the Directors believe will reduce the costs to the Group. Pending the results of this review the Group is continuing to contribute to the pension schemes and record SSAP 24 expense in line with those levels in the second half of 2002.

Going concern

After due consideration the Directors confirm that they 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 Group's financial statements.



Mike Sutton
Chief Financial Officer
4 March 2003

Main UK pension funds - net position

£m	
10	
5	
0	
-5	
-10	
-15	
-20	
2001	2002
ACTUARIAL*	FRS 17
SSAP 24	*Actuarial valuation at 5/4/2002

Financial Calendar

Results for the year
announced in March

Annual General Meeting
to be held on
24th April 2003

Results for the half year
announced in August

Dividend payment dates:
Ordinary shares
Interim
11th October 2002
Final
1st May 2003

DIRECTORS' AND OFFICERS' BIOGRAPHIES

Left to right - Michael Gatenby, David Bryant, John Hancox, Yvonne Monaghan, Stuart Graham, Mike Sutton and Simon Sherrard.

John Hancox - *Non-Executive Chairman (62)* joined the Board as a Non-Executive Director in 1991 and was appointed Non-Executive Chairman in June 1997. He holds a number of other Non-Executive Directorships including Gartmore Fledgling Index Trust PLC, Lowland Investment Co PLC and Martin Currie Enhanced Income Trust PLC.

Stuart Graham - *CEO (48)* joined the Group as Chief Executive in June 2002. Previously he was Group Chief Operating Officer of ISS, one of the world's largest facility services providers, which he had joined in 1990. Prior to joining ISS he worked with Lonrho and subsequently Brengreen and BET PLC.

Mike Sutton - *CFO (52)* joined the Company as Group Management Accountant in 1979 and was Group Secretary and Chief Accountant from 1983 to 1985. He was appointed to the Board, as Finance Director, in September 1985.

David Bryant - *Managing Director of Johnsons Cleaners (56)* joined the Group in 1969 and has subsequently held a number of senior management positions. He was appointed to the Board in November 1994 and as Managing Director of Johnsons Cleaners in January 1995.

Simon Sherrard - *Senior Non-Executive Director (55)* joined the Board as a Non-Executive Director in January 2000. He is the Chairman of the Port of London Authority and Bibby Line Group Limited. He holds a number of other Non-Executive Directorships.

Michael Gatenby - *Non-Executive Director (58)* joined the Board as a Non-Executive Director in September 2002. He is a qualified Chartered Accountant and was Vice Chairman of Charterhouse Bank from 1989-1995. He currently holds a number of other Non-Executive Directorships.

Yvonne Monaghan - *Company Secretary and Financial Controller (44)* joined the Company as Group Management Accountant in 1984. She was appointed as Company Secretary and Financial Controller in 1985.

DIRECTORS AND ADVISORS

DIRECTORS

John Philip Dale Hancox, MA, FCA
Non-Executive Chairman
Chairman of Nomination Committee
Member of Audit Committee
Member of Remuneration Committee

Stuart William Graham
 CEO
Member of Nomination Committee

Michael Alan Sutton, BA, FCA
 CFO

David Bryant
Managing Director - Johnsons Cleaners
Board member responsible for Health, Safety and Environment

Simon Patrick Sherrard
Non-Executive
Senior Independent Director
Chairman of Remuneration Committee
Member of Nomination Committee
Member of Audit Committee

Michael Richard Brock Gatenby, FCA
Non-Executive
Chairman of Audit Committee
Member of Remuneration Committee
Member of Nomination Committee

COMPANY SECRETARY AND FINANCIAL CONTROLLER

Yvonne May Monaghan, BSc, FCA

REGISTERED OFFICE

Mildmay Road
 Bootle
 Merseyside L20 5EW
 Telephone 0151 933 6161
www.johnsonplc.com

PRINCIPAL BANKERS

The Royal Bank of Scotland plc
 1 Exchange Flags
 Liverpool L3 3XN

MERCHANT BANKERS

UBS Warburg
 Corporate Finance Division
 2 Finsbury Avenue
 London EC2M 2PA

SOLICITORS

Allen & Overy
 One New Change
 London EC4M 9QQ

AUDITORS

PricewaterhouseCoopers LLP
 8 Princes Parade
 St Nicholas Place
 Liverpool L3 1QJ

STOCKBROKERS

Cazenove & Co. Ltd
 12 Tokenhouse Yard
 London EC2R 7AN

REGISTRAR AND TRANSFER OFFICE

Capita Registrars
 The Registry
 34 Beckenham Road
 Beckenham
 Kent BR3 4TU

FIVE YEAR RECORD

	1998	1999	2000	2001	2002
TURNOVER (£m)	198.4	172.5	220.4	220.4	219.2
OPERATING PROFIT (adjusted) (£m)	24.4	26.1	27.8	29.4	26.3
PROFIT BEFORE TAX (adjusted) (£m)	23.0	25.6	22.6	23.7	21.0
EARNINGS PER SHARE (adjusted)	28.5p	31.9p	27.6p	30.2p	26.6p
INCREASE YEAR ON YEAR	13.5%	11.9%	(13.5%)	9.4%	(11.9%)
DIVIDEND PER ORDINARY SHARE	14.3p	15.9p	17.1p	17.6p	17.6p
INCREASE YEAR ON YEAR	13.5%	11.2%	7.5%	2.9%	0.0%
GEARING	44%	4%	400%	269%	220%
SHAREHOLDERS' FUNDS (£m)	89.0	99.5	104.0	107.3	107.5

Adjusted operating profit, adjusted profit before tax and adjusted earnings per share exclude goodwill amortisation and exceptional items. The disclosure of 2000 and 2001 reorganisation costs of £5.6 million and £4.3 million respectively have been amended and are no longer disclosed separately but are included within operating profit before goodwill amortisation. In previous years reorganisation costs were treated as an exceptional charge against operating profit and disclosed separately. Such costs were also excluded in the calculation of adjusted earnings per share. Adjusted operating profit, adjusted profit before tax and adjusted earnings per share have been restated in 2000 and 2001 to reflect the revised disclosure.

Adjusted earnings per share figures are shown on a fully diluted basis.

Profit, earnings per share and Shareholders' funds for 1998 have been restated in accordance with the provisions of FRS12. Profit, earnings per share and Shareholders' funds for 2001 have been restated in accordance with the provisions of FRS19. Earlier years have not been restated.

CORPORATE GOVERNANCE

The Board has reviewed its Corporate Governance procedures, as required by the UK Listing Authority, to comply with Section 1 of the Combined Code, and to enable it to make a statement on the appliance of the principles set out therein.

COMPLIANCE

The Group has complied with the provisions of Section 1 of the Combined Code throughout the period other than the provisions for the length of Executive Directors' service contracts, composition of the Audit Committee and the recognition of a senior independent Non-Executive Director. Details of service contracts are given in the Board Report on Remuneration on page 23. For the period from 1st June 2002 to 11th September 2002, the Company only had two Non-Executive Directors who comprised the Audit Committee. With effect from 18th February 2003, the Board has recognised Mr. S. P. Sherrard as the Senior Independent Director.

The Company's compliance with the Code has been reviewed by the Auditors to the extent specified by the UK Listing Authority and their report is given on page 50.

APPLIANCE

The Board meets regularly and, in addition to routine reporting of both financial and operational matters, determines the strategic direction of the Group. The Board receives information appropriate in quality and timeliness, in an agreed format, for each Board meeting. The Board has a formal schedule of matters specifically reserved for its decision which can only be amended by the Board itself.

There is a clear division of responsibility between the Chairman and CEO, each of which has clearly defined roles.

The Board consists of three Executive Directors and three Non-Executive Directors. The Non-Executive Directors are a strong and independent element within the Board with their views carrying significant weight in its decisions. All Directors are subject to re-election, by rotation, at the Annual General Meeting.

The Committees of the Board are the Audit Committee and Remuneration Committee, each consisting wholly of the Non-Executive Directors, and the Nomination Committee consisting of the Non-Executive Directors and the CEO. Board appointments are subject to approval by the Board as a whole. Members of the Committees are shown on page 17.

The Company has an active investor relations programme with the CEO and the CFO meeting key institutions, both Shareholders and prospective Shareholders, in the periods following the announcement of annual and interim results and at other appropriate times during the year.

The Board welcomes private and institutional Shareholders to the Annual General Meeting to discuss appropriate topics.

The Board considers that the Preliminary Announcement, Annual Report including the Chairman's Statement and Operating and Financial Reviews which are contained therein, and Interim Report, present a balanced and clear assessment of the Group's position and prospects. The work undertaken by the Audit Committee, with its written terms of reference, supported by both an internal audit function and the external auditors, helps to enable the Board to make the statements relating to internal control below and the going concern basis on page 15.

The Board Report on Remuneration is given on pages 22 to 26.

INTERNAL CONTROL

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

There is an on-going process for identifying, evaluating and managing the Group's significant risks that has been in place throughout the year ended 28th December 2002 and up to the date of approval of the financial statements. This process has been regularly reviewed by the Board and accords with the internal control guidance for directors of the Combined Code.

The Audit Committee receives reports setting out key performance and risk indicators and considers possible control issues brought to its attention by early warning mechanisms which are embedded within the operational units and reinforced by risk awareness training. The Audit Committee also receives regular reports from the internal audit function and, where appropriate, recommendations for improvement are considered. The Audit Committee's role in this area is confined to a high level review of the arrangements for internal control.

The Board's agenda includes a bi-annual consideration of risk and control and it receives reports thereon from the Audit Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. The main features of the internal financial control framework are detailed below.

FINANCIAL REPORTING

The Board reviews the strategies of the Group and of the subsidiary undertakings. There is a detailed budgeting system with an annual budget approved by the Board. Monthly trading results and indebtedness are reported against the corresponding figures for the budget and the previous year with corrective action initiated by the Board as appropriate.

TREASURY MANAGEMENT

The Group's treasury activities are operated within Board-approved guidelines. Facilities are approved by the Board and all transactions are controlled and monitored. Frequent reports are made to the CFO and monthly summaries are prepared for the Board. Speculative transactions are not undertaken.

CORPORATE GOVERNANCE

RISK MANAGEMENT

The identification of major business risks is carried out in conjunction with operating management and reviewed by the Audit Committee and the Board. The Board assesses the financial implications and effectiveness of the control process in place to mitigate or eliminate these risks. The Group has insurance cover where it is considered appropriate and cost effective.

FINANCIAL CONTROL

Each business maintains financial controls and procedures appropriate to its own operating environment.

The Group has a centralised internal audit function, based at Head office, which reviews the systems and procedures in all operating companies and reports regularly to the Audit Committee.

The Group has clearly defined guidelines for the review and approval of capital expenditure projects. These include annual budgets and designated levels of authority.

INTEGRITY OF PERSONNEL

The Group has a written code of business ethics which sets out guidelines for all staff to enable the Group to meet the highest standards of conduct in business dealings. Senior employees are required to sign an annual statement of compliance with the code.

ENVIRONMENTAL MATTERS

The Board is aware of its responsibilities with regard to the environment, receives regular reports on all environmental matters and has nominated an Executive Director responsible for such matters.

Potential areas of risk are identified through the Group's risk assessment programme and mitigated wherever possible. A Group Environmental Committee has been established to consider the risks presented by environmental matters and to develop and implement plans to clean up contaminated sites and to prevent future contamination. A working party monitors environmental performance and assists with the education of employees. Operating locations are subject to comprehensive, quantitative audits which enable a measure of environmental improvement to be made. The Group keeps under review the advances made in technology and the requirements of relevant regulations.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

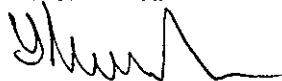
The Directors confirm that suitable accounting policies have been used and applied consistently, with the exception of the changes arising on the adoption of new accounting standards in the year as explained in the Statement of Accounting Policies on page 31. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 28th December 2002 and that financial reporting and applicable accounting standards have been followed.

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

The maintenance and integrity of the Johnson Service Group PLC website is the responsibility of the Directors. The work carried out by the Auditors does not involve consideration of these matters and accordingly, the Auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By Order of the Board



Yvonne M. Monaghan
Secretary
4th March 2003

DIRECTORS' REPORT

The Directors present their annual report and the audited Group financial statements for the 52 weeks ended 28th December 2002.

ACTIVITIES AND BUSINESS REVIEW

The Group is engaged principally in the rental and laundering of workwear, roller towels, corporate apparel and dust mats, nationwide in Great Britain and Ireland. The Group's business also incorporates garment sourcing and manufacturing and the provision of washroom hygiene services, retail and commercial drycleaning and other associated support services to the workplace in Great Britain.

A summary of the Group's performance and future development is set out in the Chairman's Statement and the Operating and Financial Reviews on pages 2 to 15.

RESULTS AND DIVIDENDS

The Group profit for the year after taxation amounted to £9.2 million (2001: £12.8 million).

The Directors recommend the following appropriations by way of dividends:

Ordinary shares at 17.6p per share	£m 10.0
------------------------------------	------------

The dividend on the Ordinary shares comprises an interim dividend of 4.0p (2001: 4.0p) per share and a proposed final dividend of 13.6p (2001: 13.6p) per share.

SHARE CAPITAL

Details of the shares issued during the year and the outstanding options are given in note 25 to the financial statements.

TANGIBLE FIXED ASSETS

The Directors are of the opinion that the difference between the market value and book value of the Group's land and buildings is not significant.

DIRECTORS

A list of the Directors of the Company is shown on page 17. They all held office throughout the year with the exception of Mr. S. W. Graham and Mr. M. R. B. Gatenby who were appointed on 1st June 2002 and 11th September 2002 respectively. Mr. R. G. F. Zerny and Mr. P. M. Robinson held office until their retirement from the Board on 30th April 2002 and 25th November 2002 respectively. Mr. A. B. Davidson also held office until his resignation from the Board on 31st May 2002. Mr. J. P. D. Hancox, Mr. S. P. Sherrard and Mr. D. Bryant now retire by rotation and, being eligible, offer themselves for re-election. Mr. Graham and Mr. Gatenby retire under the provisions of the articles of association and, being eligible, offer themselves for re-election.

DIRECTORS' INTERESTS

- SHARE CAPITAL

The interests of the Directors who were in office at 28th December 2002, together with the interests of their families, in the shares of the Company at the commencement, or date of appointment if later, and close of the financial year are disclosed in the Board Report on Remuneration on pages 24 and 25.

Details of the Company's interest in its own shares are disclosed in note 18 to the financial statements.

- CONTRACTS

None of the Directors have any material interests in contracts of the Company or the Group.

MAJOR INTERESTS IN THE COMPANY'S SHARE CAPITAL

At 4th March 2003 the Company had been advised, under Sections 198 to 208 of the Companies Act 1985 (as amended), of the following interests, of a material nature, in its share capital:

	% of Ordinary share capital owned
Aberforth Partners	23.2%
Fidelity Investments	12.0%
Co-Operative Insurance Society Limited	5.3%
Britel Fund Trustees Limited	4.4%
Legal & General Investment Management	4.1%
Britannic Assurance	3.6%
Royal & Sun Alliance Insurance	3.2%
Prudential Plc	3.2%

The Co-Operative Insurance Society Limited and Britel Fund Trustees Limited are limited partners in one of the funds disclosed under Aberforth Partners. Of the shareholding disclosed in respect of Co-Operative Insurance Society Limited 3.4% is also included in the total 23.2% holding of Aberforth Partners. Of the shareholding disclosed in respect of Britel Fund Trustees Limited 4.0% is also included in the total 23.2% holding of Aberforth Partners.

SHAREHOLDERS' AUTHORITY FOR THE PURCHASE BY THE COMPANY OF ITS OWN SHARES

At the Annual General Meeting on 25th April 2002 Shareholders authorised the Company to make market purchases of up to a maximum aggregate of 5,682,526 Ordinary shares. The minimum price allowed for such purchases is 10p and the maximum is 105% of the average of the middle market price of such shares for the five business days prior to purchase. Except for amending the maximum number of shares subject to the authority, the Directors intend to seek renewal, at the forthcoming Annual General Meeting, of this authority which is due to expire at the conclusion of the 2003 Annual General Meeting.

DIRECTORS' REPORT

EMPLOYMENT POLICIES

The employment policies of the Group embody the principles of equal opportunity and are tailored to meet the needs of its different businesses and the local areas in which they operate. All senior managers undergo diversity training. The involvement of employees in the performance of the business is encouraged and efforts are made to give all employees an understanding of the financial position through periodic Group newsletters. Each operating company is responsible for the development of employee involvement and communication practices which are appropriate to its own particular needs. An approved Savings Related Share Option Scheme has been in operation for eligible employees since 1987.

The Group is committed to providing adequate training for employees at all levels and is constantly reviewing and improving its procedures. Johnsons Apparelmaster Limited holds Investor in People status.

Suitable procedures are in operation to support the Group's policy that disabled persons shall be considered for employment and subsequent training, career development and promotion on the basis of their aptitudes and abilities. Where members of staff become disabled every effort is made to ensure that they are retrained according to their abilities.

HEALTH AND SAFETY

The Board is aware of its responsibilities in all matters relating to the health and safety of employees, customers, visitors to Group premises and others affected by the Group's activities and has nominated Mr. D. Bryant, an Executive Director, as the Director responsible for such matters. A report is produced for and considered at each regular Board Meeting. A working party advises Directors and senior executives on all relevant issues relating to compliance with health and safety legislation. All subsidiaries have clearly defined health and safety policies which follow current best practices. In particular, these policies clearly define the Group's aspirations for health and safety affairs, including protecting the health and well being of its employees and ensuring that the responsibilities of all categories of employees within the Group are communicated.

The policy is brought to the attention of all employees and copies of the policy documents are available upon request to all interested parties.

A clearly defined system is in place to identify, assess and control the significant risks faced by employees and others. This is reviewed regularly both by the subsidiary Boards and by the Group Health & Safety Committee which comprises of all the Group's Health & Safety Managers.

The Group has adopted a computer based health and safety management system which produces a quantified measure of line management control of health and safety. This system provides the basis for setting health and safety targets and driving a process of continuous improvement.

All subsidiaries have arrangements in place to consult employees regarding health and safety matters. There are regular meetings of regional and site based committees comprising of employee representatives and health and safety representatives where appropriate.

CHARITABLE AND POLITICAL DONATIONS

Contributions by the Group to charitable causes during the year totalled £31,824. No donations for political purposes were made during the year.

AUDITORS

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1st January 2003, PricewaterhouseCoopers resigned on 18th February 2003 and the Directors appointed its successor, PricewaterhouseCoopers LLP, as auditors. A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the Annual General Meeting.

POLICY ON PAYMENT TO SUPPLIERS

The Company and its subsidiaries fully support the CBI initiative on payments to suppliers and have continued to apply the Prompt Payment Code in respect of all suppliers. The main features of the Code are that payment terms are agreed at the outset of a transaction and are adhered to; that there is a clear and consistent policy that bills will be paid in accordance with the contract; and that there are no alterations to payment terms without prior agreement. Copies of the Code can be obtained from the CBI. The Company does not have any trade creditors.

NOTICE OF ANNUAL GENERAL MEETING

The Resolutions to be proposed as Special Business at the Annual General Meeting are the renewal of the Directors' authority to allot shares, the disapplication of pre-emption rights, the renewal of the Company's limited authority to purchase its own shares, the approval of a Discretionary Share Option Plan, an amendment to the rules of the Savings Related Share Option Scheme and adoption of new Articles of Association.

By Order of the Board



Yvonne M. Monaghan
Secretary
4th March 2003

Incorporated and registered in England and Wales under Company number 523335

BOARD REPORT ON REMUNERATION

REMUNERATION COMMITTEE

The Remuneration Committee consists of the Non-Executive Directors: Mr. S. P. Sherrard (Chairman), Mr. J. P. D. Hancox, and Mr. M. R. B. Gatenby (appointed 11th September 2002). Mr. A.B. Davidson was a member of the Committee until his resignation from the board on 31st May 2002. None of the members of the Committee have or had any personal financial interests (other than as shareholders), conflicts of interest arising from cross-directorships or day to day involvement in running the business.

During the year the Committee consulted the Chief Executive about his proposals with regard to remuneration and terms of employment of Executive Directors, other than the Chief Executive himself. The Committee has also consulted with Kepler Associates Limited, which has provided advice with regard to the design and implementation of a new share option scheme, the introduction of which is to be proposed to Shareholders at the Annual General Meeting.

REMUNERATION POLICY

Executive Directors' remuneration is designed to attract, motivate and retain executives of the necessary calibre and to reward them for enhancing shareholder value. Total remuneration comprises fixed pay, variable pay and benefits, of which fixed pay currently forms the largest proportion. Remuneration is aligned with Shareholders' interests through an annual bonus scheme which is based on performance related criteria. The board is proposing the introduction of a long term performance based share option scheme which, if approved, will increase the proportion of executive remuneration which is linked to delivering shareholder value.

The current remuneration of Executive Directors comprises the five elements of basic salary, annual bonus, taxable benefits, share options and Long Term Incentive Plan.

BASIC SALARY

A salary which reflects the Remuneration Committee's assessment of the market rate for relevant positions and the individual Director's experience and value to the business. Annual reviews are considered against published information for similar sized Groups and the level of increases awarded to staff throughout the Group.

ANNUAL BONUS

A performance related bonus based on an appropriate combination of objectives linked to the Group's performance in growth of adjusted profit per share, or other criteria at the discretion of the Remuneration Committee. Individual Directors' annual bonuses are based on an appropriate combination of the Group's results, achievement of goals set in relation to the individual's area of responsibility and subsidiary financial results. Performance related bonuses, which are all approved by the Remuneration Committee, are included in remuneration in the year in which they are earned.

TAXABLE BENEFITS

Taxable benefits include the provision of a car or car allowance and private medical insurance.

SHARE OPTIONS

The Executive Share Option Scheme which was available to Executive Directors and other senior executives within the Group reached the end of its life in 1997. The last grant under this Scheme was in April 1996. Executive Directors are also eligible to participate in the Group's Savings Related Share Option Scheme.

In order to attract him to join the Group, Mr. S.W. Graham was awarded options over 273,504 shares at a price of 406p. These options were cancelled on 26th September 2002 and new options over 280,000 shares at 268p were granted on that date. Further details are set out on page 25.

The introduction of a new share option plan for senior management of the Group, including Executive Directors, is to be proposed to Shareholders at the Annual General Meeting.

The plan is designed to align long term incentives provided by the Company for senior employees with the interests of Shareholders. Options will be granted under the plan (which will comprise an Inland Revenue approved plan and an unapproved plan) to Executive Directors and other selected managers in the Group. Executive Directors will not receive awards under any other long term incentive plan.

The principal features of the plan are as follows:

- Grants will normally be made annually up to an individual maximum of two times earnings, though in year one the limit will be three times earnings.
- Vesting of options will normally be subject to stretching performance conditions based on total shareholder return, earnings per share growth and operating profit (depending on the participant's level in the Group).
- Performance will be measured over the three years from the date of grant.
- No retesting of performance will be permitted.

Full details of the plan will be set out in the circular to Shareholders relating to the Annual General Meeting.

LONG TERM INCENTIVE PLAN

A Long Term Incentive Plan was introduced for Executive Directors and other senior executives of the Group in 1997. The rules cannot be amended without Shareholder approval. The last award under the Plan was made in respect of 2000. These awards lapsed on 4th March 2003 due to the failure to meet one of the specified performance criteria relating to the growth in earnings per share over the relevant three year period.

It is the current intention of the Committee not to make any further awards under the Plan.

NON-EXECUTIVE DIRECTORS

Non-Executive Directors receive fees which are set by the Board and which are commensurate with their experience and contribution to the Group. They do not participate in any of the Group's pension, share option or performance related bonus schemes.

BOARD REPORT ON REMUNERATION

SERVICE CONTRACTS

Executive Directors

The Company has reviewed its policy in respect of notice periods for Executive Directors and has established a policy of a twelve month rolling notice period.

Mr. S. W. Graham is employed under a service contract, dated 22nd April 2002, which provides that the Company has to give twelve months' notice and Mr. Graham is required to give six months' notice.

The service contracts of Mr. M. A. Sutton and Mr. D. Bryant, dated 4th April 1997, required both the Company and the Directors to give two years' notice. Mr. R. G. F. Zerny and Mr. P. M. Robinson were, prior to their retirement on 30th April 2002 and 25th November 2002 respectively, also employed on these terms under contracts of the same date.

On 20th December 2002 Mr. Sutton and Mr. Bryant agreed to reduce the notice period on their contracts on a straight line basis over the next year, to a period of 12 months. As compensation for agreeing to this change it was agreed that Mr. Sutton and Mr. Bryant would be granted from that date the right to receive an amount equal to the increase in value of a specific number of the Company's shares. Accordingly, pending the approval of the new share option plan to be proposed at the Annual General Meeting and the grant of unconditional options over 93,750 shares to Mr. Sutton and 70,348 shares to Mr. Bryant, stock appreciation rights (SARs) over the same number of shares were awarded to Mr. Sutton and Mr. Bryant. In respect of the SARs and those referred to on page 24 Mr. Sutton and Mr. Bryant will receive an amount by which the market value of 143,750 and 120,348 shares, respectively, exceeds £416,875 and £349,009 respectively, on the earlier of 30th November 2003, and the date of grant of the options referred to above.

In the event of termination, without cause, the Company has a contractual obligation to compensate the Director for the unexpired period of his notice. The Company will seek to reduce this payment by means of the Director's duty to mitigate this payment wherever possible.

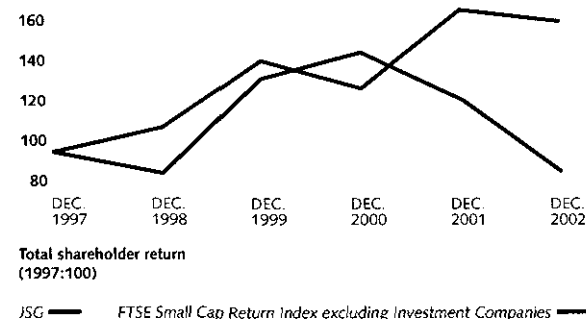
Non-Executive Directors

The Non-Executive Directors have fixed term appointments.

Mr. J. P. D. Hancox has a letter of appointment dated 22nd September 2000, which does not provide for a notice period. At 28th December 2002 the unexpired term relating to this letter was five months. Prior to his resignation, Mr. A. B. Davidson also had a letter of appointment, dated 2nd March 2001, which did not provide for a notice period.

Mr. M. R. B. Gatenby and Mr. S. P. Sherrard have letters of appointment dated 19th December 2002. These letters require the Company to provide three months' notice and the Director is expected to provide at least one months' notice. At 28th December 2002 the unexpired term of Mr. Gatenby's letter of appointment was two years and nine months. Mr. Sherrard's term, which expired on 3rd January 2003, was renewed for a three year period from that date.

PERFORMANCE GRAPH



Over the last five years the Group has outperformed the FTSE Small Cap Return Index excluding Investment Companies to give a total shareholder return of 66% against a negative return of 9% for the Index.

In the opinion of the Directors, the FTSE Small Cap Return Index excluding Investment Companies is the most appropriate index against which the total shareholder return of the Group should be measured because it is an index of similar sized companies.

DIRECTORS' REMUNERATION

	Basic Salary/Fees £000	Annual Bonus £000	Taxable Benefits £000	Compensation for loss of office £000	Total 2002 £000	Total 2001 £000
EXECUTIVE DIRECTORS						
S. W. Graham (appointed 1/6/02)	111	55	4	—	170	—
M. A. Sutton	157	40	11	—	208	183
D. Bryant	118	12	7	—	137	132
NON-EXECUTIVE DIRECTORS						
J. P. D. Hancox	102	—	—	—	102	80
S. P. Sherrard	28	—	—	—	28	23
M. R. B. Gatenby (appointed 11/9/02)	8	—	—	—	8	—
FORMER DIRECTORS						
R. G. F. Zerny (retired 30/4/02)	60	—	3	345	408	217
P. M. Robinson (retired 25/11/02)	138	—	6	—	144	160
A. B. Davidson (resigned 31/5/02)	10	—	—	—	10	24
	<u>732</u>	<u>107</u>	<u>31</u>	<u>345</u>	<u>1,215</u>	<u>819</u>

BOARD REPORT ON REMUNERATION

During the year the Directors made total gains of £13,000 (2001: £50,000) on the exercise of share options of which £nil (2001: £20,000) was made by the highest paid director. The gains are calculated as at the exercise date, although the shares may have been retained.

The compensation for loss of office payment in respect of Mr. Zerny was paid in cash at the date of his retirement. In addition Mr. Zerny's pension was augmented (see page 26).

On 20th December 2002, Mr. Sutton and Mr. Bryant each received an additional 50,000 SARs under the same terms as those issued as compensation for reduction in their service contract notice period (see page 23).

DIRECTORS' INTERESTS

INTERESTS IN SHARE CAPITAL

The interests of the Directors who were in office at 28th December 2002, together with the interests of their families, in the shares of the Company at the commencement, or date of appointment if later, and close of the financial year, were as follows:

	28th December 2002	29th December 2001
	Ordinary shares of 10p each	Ordinary shares of 10p each
BENEFICIAL		
J. P. D. Hancox	60,000	55,000
S. W. Graham	43,700	25,000
M. A. Sutton	25,026	18,926
D. Bryant	10,963	6,041
S. P. Sherrard	15,000	10,000
M. R. B. Gatenby	5,000	–
NON-BENEFICIAL		
M. A. Sutton and others	588,452	588,452

INTERESTS IN SHARE OPTIONS

The interests of the Directors, who have served during the year, in share options of the Company at the commencement, or date of appointment, and close of the financial year were as follows:

BENEFICIAL

1987 Executive Share Option Scheme

	Date of Grant	At 28th December 2002	Price at Date of of Exercise	Options cancelled during year	Option Price	At 29th December 2001
M. A. Sutton	31st March 1994	14,400			407.2p	14,400
	3rd April 1996	48,025			279.0p	48,025
D. Bryant	3rd April 1992*	–	351½p		248.4p	7,625
	2nd April 1993*	5,060			334.4p	5,060
	31st March 1994*	8,375			407.2p	8,375
	3rd April 1996	46,774			279.0p	46,774
R.G. F. Zerny	31st March 1994	–		16,612	407.2p	16,612
	3rd April 1996	–		59,505	279.0p	59,505
P. M. Robinson	31st March 1994	–		10,900	407.2p	10,900
	3rd April 1996	–		45,916	279.0p	45,916

*Share options granted to Mr. Bryant prior to his appointment as Director.

BENEFICIAL

Savings Related Share Option Scheme

	Date of Grant	At 28th December 2002	Price at Date of of Exercise	Options cancelled during year	Option Price	At 29th December 2001
M. A. Sutton	2nd September 1999	2,547			265p	2,547
	4th October 2000	1,899			204p	1,899
	5th October 2001	733			264p	733
D. Bryant	18th April 1997	–	396pxd		230p	1,500
	2nd September 1999	–	262½pxd		265p	1,462
	4th October 2000	3,308			204p	3,308
	7th October 2002	2,793			203p	–
P. M. Robinson	18th April 1997	–	396pxd		230p	1,350
	2nd September 1999	–	262½pxd		265p	950
	4th October 2000	–		2,374	204p	2,374

BOARD REPORT ON REMUNERATION

BENEFICIAL

Unapproved Options

	Date of Grant	At 28th December 2002	Options cancelled during year	Option Price	At 29th December 2001
S. W. Graham	5th June 2002	–	273,504	406p	–
	26th September 2002	280,000		268p	–

No other directors have been granted share options in the shares of the Company or other group entities. None of the terms or conditions of the share options were varied during the year.

The share options granted under the under the 1987 Executive Share Option Scheme were granted at nil cost to the directors and were in respect of past performance. Once awarded, the exercise of the share options is unconditional.

The Save As You Earn Scheme is open to all employees, including Executive Directors, who have completed one year's service at the date of invitation and who open an approved savings contract. When the savings contract is started options are granted to acquire the number of shares that the total savings will buy when the savings contract matures.

Further details of the share option schemes' exercise periods and normal expiry dates are given in note 25 on page 42.

The trustee of the Johnson Service Group PLC Employee Share Trust (the "Trustee") granted an option (the "Option") to Mr. S. W. Graham, the Chief Executive of the Company on 5th June 2002 over 273,504 shares at an exercise price of 406p per share (the "Option"). The Option was granted to fulfil an obligation to Mr. Graham under his service agreement dated 22nd April 2002 (the "Service Agreement") under which the Company undertook, in order to secure Mr. Graham's recruitment, to grant or procure the grant to him of an option over Ordinary Shares in the Company. No payment was required for the grant of the Option. The Option is not pensionable.

The Option was subsequently reissued, following a fall in the Company's share price, with effect from 26th September 2002 so that it became an Option over 280,000 shares at an exercise price of 268p per share. It had become clear that the Option would not deliver the value intended and in the opinion of the Remuneration Committee the adjustment to the Option was essential in order to retain Mr. Graham's services, and to honour the basis of the agreement on which he joined the Company.

In normal circumstances the Option cannot be exercised before 5th June 2005 and may only be exercised by Mr. Graham while he is in the employment of the Company. It will lapse to the extent unexercised on 5th June 2012.

The Option may be exercised early for specific periods following Mr. Graham's death or the cessation of his employment due to ill health, injury or disability. Early exercise is also permitted for specific periods in the circumstances of a change of control, reconstruction or winding up of the Company. The Option will lapse to the extent unexercised on the expiry of any of the specific periods.

If Mr. Graham's employment under the Service Agreement is terminated by the Company before 5th June 2005 other than in circumstances justifying summary dismissal the Option will be exercisable for a period of six months as to one third of the shares subject to it if the termination date is after 5th June 2003 and as to two thirds of the shares subject to it if the termination is after 5th June 2004.

The Option may be exercised in whole or in part provided that it may not be exercised in respect of less than 10,000 shares, nor otherwise than in multiples of 5,000 shares.

Any tax liability arising on the exercise of the Option will be for the account of Mr. Graham. Exercise of the Option is conditional on Mr. Graham complying with arrangements specified by the Company for the payment of any tax liability.

The Option will be administered by the Trustee which has full authority to interpret and construe the terms of the Option. Decisions of the Trustee are final and binding on all parties. The Trustee may amend the terms of the Option with Mr. Graham's written consent.

INTERESTS IN LONG TERM INCENTIVE PLAN

The number of Ordinary shares comprising the Conditional Awards made under this Plan and the extent to which they remain are set out below for each Executive Director.

	Award Year	Vesting Year	Remaining Award December 2001	Cancelled	Remaining Award December 2002
M. A. Sutton	2000	2003	10,055	10,055	–
D. Bryant	2000	2003	8,158	8,158	–
R. G. F. Zerny	2000	2003	12,365	12,365	–
P. M. Robinson	2000	2003	8,801	8,801	–

Mr. Zerny's and Mr. Robinson's awards lapsed on the date of their retirement. The performance criteria for shares awarded in 2000 were not achieved and therefore the awards lapsed on 4th March 2003.

The mid market price of the Ordinary shares of 10p each on 28th December 2002 and 29th December 2001 was 291.5p and 317.5p respectively. During the period the mid market price of the Ordinary shares of 10p each ranged between 252.5p and 410p.

There have been no changes in the Directors' interests during the period 28th December 2002 to 4th March 2003.

BOARD REPORT ON REMUNERATION

PENSION ARRANGEMENTS

Retirement benefits, which are calculated on basic salary, are accruing to the Executive Directors under one of the Group's contributory defined benefit schemes on substantially the same terms as other members of the scheme. Details of the scheme are given in note 33 on page 46.

PENSION BENEFITS OF EXECUTIVE DIRECTORS

Set out below are details of pension benefits to which each Executive Director, who served during the year, is entitled:

	Additional accrued benefits earned in the year (including inflation)	Additional accrued benefits earned in the year (excluding inflation)	Accrued benefits at		Transfer value of net increase in accrued benefits	Transfer value at		Increase in transfer value less Directors' contributions
			December 2002	December 2001		December 2002	December 2001	
			£000	£000		£000	£000	
S. W. Graham	2	2	2	–	14	19	–	14
M. A. Sutton	6	5	67	61	58	792	700	86
D. Bryant	5	4	64	59	54	926	827	94
R. G. F. Zerny*	18	16	104	96	293	1,814	1,401	410
P. M. Robinson*	5	4	64	58	63	930	821	104

*Mr. Zerny and Mr. Robinson retired on 30th April 2002 and 25th November 2002 respectively, and their accrued benefits are based on service up to those dates.

Mr. Zerny's pension was augmented by the equivalent of two years service at the date of his retirement. After consultation with the actuary, the cost of augmentation, of £232,600, was met out of the surplus in the pension scheme.

The accrued pension benefits shown for the other Directors is the amount that would be paid annually on retirement based on service to 28th December 2002. This pension is calculated based on the total period of service to the Company, both before and after becoming a director.

The increase in the accrued benefits is the difference between the accrued benefit at the year end and that at the previous year end.

All transfer values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11. The transfer values of the accrued benefits represent the value of assets that the pension scheme would need to transfer to another pension provider on transferring the scheme's liability in respect of the Director's pension benefits that they earned. They do not represent sums payable to individual Directors and therefore cannot be added meaningfully to annual remuneration.

The increase in the transfer value less Directors' contributions is the increase in the transfer value of accrued benefits in respect of qualifying services during the year after deducting the Director's personal contributions to the scheme.

Voluntary contributions paid by Directors and the resulting benefits are not shown.

The accrual rate for Mr. Sutton and Mr. Bryant is such that a pension of two thirds salary will be payable at age 63, the normal retirement age. Mr. Graham's accrual rate is 1/30th for each year of pensionable service, based on 50% of his salary. Members may retire at any time after age 60 without an actuarial reduction applying to the accrued pension. A spouse's pension at the rate of 50% of the member's pension is payable on the death of the member. Pensions accrued in respect of service prior to 6th April 1997 are guaranteed to increase at the rate of 3% per annum on the excess over the member's Guaranteed Minimum Pension. Pensions accrued in respect of service after 5th April 1997 will increase at the rate of 5% per annum, or the increase in the Retail Price Index, if lower, with a minimum of 3% per annum. Allowance is made within transfer values for the level of discretionary increases granted by the Trustee.

The information applies to all members of the Johnson Group Staff Pension Scheme with the exception of normal retirement age and the accrual rate. Other members of the Scheme have a normal retirement age of 65 and an accrual rate of 1/60th for each year of pensionable service.

ANNUAL GENERAL MEETING

A resolution will be proposed at the Annual General Meeting to seek approval of the Board Report on Remuneration.



Simon P. Sherrard
Chairman of Remuneration Committee
4th March 2003

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Note		52 weeks	52 weeks
		ended 28th December 2002 £m	ended 29th December 2001 £m Restated
10	TURNOVER	<u>219.2</u>	<u>220.4</u>
10	OPERATING PROFIT BEFORE GOODWILL AMORTISATION	26.3	29.4
	Amortisation of goodwill	<u>(4.7)</u>	<u>(4.4)</u>
4	OPERATING PROFIT	21.6	25.0
5	Exceptional items – disposal of business	<u>(1.3)</u>	<u>–</u>
	PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST	20.3	25.0
9	Net interest	<u>(5.3)</u>	<u>(5.7)</u>
10	PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	15.0	19.3
11	TAX ON PROFIT ON ORDINARY ACTIVITIES	<u>(5.8)</u>	<u>(6.5)</u>
	PROFIT ATTRIBUTABLE TO SHAREHOLDERS	9.2	12.8
12	Dividends (including in respect of non-equity shares)	<u>(10.0)</u>	<u>(10.0)</u>
26	RETAINED (LOSS)/PROFIT FOR THE FINANCIAL YEAR	<u>(0.8)</u>	<u>2.8</u>
13	EARNINGS PER SHARE		
	Basic earnings per share	<u>16.3p</u>	<u>22.6p</u>
	Adjusted basic earnings per share (before goodwill amortisation and exceptional items)	<u>26.9p</u>	<u>30.4p</u>
	Diluted earnings per share	<u>16.2p</u>	<u>22.5p</u>
	Adjusted diluted earnings per share (before goodwill amortisation and exceptional items)	<u>26.6p</u>	<u>30.2p</u>

A statement showing the movement on reserves is shown in note 26 on page 42.

All operations are continuing.

BALANCE SHEETS

Note	Group		Company		
	28th December 2002 £m	29th December 2001 £m Restated	28th December 2002 £m	29th December 2001 £m	
FIXED ASSETS					
14	Intangible fixed assets	79.3	78.7	-	-
15	Tangible fixed assets	76.3	80.7	-	-
17	Textile rental items	25.8	29.0	-	-
18	Investments	0.4	0.5	403.8	196.4
		<u>181.8</u>	<u>188.9</u>	<u>403.8</u>	<u>196.4</u>
CURRENT ASSETS					
19	Investment in subsidiary undertaking	-	-	-	193.8
20	Stocks	7.2	8.7	-	-
21	Debtors:				
	Amounts falling due within one year	32.3	35.1	0.1	-
	Amounts falling due after more than one year	6.5	12.0	109.3	99.7
		38.8	47.1	109.4	99.7
	Cash at bank and in hand	0.6	1.3	-	0.5
		<u>46.6</u>	<u>57.1</u>	<u>109.4</u>	<u>294.0</u>
CURRENT LIABILITIES					
Creditors:					
22	Amounts falling due within one year	(49.7)	(46.3)	(13.5)	(8.8)
	NET CURRENT (LIABILITIES)/ASSETS	<u>(3.1)</u>	<u>10.8</u>	<u>95.9</u>	<u>285.2</u>
	TOTAL ASSETS LESS CURRENT LIABILITIES	<u>178.7</u>	<u>199.7</u>	<u>499.7</u>	<u>481.6</u>
CREDITORS:					
22	Amounts falling due after more than one year	(59.1)	(77.0)	(394.6)	(391.9)
24	PROVISIONS FOR LIABILITIES AND CHARGES	<u>(12.1)</u>	<u>(15.4)</u>	<u>-</u>	<u>-</u>
	NET ASSETS	<u>107.5</u>	<u>107.3</u>	<u>105.1</u>	<u>89.7</u>
CAPITAL AND RESERVES					
25	Called-up share capital	5.7	5.7	5.7	5.7
26	Share premium account	7.3	6.8	7.3	6.8
26	Revaluation reserve	9.9	11.0	-	-
26	Other reserves	2.1	2.1	15.4	15.4
26	Profit and loss account	82.5	81.7	76.7	61.8
27	EQUITY SHAREHOLDERS' FUNDS	<u>107.5</u>	<u>107.3</u>	<u>105.1</u>	<u>89.7</u>

The financial statements on pages 27 to 49 were approved by the Board of Directors on 4th March 2003 and signed on its behalf by:



M. A. Sutton CFO

CONSOLIDATED CASH FLOW STATEMENT

Note	52 weeks ended 28th December 2002 £m	52 weeks ended 29th December 2001 £m
28	NET CASH INFLOW FROM OPERATING ACTIVITIES	55.2
	RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	
	Interest received	0.3
	Interest paid	(5.5)
	Interest paid in respect of finance agreements	(0.2)
	Preference dividends paid	(0.3)
		<u> </u>
	NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	(5.7)
	TAX PAID	(2.3)
		<u> </u>
	CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	
	Payments to acquire tangible fixed assets	(8.1)
	Receipts from sales of tangible fixed assets	2.2
	Payments to acquire textile rental items	(24.1)
	Proceeds from textile rental items withdrawn from circulation	5.6
		<u> </u>
	NET CASH OUTFLOW FOR CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	(24.4)
	ACQUISITIONS AND DISPOSALS	
29	Payments to acquire businesses	(2.7)
	Investment held for resale	0.1
29	Receipts from disposal of businesses	5.5
		<u> </u>
	NET CASH (OUTFLOW)/INFLOW FROM ACQUISITIONS AND DISPOSALS	2.9
	EQUITY DIVIDENDS PAID	(9.3)
		<u> </u>
	CASH INFLOW BEFORE FINANCING	16.4
		<u> </u>
	FINANCING	
	Issue of Ordinary share capital	1.1
	Debt due in more than one year:	
	Loans repaid	(12.2)
	Capital element of payments under finance agreements	(2.2)
		<u> </u>
	NET CASH OUTFLOW FROM FINANCING	(13.3)
		<u> </u>
30	(DECREASE)/INCREASE IN CASH IN THE YEAR	3.1
		<u> </u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Group	52 weeks ended 28th December 2002 £m	52 weeks ended 29th December 2001 Restated £m
Profit for the financial year	9.2	12.8
Currency translation differences on foreign currency net investments	0.5	(0.2)
Total recognised gains and losses for the year	<u>9.7</u>	<u>12.6</u>
Prior year adjustment (note 2)	(0.4)	
Total gains and losses recognised since last annual report	<u>9.3</u>	

CONSOLIDATED HISTORICAL COST PROFITS AND LOSSES

Reported profit on ordinary activities before taxation	15.0	19.3
Realisation of property revaluation gains of previous years	1.1	1.2
Difference between historical cost depreciation charge and actual depreciation charge	0.1	0.1
Historical cost profit on ordinary activities before taxation	<u>16.2</u>	<u>20.6</u>
Historical cost profit for the year retained after taxation and dividends	<u>0.4</u>	<u>4.1</u>

STATEMENT OF ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The historical cost convention, modified to include the revaluation of certain properties, has been used throughout these financial statements on a basis consistent with the prior year with the exception of the implementation of FRS19, Deferred Taxation. The financial statements have been prepared in accordance with Accounting and Financial Reporting Standards applicable in the United Kingdom.

CONSOLIDATED FINANCIAL STATEMENTS

The financial statements consolidate the results of Johnson Service Group PLC and its subsidiary undertakings. The principal subsidiary undertakings are listed in note 34.

The accounting periods of subsidiary undertakings are co-terminous with those of the Company. Results and cash flows of subsidiary undertakings acquired, except investments held for resale, are included from the effective date of acquisition and accounted for by the acquisition method of accounting. United Kingdom accounting policies have been applied to overseas subsidiary undertakings on consolidation. Results and cash flows of subsidiary undertakings disposed of are included up to the date of disposal.

FOREIGN CURRENCIES

On consolidation the assets and liabilities of overseas subsidiary undertakings are translated at the closing exchange rates. Profit and loss accounts of such undertakings are consolidated at the average rates of exchange during the year. Exchange differences arising on these transactions are taken to reserves. Exchange differences arising on the re-translation of foreign currency loans used to hedge the net assets of foreign subsidiaries are also taken to reserves.

FINANCIAL INSTRUMENTS

The Group uses derivative financial instruments to hedge its exposures to fluctuations in interest rates in line with the Group's risk management policies. Amounts payable or receivable in respect of these instruments are recognised as adjustments to interest expense over the relevant period of the contract.

GOODWILL

Goodwill, which represents the excess of the fair value of consideration over the fair value of net assets acquired, arising on consolidation and on trading acquisitions by subsidiary undertakings prior to 27th December 1997 has been written off against reserves. In accordance with FRS10 the goodwill arising on acquisitions after that date has been included on the balance sheet as an intangible fixed asset and depreciated over the shorter of 20 years or the expected useful life of the goodwill. The Directors regard 20 years as a reasonable maximum for the estimated useful life of goodwill since it is difficult to make projections exceeding this period.

Goodwill which has been written off to reserves will be charged in the profit and loss account on the subsequent disposal of the business to which it relates.

Goodwill in relation to overseas subsidiary undertakings is restated each year end at the closing exchange rate.

TURNOVER AND INCOME RECOGNITION

Turnover represents the invoiced value of goods and services supplied exclusive of VAT and similar taxes. Textile rental income is recognised on an accruals basis representing contract arrangements. Drycleaning income is recognised at the time that goods are received for cleaning.

PROVISIONS

PROPERTY

Provision is made for the anticipated net costs of onerous leases on non trading properties and for dilapidations and environmental clean up costs on trading properties. The provision will be utilised by the payment of annual costs, shortfalls on sub-tenanted property, expenses of early termination, environmental clean up operations and dilapidations.

SELF INSURANCE

Provision is made for the expected costs of uninsured incidents arising prior to the balance sheet date and for the anticipated cost of benefits due to existing claimants under the, now discontinued, self insured incapacity payroll scheme.

PENSION COSTS

The cost of providing retirement pensions, under both the defined benefit and defined contribution arrangements, is charged to the profit and loss account over the periods benefiting from the employees' services. The regular pension cost is determined in accordance with advice from a professionally qualified independent Actuary and is a substantially level percentage of the current and expected future pensionable payroll. The difference between the charge to the profit and loss account and the contributions paid to the Schemes is shown as an asset or provision in the balance sheet. Variations from the regular costs are spread over the average expected remaining service lives of current employees who are members of the Schemes.

PRIVATE HEALTHCARE

The cost of providing post retirement healthcare for eligible future retirees is charged to the profit and loss account over the periods benefiting from the employees' services with a corresponding amount shown as a balance sheet provision. The annual cost of post retirement cover for future retirees is determined in accordance with advice from an independent Actuary and is calculated by reference to the membership profile and claims experience.

The cost of private healthcare provision for current employees is charged to the profit and loss account on a cash basis and for current retirees is charged to the balance sheet provision.

STATEMENT OF ACCOUNTING POLICIES

DEFERRED TAXATION

Deferred taxation is accounted for on an undiscounted basis at expected tax rates on all differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset. A deferred tax asset is recognised when it is more likely than not that there will be suitable taxable profits from which the future reversal of timing differences can be deducted.

LONG TERM INCENTIVE PLAN

The expected costs in connection with the provision of shares to participants of the Long Term Incentive Plan are written off, on a straight line basis, over the three year period over which the Performance Criteria are measured. Any unused accrual at the end of the three year period is written back to profit at the time that the achievement of the Performance Criteria is determined.

TANGIBLE FIXED ASSETS

Tangible fixed assets are stated at cost, or valuation, less depreciation which is calculated to write off these assets, by equal annual instalments, over their estimated useful lives. The estimated life of plant and fixtures is two to fifteen years and of vehicles four to five years. Improvements to short leasehold properties are amortised over the terms of the leases.

Following the implementation of FRS15 freehold and long leasehold buildings are depreciated over their estimated remaining useful life not exceeding 50 years commencing on 26th December 1999 or, if later, date of purchase. The Group has not adopted a policy of revaluation but, as permitted by the transitional provisions of FRS15, the carrying amounts of freehold and long leasehold properties reflect previous valuations. The fitting out costs of new freehold or long leasehold industrial buildings are depreciated, in equal annual instalments, over their expected useful lives which range from ten to twenty five years from the date on which the assets are fully commissioned. In the event of an impairment in property value the deficit below cost is charged to the profit and loss account.

Tangible fixed assets bought through acquisition of other businesses are accounted for as if they had been owned by the Group since new.

LEASED ASSETS

Rentals payable in respect of operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Where assets are financed by leasing or hire purchase arrangements which give rights approximating to ownership, the assets are treated as if they had been purchased outright and are capitalised at their fair value at the date of inception of the lease. The capital element of outstanding lease or hire purchase commitments is treated as a liability and disclosed as obligations under finance agreements. Interest is allocated to the profit and loss account over the period of the lease or hire purchase agreement and represents a constant proportion of the outstanding commitment.

TEXTILE RENTAL ITEMS

Textile rental items which principally comprise workwear garments, cabinet towels, linen, dust mats and washroom products, are initially treated as stock. On issue to customers, textile rental items are transferred to fixed assets and are stated at invoiced cost less depreciation. Depreciation is calculated on a straight line basis over the estimated lives of the items in circulation, which average approximately three years. Issued textile rental items bought through acquisition of other businesses are accounted for as if they had been owned by the Group since new.

Where proceeds are received in respect of textile rental items withdrawn from circulation these are deducted from the net book value of those items.

INVESTMENT IN OWN SHARES

Ordinary shares in the Company held by the Trustee of the Long Term Incentive Plan are included on the balance sheet at cost under fixed assets.

INVESTMENTS HELD FOR RESALE

Investments held for resale comprise businesses acquired where it is the Directors' intention to dispose of those businesses within approximately 12 months of the date of acquisition. The results and net assets of these businesses are not consolidated. Expected proceeds are held at their discounted value, under current assets, and associated notional interest credited to the profit and loss account.

STOCKS

Stocks of materials, stores, garments for resale and new textile rental items are valued at the lower of cost and net realisable value. Cost is stated on a first in, first out basis and comprises invoiced cost in respect of the purchase of finished goods and materials, direct labour and a share of production overheads in respect of garments for sale.

NOTES TO THE FINANCIAL STATEMENTS

1. As permitted by Section 230(3) of the Companies Act 1985 the profit and loss account of the Parent Company is not presented with these financial statements. The retained profit of the Parent Company is shown in note 26 on page 42.

2. PRIOR YEAR ADJUSTMENT

The Group has changed its accounting policy in respect of deferred taxation to comply with the provisions of FRS19, Deferred Taxation and now provides for deferred taxation on a full provision basis. Consequently the Group has made the following adjustments:-

	At December	
	2001	
	£m	
Deferred taxation liability		(1.9)
Increase in goodwill arising on the acquisition of Semara Holdings Plc		1.5
Profit and loss reserve charge		<u>0.4</u>

The increase in goodwill in respect of the acquisition of Semara arises from the recognition of a deferred taxation liability in accordance with the provisions of FRS19 in determining the fair value of the assets acquired. Goodwill amortisation has not been adjusted as the effect would be insignificant.

There is no effect on the reported profit and loss account in the 52 weeks to 29th December 2001.

The earnings per share for 52 weeks to 29th December 2001 have been restated.

3. RATES OF EXCHANGE

The following rates of exchange have been used:

	2002	2001
EURO		
Average rate for the year	€1.59	€1.61
Closing rate	€1.54	€1.64

4. OPERATING PROFIT

	2002	2001
	£m	£m
Turnover	219.2	220.4
Cost of sales – goodwill amortisation	(4.7)	(4.4)
– other costs	(144.7)	(141.6)
– total	<u>(149.4)</u>	<u>(146.0)</u>
Gross profit	69.8	74.4
Other operating expenses:		
Distribution costs	(19.1)	(18.7)
Administration expenses	<u>(29.1)</u>	<u>(30.7)</u>
Operating profit	<u>21.6</u>	<u>25.0</u>

The disclosure of the 2001 reorganisation costs of £4.3 million has been amended and is no longer disclosed separately but is included within operating profit before goodwill amortisation. In previous years reorganisation costs were treated as an exceptional charge against operating profit and disclosed separately. Such costs were also excluded in the calculation of adjusted earnings per share. This change has been made in order to provide a simplified and more representative view of the results.

All operations are continuing. The results of acquisitions and disposals are not significant and have not been shown separately.

5. EXCEPTIONAL ITEMS

	2002	2001
	£m	£m
Continuing operations		
Loss on disposal of Northern Ireland linen business	<u>1.3</u>	<u>–</u>

The loss on disposal arises from the sale of the share capital of Lilliput Dunmurry Limited ("Lilliput") during the year. Prior to disposal the net assets and contracts relating to the workwear business of Lilliput were transferred to a fellow subsidiary undertaking in Northern Ireland, Central Laundries Limited, at the lower of the book value or net realisable value.

The loss arising on the disposal comprises £1 million on the sale of the company (see note 29) and £0.3 million in respect of redundancy costs and asset provisions. The sale did not result in any adjustments to goodwill.

No taxation arises on the exceptional item.

NOTES TO THE FINANCIAL STATEMENTS

6. STATUTORY INFORMATION

	2002 £m	2001 £m
Operating profit is stated after charging:		
Depreciation of tangible fixed assets		
– owned assets	9.5	9.7
– assets held under finance agreements	1.1	1.4
Depreciation of textile rental items	18.3	19.5
Amortisation of goodwill	4.7	4.4
Operating lease payments – plant and machinery	0.8	1.2
– land and buildings	7.8	7.5
	<u> </u>	<u> </u>
AUDITORS' REMUNERATION		
Audit services – Group (including £15,000 (2001: £15,000) in respect of the Company)	0.2	0.2
Non audit services (mainly in relation to taxation) – UK	0.1	0.2
	<u> </u>	<u> </u>

7. EMPLOYEES

	2002 £m	2001 £m
Staff costs during the year:		
Wages and salaries	76.6	76.7
Social security costs	5.7	5.6
Other pension costs (note 33)	3.9	2.2
Total	<u>86.2</u>	<u>84.5</u>
The average number of persons employed by the Group during the year was:		
	Number	Number
Textile rental – Full time	2,849	3,223
– Part time	691	750
Drycleaning – Full time	1,158	1,173
– Part time	1,914	1,934
Total	<u>6,612</u>	<u>7,080</u>

8. DIRECTORS' EMOLUMENTS

Detailed disclosures that form part of these financial statements are given under the headings "Directors' Remuneration", "Directors' Interests", "Interests in Long Term Incentive Plan" and "Pension Arrangements" in the Board Report on Remuneration on pages 22 to 26.

9. NET INTEREST

	2002 £m	2001 £m
Interest payable:		
On bank loans and overdrafts	(5.1)	(6.0)
Amortisation of bank loan issue cost	(0.5)	(0.2)
On finance agreements	(0.1)	(0.2)
Notional interest on:		
– Pension contributions	–	(0.3)
– Private healthcare provision	(0.1)	(0.1)
	<u>(5.8)</u>	<u>(6.8)</u>
Less interest receivable on:		
Bank and cash deposits	–	0.2
Notional interest on:		
– Investments held for resale	–	0.1
– Pension contributions	0.4	0.7
Other interest	0.1	0.1
	<u>0.5</u>	<u>1.1</u>
Net interest	<u>(5.3)</u>	<u>(5.7)</u>

NOTES TO THE FINANCIAL STATEMENTS

10. SEGMENTAL INFORMATION

	Turnover		Operating profit before goodwill amortisation		Profit before taxation	
	2002	2001	2002	2001	2002	2001
	£m	£m Restated	£m	£m Restated	£m	£m Restated
Continuing						
UK – Textile rental	129.7	130.9	19.0	20.6	13.9	17.0
IR – Textile rental	17.9	18.4	–	1.5	(0.8)	0.7
GB – Drycleaning	71.6	71.1	7.3	7.3	7.2	7.3
Total continuing	<u>219.2</u>	<u>220.4</u>	<u>26.3</u>	<u>29.4</u>	<u>20.3</u>	<u>25.0</u>
Interest					(5.3)	(5.7)
PROFIT BEFORE TAXATION					<u>15.0</u>	<u>19.3</u>
GROUP NET ASSETS						
					Group net assets	
					2002	2001
					£m	£m Restated
Continuing						
UK – Textile rental					144.4	140.3
IR – Textile rental					24.8	23.4
GB – Drycleaning					35.5	39.7
Total allocated					<u>204.7</u>	<u>203.4</u>
Unallocated net liabilities					(97.2)	(96.1)
					<u>107.5</u>	<u>107.3</u>

The results of acquisitions and disposals are not significant and have not been disclosed separately.

There is no significant difference between turnover by origin and turnover by destination.

In 2002, the Group's operations in Northern Ireland have been transferred to the UK textile rental segment from the IR textile rental segment. This is due to operational control for the business being transferred to the UK textile rental management team. This has resulted in £3.1 million (2001: £4.5 million) of turnover, £0.1 million (2001: £0.4 million) of operating profit before goodwill amortisation, £1.4 million loss (2001: £0.2 million profit) before taxation and £5.9 million (2001: £7.7 million) of net assets being transferred from the IR textile rental segment to the UK textile rental segment. The comparatives have been restated.

As discussed in note 4, the disclosure of the 2001 reorganisation costs of £4.3 million has been amended and is no longer disclosed separately but is included within operating profit before goodwill amortisation.

11. TAXATION

	Group	
	2002	2001
	£m	£m
CURRENT TAX		
UK corporation tax charge for the year at 30% (2001: 30%)	6.8	6.6
Adjustment in relation to prior years	(0.6)	(0.1)
	<u>6.2</u>	<u>6.5</u>
Overseas corporation tax	–	0.2
Adjustment in relation to prior years	(0.2)	0.4
	<u>(0.2)</u>	<u>0.6</u>
Current tax charge for the year	<u>6.0</u>	<u>7.1</u>
DEFERRED TAX		
Origination and reversal of timing differences	(0.4)	(0.2)
Adjustment in relation to prior years	0.2	(0.4)
Deferred tax credit for the year	<u>(0.2)</u>	<u>(0.6)</u>
TOTAL CHARGE FOR TAXATION	<u>5.8</u>	<u>6.5</u>

NOTES TO THE FINANCIAL STATEMENTS

11. TAXATION *Continued*

The tax for the year is higher (2001: higher) than the standard rate of corporation tax in the UK. The differences are explained below:

	Group	
	2002 £m	2001 £m
Profit on ordinary activities before tax	<u>15.0</u>	<u>19.3</u>
Profit on ordinary activities before tax multiplied by standard rate of corporation tax in the UK of 30% (2001: 30%)	4.5	5.8
Factors affecting charge for the year:		
Expenses not deductible for tax purposes	2.1	1.6
Non taxable income	(0.2)	(0.2)
Foreign tax charged at lower rate than UK standard rate	–	(0.2)
Capital allowances in excess of depreciation	(0.3)	(0.4)
Other timing differences	0.6	0.2
Carry forward of tax losses	0.1	–
Adjustments to tax in respect of prior periods	<u>(0.8)</u>	<u>0.3</u>
Current tax charge for the year	<u>6.0</u>	<u>7.1</u>

Adoption of FRS19 has changed the method of accounting for deferred taxation though this has had no effect on the reported charge in the current or prior year.

12. DIVIDENDS

	Paid £m	Proposed £m	2002 Total £m	2001 Total £m
Dividends on equity shares:				
– Ordinary shares at 17.6p (2001: 17.6p) per share	2.3	7.7	10.0	9.9
Dividends on non-equity shares:				
– 10p Convertible preference shares at nil (2001: 3.75p) per share	–	–	–	0.1
	<u>2.3</u>	<u>7.7</u>	<u>10.0</u>	<u>10.0</u>

On 11th October 2002 an interim dividend of 4.0p was paid on the Ordinary shares. A proposed final dividend of 13.6p will be paid on 1st May 2003 to Shareholders on the register of members on 4th April 2003.

All of the Convertible preference shares were converted to Ordinary shares during 2001.

The Trustee of the Long Term Incentive Plan has waived the entitlement to receive dividends on the 155,127 Ordinary shares held by the Trust.

13. EARNINGS PER SHARE

	2002 £m	2001 £m Restated
Profit for the financial year	9.2	12.8
Less dividend on 10p Convertible preference shares	–	(0.1)
Profit attributable to Ordinary Shareholders	<u>9.2</u>	<u>12.7</u>
Exceptional items	1.3	–
Goodwill amortisation	4.7	4.4
Adjusted profit attributable to Ordinary Shareholders	<u>15.2</u>	<u>17.1</u>
Weighted average number of Ordinary shares	56,777,267	56,420,946
Dilutive options	500,933	508,430
Fully diluted number of Ordinary shares	<u>57,278,200</u>	<u>56,929,376</u>
Basic earnings per share	<u>16.3p</u>	<u>22.6p</u>
Adjustment for goodwill amortisation	8.3p	7.8p
Adjustment for exceptional items	2.3p	–
Adjusted basic earnings per share	<u>26.9p</u>	<u>30.4p</u>
Diluted earnings per share	<u>16.2p</u>	<u>22.5p</u>
Adjustment for goodwill amortisation	8.2p	7.7p
Adjustment for exceptional items	2.2p	–
Adjusted diluted earnings per share	<u>26.6p</u>	<u>30.2p</u>

NOTES TO THE FINANCIAL STATEMENTS

13. EARNINGS PER SHARE *Continued*

Basic earnings per share is calculated using the weighted average number of shares in issue during the year, excluding those held by the Trust established in connection with the Long Term Incentive Plan, based on the profit attributable to Ordinary Shareholders.

Adjusted earnings per share figures are given to exclude the effects of goodwill amortisation and exceptional items, net of taxation. Adjusted earnings per share for 2001 have been restated to reflect the revised disclosure regarding reorganisation costs, as discussed in note 4.

For diluted earnings per share, the weighted average number of Ordinary shares in issue is adjusted to assume conversion of all dilutive potential Ordinary shares. The Company has dilutive potential Ordinary shares arising from share options granted to employees where the exercise price is less than the average market price of the Company's Ordinary shares during the year.

14. INTANGIBLE FIXED ASSETS – GOODWILL

	£m
COST	
At 29th December 2001 (restated)	88.3
Goodwill arising on acquisitions (note 29)	4.5
Exchange rate adjustment	0.8
At 28th December 2002	<u>93.6</u>
AMORTISATION	
At 29th December 2001	9.6
Charged during the year	4.7
At 28th December 2002	<u>14.3</u>
NET BOOK VALUE	
At 28th December 2002	<u>79.3</u>
At 29th December 2001 (restated)	<u>78.7</u>

The goodwill is amortised mainly over 20 years being the Directors' estimate of its useful life.

In accordance with provisions of FRS19, goodwill has been restated in respect of the acquisition of Semara. See note 2.

15. TANGIBLE FIXED ASSETS

	Properties			Plant, Fixtures and Transport £m	Total £m
	Freehold £m	Long Leasehold £m	Short Leasehold £m		
COST OR VALUATION					
At 29th December 2001	35.4	7.1	2.1	109.0	153.6
Additions	1.6	–	–	6.6	8.2
Assets acquired	–	–	–	1.4	1.4
Disposed of with subsidiary	–	–	–	(1.0)	(1.0)
Disposals	(2.0)	–	–	(6.9)	(8.9)
Exchange rate adjustments	0.1	–	–	0.7	0.8
At 28th December 2002	<u>35.1</u>	<u>7.1</u>	<u>2.1</u>	<u>109.8</u>	<u>154.1</u>
DEPRECIATION					
At 29th December 2001	3.0	1.0	1.1	67.8	72.9
Charge for the year	0.5	0.1	0.1	9.9	10.6
Assets acquired	–	–	–	0.5	0.5
Disposed of with subsidiary	–	–	–	(0.5)	(0.5)
Disposals	–	–	–	(6.1)	(6.1)
Exchange rate adjustments	–	–	–	0.4	0.4
At 28th December 2002	<u>3.5</u>	<u>1.1</u>	<u>1.2</u>	<u>72.0</u>	<u>77.8</u>
NET BOOK VALUE					
At 28th December 2002	<u>31.6</u>	<u>6.0</u>	<u>0.9</u>	<u>37.8</u>	<u>76.3</u>
At 29th December 2001	<u>32.4</u>	<u>6.1</u>	<u>1.0</u>	<u>41.2</u>	<u>80.7</u>

The net book value of tangible fixed assets includes £1.8 million (2001: £2.7 million) in respect of assets held under finance agreements

NOTES TO THE FINANCIAL STATEMENTS

16. PROPERTIES AT COST OR VALUATION

As permitted by the transitional provisions of FRS15 valuations at 25th December 1999 have been retained although the Group does not have a policy of revaluation.

The cost or valuation of properties is detailed as follows:

	Freehold £m	Long Leasehold £m	Short Leasehold £m
Properties at cost	19.0	4.3	2.1
Properties at valuation in –			
1987	14.4	0.8	–
1992	–	2.0	–
1998	1.7	–	–
	<u>35.1</u>	<u>7.1</u>	<u>2.1</u>

17. TEXTILE RENTAL ITEMS

	2002 £m	2001 £m
COST		
At beginning of year	59.0	67.0
Additions	20.3	23.8
Acquired	0.7	1.1
Disposed of with subsidiary	(1.4)	–
Withdrawn from circulation	(25.9)	(32.3)
Exchange rate adjustment	1.3	(0.6)
At end of year	<u>54.0</u>	<u>59.0</u>
DEPRECIATION		
At beginning of year	30.0	35.3
Charge for the year	18.3	19.5
Acquired	0.2	0.8
Disposed of with subsidiary	(1.1)	–
Withdrawn from circulation	(20.2)	(25.2)
Exchange rate adjustment	1.0	(0.4)
At end of year	<u>28.2</u>	<u>30.0</u>
NET BOOK VALUE		
At December	<u>25.8</u>	<u>29.0</u>

18. FIXED ASSET INVESTMENTS

	Group		Company	
	2002 £m	2001 £m	2002 £m	2001 £m
Investment in own shares	0.4	0.5	–	–
Investments in subsidiary undertakings	–	–	403.8	196.4
	<u>0.4</u>	<u>0.5</u>	<u>403.8</u>	<u>196.4</u>
Investment in own shares				
Investment in 155,127 (2001: 191,498)				
Ordinary shares of the Company at cost				
(Nominal value £15,513 (2001: £19,150))	<u>0.4</u>	<u>0.5</u>		

The Group operates a Long Term Incentive Plan for the benefit of Executive Directors and senior executives of the Group. When Conditional Awards are made sufficient shares are purchased by the Trustee of the Plan to satisfy those awards. Further details of the Plan are given in the Board Report on Remuneration on pages 22 and 25.

During the year 36,371 Ordinary shares were transferred by the Trustee to individual employees of the Group. These shares were no longer the subject of Remaining Awards and the transfers were made in lieu of cash bonuses earned under the Group's other bonus schemes.

The market value of the shares at 28th December 2002 was £0.4 million (2001: £0.6 million). Dividends on the shares held by the Trust have been waived.

None (2001: 122,029) of the 304,651 (2001: 304,651) shares originally purchased in respect of Conditional Awards now comprise the Remaining Awards due to participants, but are being held by the Trust in respect of other option schemes in operation.

NOTES TO THE FINANCIAL STATEMENTS

18. FIXED ASSET INVESTMENTS *Continued*

	Company £m
Investment in Subsidiary Undertakings	
Cost at 29th December 2001	196.4
Additions	4.2
Transferred from current asset investment (note 19)	203.7
Disposal of subsidiary	(0.5)
Cost at 28th December 2002	<u>403.8</u>

Additions in the year relate to the acquisition of Dynamic Expertise Limited and Force Group Holdings Limited (note 29). The disposal in the year relates to Lilliput Dunmurry Limited (see notes 5 and 29).

Particulars of principal subsidiary undertakings are shown in note 34.

During the year, the Company's investment in Euro denominated redeemable preference shares, of Johnson Investment Limited was converted, through a series of conversions, into Sterling denominated "A" Ordinary Shares in that company. This investment is now accounted for as a fixed asset.

19. CURRENT ASSET INVESTMENTS

	Company £m
Investment in Subsidiary Undertakings	
At 29th December 2001	193.8
Exchange gain during the year	9.9
Transferred to fixed asset investment (note 18)	(203.7)
At 28th December 2002	<u>—</u>

20. STOCKS

	Group		Company	
	2002	2001	2002	2001
	£m	£m	£m	£m
New textile rental items	1.6	2.7	—	—
Goods for resale	3.9	3.9	—	—
Materials and stores	1.7	2.1	—	—
	<u>7.2</u>	<u>8.7</u>	<u>—</u>	<u>—</u>

21. DEBTORS

	Group		Company	
	2002	2001	2002	2001
	£m	£m	£m	£m
Amounts falling due within one year:		Restated		
Trade debtors	26.6	29.6	—	—
Other debtors	1.7	1.2	—	—
Prepayments and accrued income	4.0	4.3	—	—
Deferred tax asset (note 24)	—	—	0.1	—
	<u>32.3</u>	<u>35.1</u>	<u>0.1</u>	<u>—</u>
Amounts falling due after more than one year:				
Amounts owed by subsidiary undertakings	—	—	109.3	99.7
Pension scheme debtor	6.5	12.0	—	—
	<u>6.5</u>	<u>12.0</u>	<u>109.3</u>	<u>99.7</u>
	<u>38.8</u>	<u>47.1</u>	<u>109.4</u>	<u>99.7</u>

The two largest defined benefit schemes, the Johnson Group Staff Pension Scheme and the Semara Pension Plan, were merged with effect from 1st January 2002. The pension contribution provision and the pension scheme debtor for the two schemes have been combined in the balance sheet at December 2002 and shown as a net amount falling due after more than one year.

NOTES TO THE FINANCIAL STATEMENTS

22. CREDITORS

	Group		Company	
	2002 £m	2001 £m	2002 £m	2001 £m
Amounts falling due within one year:				
Bank overdraft	2.9	–	3.9	–
Trade creditors	6.5	6.0	–	–
Amounts due to subsidiary undertakings	–	–	0.9	0.4
Dividends payable	7.7	7.7	7.7	7.7
Other creditors	2.2	2.4	0.1	–
Obligations under finance agreements	0.5	1.3	–	–
Corporation tax	9.7	9.6	–	–
Other taxation and social security	7.4	7.6	–	–
Accruals	12.8	11.7	0.9	0.7
	<u>49.7</u>	<u>46.3</u>	<u>13.5</u>	<u>8.8</u>
Amounts falling due after more than one year:				
Bank loans at variable interest rates which are linked to LIBOR – repayable not by instalments	59.0	76.7	42.5	61.3
Obligations under finance agreements	0.1	0.3	–	–
	<u>59.1</u>	<u>77.0</u>	<u>42.5</u>	<u>61.3</u>
Amounts due to subsidiary undertakings	–	–	352.1	330.6
	<u>59.1</u>	<u>77.0</u>	<u>394.6</u>	<u>391.9</u>
Bank loans repayable: – between two and five years	59.0	77.2	42.5	61.8
– unamortised issue costs of bank loans	–	(0.5)	–	(0.5)
	<u>59.0</u>	<u>76.7</u>	<u>42.5</u>	<u>61.3</u>
Obligations under finance agreements are repayable as follows: – between one and two years	0.1	0.3		

Bank loans are unsecured and are drawn down under a committed facility comprising a Term Loan and Revolving Credit Facility which matures between two and five years. Individual tranches are drawn down, in either sterling or Euro, for periods of up to six months at the rates of interest prevailing at the time of draw down.

The Group and Company unsecured bank loans are stated net of unamortised issue costs of £nil (2001: £0.5 million). The Company incurred total issue costs of £0.9 million in respect of the five year multi-option committed facility entered into in January 2000.

23. CONTINGENT LIABILITIES

GROUP

At 28th December 2002 there were no contingent liabilities except for those arising from the ordinary course of the Group's business.

COMPANY

The Company has guaranteed the banking facilities of UK and Irish subsidiary undertakings under a cross guarantee arrangement.

The Company has also guaranteed the liabilities of Connacht Court Group Ltd, and its subsidiary undertakings, in respect of the financial year ended 28th December 2002, for the purposes of the exemption referred to in Section 17(1) of the Companies (Amendment) Act 1986 in Ireland, relating to the filing of Irish consolidated accounts. Total liabilities of Connacht Court Group Ltd, and its subsidiary undertakings amounted to approximately £4.6 million (2001: £4.6 million).

No losses are expected to result from any of the above contingent liabilities.

24. PROVISIONS FOR LIABILITIES AND CHARGES

	Pension					Total £m Restated
	Deferred Taxation £m Restated	Contributions (See Note 21) £m	Private Healthcare £m	Property £m	Self Insurance £m	
GROUP						
At 29th December 2001	0.6	4.6	1.8	5.1	3.3	15.4
Released during year	–	–	–	(0.2)	–	(0.2)
Utilised during the year	–	–	(0.1)	(1.7)	(1.0)	(2.8)
Charged/(credited) during the year	(0.2)	–	–	3.7	0.7	4.2
Notional interest	–	–	0.1	–	–	0.1
Transfer of pension asset	–	(4.6)	–	–	–	(4.6)
At 28th December 2002	<u>0.4</u>	<u>–</u>	<u>1.8</u>	<u>6.9</u>	<u>3.0</u>	<u>12.1</u>

NOTES TO THE FINANCIAL STATEMENTS

24. PROVISIONS FOR LIABILITIES AND CHARGES *Continued*

	Deferred Taxation
COMPANY	£m
At 29th December 2001	–
Credited during the year	<u>(0.1)</u>
At 28th December 2002	<u>(0.1)</u>

PROPERTY

The property provision includes leases which expire during the period to 2016 and the estimated clean up costs of property where an environmental problem has been identified and a course of action has been determined. The Group has a programme to dispose of vacant properties.

SELF INSURANCE

The self insurance provision includes a provision for payments due to existing claimants under the self funded incapacity scheme over a period of 29 years. This scheme is now closed. The balance of the provision, which is in respect of general insurance arrangements, is expected to be utilised within five years except for any claims resulting in litigation.

DEFERRED TAXATION

The provision for deferred tax has been restated as at 29th December 2001 following the adoption of FRS19. The deferred tax balance comprises the following:

	Group		Company	
	2002 £m	2001 £m Restated	2002 £m	2001 £m
Accelerated capital allowances	1.4	0.9	–	–
Pension contributions	1.9	2.5	–	–
Private healthcare	(0.5)	(0.6)	–	–
Other timing differences	(2.2)	(2.0)	–	–
Taxation losses	(0.2)	(0.2)	(0.1)	–
Total provision/(asset) for deferred taxation	<u>0.4</u>	<u>0.6</u>	<u>(0.1)</u>	<u>–</u>
29th December 2001 as previously reported	(1.3)			
Prior year adjustment – FRS 19	<u>1.9</u>			
29th December 2001, as restated	0.6			
Deferred tax credit in profit and loss account (note 11)	<u>(0.2)</u>			
28th December 2002	<u>0.4</u>			

The Company's deferred tax asset of £0.1 million (2001: nil) is included in debtors (note 21).

Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset as such tax would only become payable if the property were sold without relief being obtained. The tax which would be payable in such circumstances is estimated to be nil (2001: £nil) due to the existence of capital losses.

25. CALLED-UP SHARE CAPITAL

	Authorised		Allotted, called-up and fully paid	
	2002 £m	2001 £m	2002 £m	2001 £m
57,004,712 (2001: 56,815,876) Ordinary shares of 10p each	<u>8.3</u>	<u>8.3</u>	<u>5.7</u>	<u>5.7</u>

The Ordinary shares carry one vote per £1 of nominal value.

OPTIONS OVER ORDINARY SHARES OF 10P EACH

Options have been exercised over 188,836 Ordinary shares, with a nominal value of £18,884. The proceeds received on allotment were £0.5 million.

The following options in respect of potential issues of Ordinary shares of 10p each granted pursuant to the Johnson Group Savings Related Share Option Scheme, Johnson Group 1987 Executive Share Option Scheme and unapproved share option schemes were outstanding at 28th December 2002.

NOTES TO THE FINANCIAL STATEMENTS

25. CALLED-UP SHARE CAPITAL *Continued*

	Date options granted	Number of shares	Date exercisable	Price per share
Executive	2nd April 1993	18,969	2nd April 1996	334.4p
Executive	31st March 1994	77,010	31st March 1997	407.2p
Executive	3rd April 1996	146,879	3rd April 1999	279.0p
Savings Related	12th April 1996	34,153	1st May 2003	223.0p
Savings Related	18th April 1997	32,645	1st May 2004	230.0p
Savings Related	3rd September 1998	120,073	1st October 2003	236.0p
Savings Related	2nd September 1999	15,852	1st October 2002	265.0p
Savings Related	2nd September 1999	88,817	1st October 2004	265.0p
Savings Related	4th October 2000	245,085	1st November 2003	204.0p
Savings Related	4th October 2000	215,082	1st November 2005	204.0p
Savings Related	5th October 2001	182,832	1st December 2004	264.0p
Savings Related	5th October 2001	186,190	1st December 2006	264.0p
Unapproved Options	26th September 2002	280,000	5th June 2005	268.0p
Savings Related	7th October 2002	364,150	1st December 2005	203.0p
Savings Related	7th October 2002	314,817	1st December 2007	203.0p

Options granted under the Savings Related Scheme are normally exercisable within six months from the date exercisable as shown above. Options under the Executive Scheme and the unapproved share option scheme are normally exercisable within seven years from the date exercisable as shown above.

26. RESERVES

	Share Premium Account £m	Revaluation Reserve £m	Other reserves		Profit and Loss Account £m
			Capital Redemption Reserve £m	Merger Reserve £m	
GROUP					
At 29th December 2001, as previously reported	6.8	11.0	0.6	1.5	82.1
Prior year adjustment – FRS19	–	–	–	–	(0.4)
At 29th December 2001, as restated	6.8	11.0	0.6	1.5	81.7
Loss for year	–	–	–	–	(0.8)
Exchange movement	–	–	–	–	0.5
Transfer to realised reserve	–	(1.1)	–	–	1.1
Premium on allotment	0.5	–	–	–	–
At 28th December 2002	7.3	9.9	0.6	1.5	82.5

The cumulative amount of goodwill written off, net of any goodwill on disposals, is estimated to be £13.3 million. (2001: £13.3 million).

Any tax effect arising on the revaluation surplus realised is included, where applicable, in the tax on property disposals.

The profit and loss account of the Group includes an exchange loss of £1.0 million (2001: gain of £0.4 million) on the translation of Euro borrowings used to finance the purchase of Connacht Court Group Ltd.

	Share Premium Account £m	Capital Redemption Reserve £m	Other reserves		Profit and Loss Account £m
			Capital Reserve £m	Merger Reserve £m	
COMPANY					
At 29th December 2001	6.8	0.6	11.3	3.5	61.8
Profit for year	–	–	–	–	14.9
Premium on allotment	0.5	–	–	–	–
At 28th December 2002	7.3	0.6	11.3	3.5	76.7

NOTES TO THE FINANCIAL STATEMENTS

27. SHAREHOLDERS' FUNDS – RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Group		Company	
	2002 £m	2001 £m Restated	2002 £m	2001 £m
Profit for the financial year	9.2	12.8	24.9	14.4
Dividends	(10.0)	(10.0)	(10.0)	(10.0)
	(0.8)	2.8	14.9	4.4
Other recognised gains and losses relating to the year	0.5	(0.2)	–	–
Movement in share capital	–	(0.2)	–	(0.2)
Share premium	0.5	1.0	0.5	1.0
Capital redemption	–	0.3	–	0.3
Net addition to Shareholders' funds	0.2	3.7	15.4	5.5
Opening Shareholders' funds, as previously stated	107.7	104.0	89.7	84.2
Prior year adjustment – FRS19	(0.4)	(0.4)	–	–
Opening Shareholders' funds, as restated	107.3	103.6	89.7	84.2
Closing Shareholders' funds	107.5	107.3	105.1	89.7

28. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2002 £m	2001 £m
Operating profit	21.6	25.0
Depreciation of – tangible fixed assets	10.6	11.1
– textile rental items	18.3	19.5
Amortisation of goodwill	4.7	4.4
Loss on sale of tangible fixed assets	–	2.6
Decrease/(increase) in stocks	1.6	(0.7)
Decrease/(increase) in debtors	3.8	(1.5)
Increase/(decrease) in creditors	0.4	(5.1)
Adjustments in respect of – provisions	1.7	(0.9)
– pensions	1.3	0.8
Net cash inflow from operating activities	64.0	55.2

29. ACQUISITIONS AND DISPOSALS

PURCHASE OF BUSINESSES

Three minor acquisitions were completed in the year as detailed below:

	2002 £m
Fair value and book value of net assets acquired –	
Tangible fixed assets	0.9
Textile rental items	0.5
Stocks	0.2
Debtors	1.1
Creditors	(1.2)
Loans and finance leases	(0.2)
Taxation	(0.1)
	1.2
Goodwill	4.5
Satisfied by cash	5.7

The cash flows generated by the acquisitions are not significant and have not been disclosed separately.

Two minor acquisitions were completed in the 52 weeks to December 2001 for a total cash consideration of £2.7 million generating goodwill of £2.1 million.

DISPOSAL OF BUSINESSES

In 2002, the investment in Lilliput Dunmurry Limited was sold for nil consideration.

	2002 £m
Net assets disposed of –	
Tangible fixed assets	0.5
Textile rental items	0.3
Stocks	0.1
Debtors	0.3
Creditors	(0.2)
Loss on disposal (see note 5)	1.0

NOTES TO THE FINANCIAL STATEMENTS

30. RECONCILIATION OF NET CASH INFLOW TO MOVEMENT IN NET DEBT

	2002 £m	2001 £m
(Decrease)/increase in cash in year	(3.6)	3.1
Cash outflow on change in debt and lease financing	20.5	14.4
Change in net debt resulting from cash flows	16.9	17.5
Amortisation of issue costs of bank loans	(0.5)	(0.2)
Loans and leases acquired with subsidiary	(0.2)	(0.2)
Exchange movement	(1.1)	0.5
Movement in net debt in year	15.1	17.6
Opening net debt	(77.0)	(94.6)
Closing net debt	(61.9)	(77.0)

31. ANALYSIS OF NET DEBT

	At 29th December 2001 £m	Cash flow £m	Acquisitions (excluding cash) £m	Other non-cash changes £m	Exchange movements £m	At 28th December 2002 £m
Cash in hand and at bank	1.3	(0.7)	–	–	–	0.6
Overdraft	–	(2.9)	–	–	–	(2.9)
		(3.6)				
Debt due after more than one year	(76.7)	19.3	–	(0.5)	(1.1)	(59.0)
Finance leases	(1.6)	1.2	(0.2)	–	–	(0.6)
		20.5				
Total	(77.0)	16.9	(0.2)	(0.5)	(1.1)	(61.9)

Non-cash changes represent the effects of amortising issue costs relating to bank loans.

32. FINANCIAL INSTRUMENTS

POLICIES AND STRATEGIES

Details of the Group's policies and strategies in relation to financial instruments are given in the paragraphs on Policies and Strategies, Interest Rate Risk, Liquidity Risk and Foreign Currency Risk in the Financial Review on pages 13 to 14.

FRS13 Derivatives and Other Financial Instruments – Disclosures also requires numerical disclosures in respect of financial assets and liabilities and these are set out below. The Group has taken advantage of the exemptions available under the FRS, to exclude details in respect of short term debtors and creditors.

	2002 £m	Group 2001 £m
FINANCIAL ASSETS		
Cash at bank and in hand	0.6	1.3

For interest purposes cash, which earns interest at prevailing floating rates, is offset against overdrafts through a pooling arrangement with the Group's Principal banker. Surplus cash is placed on Treasury Deposit with one of the Group's bankers.

FINANCIAL LIABILITIES

Overdrafts	2.9	–
Unsecured bank loans	59.0	76.7
Finance leases	0.6	1.6
Provisions	9.9	8.4
	72.4	86.7

MATURITY PROFILE OF THE FINANCIAL LIABILITIES

	Overdraft £m	Debt £m	Finance leases £m	Provisions £m	Total £m
AS AT DECEMBER 2002:					
Within one year	2.9	–	0.5	2.3	5.7
Within one to two years	–	–	0.1	2.4	2.5
Within two to five years	–	59.0	–	2.1	61.1
Over five years	–	–	–	3.1	3.1
	2.9	59.0	0.6	9.9	72.4
AS AT DECEMBER 2001:					
Within one year	–	–	1.3	2.7	4.0
Within one to two years	–	–	0.3	1.0	1.3
Within two to five years	–	76.7	–	1.1	77.8
Over five years	–	–	–	3.6	3.6
	–	76.7	1.6	8.4	86.7

NOTES TO THE FINANCIAL STATEMENTS

32. FINANCIAL INSTRUMENTS *Continued*

At December 2002 £9.6 million (2001: £9.3 million) of the Group's bank loan is repayable within 12 months and a further £9.9 million (2001: £9.6 million) within one to two years of the balance sheet date, but, as the amount is drawn under a five year committed multi-option facility, including an overdraft facility, it is classified in the table above as repayable within two to five years as the expiry date of the facility is January 2005.

The total facility available as at 28th December 2002 was £94.5 million (2001: £103.8 million) leaving an undrawn committed facility of £32.6 million (2001: £27.9 million).

HEDGES

As explained in the Financial Review it is the Group's policy to partly hedge interest rate risks.

The table below shows the extent to which the Group has off-balance sheet (unrecognised) gains and losses in respect of financial instruments used as hedges at the end of the year. It also shows the amount of such gains which have been included in the profit and loss account for the year and those gains and losses which are expected to be included in the next year's, or later, profit and loss account.

	Total net gains and losses £m
Unrecognised losses on hedges at 30th December 2000	(1.6)
Losses not recognised in 2000 recognised in 2001	0.6
Losses arising in 2001 not recognised in 2001	<u>(1.2)</u>
Unrecognised losses on hedges at 29th December 2001	(2.2)
Losses not recognised in 2001 recognised in 2002	1.5
Losses arising in 2002 not recognised in 2002	<u>(2.4)</u>
Unrecognised losses on hedges at 28th December 2002	<u>(3.1)</u>
Of which:	
Losses expected to be included in 2003 income	(1.5)
Losses expected to be included in 2004 income or later	<u>(1.6)</u>
	<u>(3.1)</u>

INTEREST RATE RISK PROFILE

	Fixed rate financial liabilities £m	Floating rate financial liabilities £m	Financial liabilities on which no interest is paid £m	Total £m
AS AT DECEMBER 2002:				
Sterling	45.4	-	9.3	54.7
Euro	0.2	16.9	0.6	17.7
Total	<u>45.6</u>	<u>16.9</u>	<u>9.9</u>	<u>72.4</u>
AS AT DECEMBER 2001:				
Sterling	46.5	16.2	7.9	70.6
Euro	0.1	15.5	0.5	16.1
Total	<u>46.6</u>	<u>31.7</u>	<u>8.4</u>	<u>86.7</u>

The Group's creditors falling due within one year (other than bank and other borrowings) are excluded from the above tables either due to the exclusion of short term items or because they do not meet the definitions of a financial liability, such as tax balances.

FIXED RATE FINANCIAL LIABILITIES

The effect of the Group's interest swap is to classify £45m of borrowings in the above table as fixed rate, the weighted average rate being 6.4% (2001: 6.4%) and weighted average period remaining being 24 months (2001: 36 months).

The interest rates on finance lease arrangements are fixed and are set at the point of inception. The average interest rate incurred is 9.4% (2001: 8.1%) and the weighted average period remaining is 12 months (2001: 13 months).

FLOATING RATE FINANCIAL LIABILITIES

Floating rate financial liabilities bear interest at rates, based on relevant national LIBOR equivalents, which are fixed in advance for periods of between one and six months. These are to some extent protected by caps and collars as follows:-

The Group also has a collar taken out in October 2000 over £25m with a 5.95% floor and an 8% cap for the period to March 2005.

NOTES TO THE FINANCIAL STATEMENTS

32. FINANCIAL INSTRUMENTS *Continued*

FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Bank loans are drawn down and interest set for no more than a six month period. In view of this the fair value of bank loans is not materially different from the book value. Except as shown in the table below, the fair value of other financial liabilities was not materially different from the book value.

	Book value 2002 £m	Fair value 2002 £m	Book value 2001 £m	Fair value 2001 £m
Derivative financial instruments held to manage the interest rate profile: Interest rate products	-	(3.1)	-	(2.2)

Where available, market rates have been used to determine fair value.

33. FINANCIAL COMMITMENTS OF SUBSIDIARY UNDERTAKINGS

	2002 £m	2001 £m
CAPITAL EXPENDITURE		
Estimated amount of capital expenditure contracted but not provided for	0.4	0.5
REVENUE EXPENDITURE		
Commitments under operating leases to make payments in the following year:		
Land and buildings:		
Operating leases which expire – within one year	0.3	-
– between two and five years	2.1	1.3
– in five years or more	6.2	7.0
	<u>8.6</u>	<u>8.3</u>
Plant and machinery:		
Operating leases which expire – within one year	0.2	0.4
– between two and five years	0.3	0.3
	<u>0.5</u>	<u>0.7</u>

PENSIONS

The Group operates pension schemes of both the funded defined benefit and the defined contribution type for a substantial number of employees.

The assets of the schemes are held in separate trustee administered funds. The schemes are subject to independent actuarial valuations every three years (three and a half years for Ireland), using the Attained Age Method (except for the valuation of the Connacht Court Scheme which used the Projected Unit Credit method) and pension costs are assessed in accordance therewith. The principal actuarial assumptions were as follows:

	Date of valuation	Annual rate of investment return	Annual pension increase	Annual earnings increase	Aggregate market value £m	% of benefits due to members
DEFINED BENEFIT						
Johnson Group Staff Pension Scheme	5th April 2002	6.5%	3%	3.7%	130.9	99%
Semara Augmented Pension Plan	1st July 2001	6%	3%	5%	4.9	133.1%
Connacht Court Scheme	1st November 2000	7%	nil	5%	3.2	111%
Johnson Group Retirement Plan	5th April 2002	6.5%	2.7%	3.7%	3.3	-

Effective 1st January 2002 the assets and the liabilities of the Semara Pension Plan were merged into the Johnson Group Staff Pension Scheme and from that date the eligibility for admission of new members has been severely restricted and since closed. The actuarial valuations at 5th April 2002 identified that the surplus on the Johnson Group Staff Pension Scheme has been eliminated and that on the Johnson Group Retirement Plan significantly reduced. The cash contribution holiday was discontinued in respect of the Johnson Group Staff Pension Scheme with effect from 1st July 2002.

The Johnson Group Retirement Plan consists mainly of defined contribution arrangements. The disclosure above relates to a small section of the plan which has defined benefit arrangements. Contributions to the defined contribution part were 50% of the full rate from 1st January 2001 and were increased to 75% of the full rate with effect from 1st July 2002.

NOTES TO THE FINANCIAL STATEMENTS

33. FINANCIAL COMMITMENTS OF SUBSIDIARY UNDERTAKINGS *Continued*

Contributions to the Semara Augmented Pension Plan, based on the latest actuarial valuation detailed above, were suspended on 1st January 2002.

Under current accounting policies the decline in stock market values since the last valuations and the increase in accrued liabilities as a result of changes in financial conditions will be reflected in the Group's financial statements prepared after the next triennial valuation.

PRIVATE HEALTHCARE

The Group operates an unfunded defined benefit private healthcare scheme for eligible retirees in the UK.

The scheme is subject to an independent actuarial review which assesses the cost of providing benefits for current and future eligible retirees.

The latest formal review was undertaken as at 29th December 2001. The actuarial review was performed using the Project Unit Credit Method, using a discount rate of 6%. The main long term actuarial assumptions used in the review were that the annual increase in medical costs would be 3.2% and that the retirement age of eligible employees will be 60 for females and 62 for males.

The review showed that there was a shortfall of £0.1 million in the balance sheet provision. This shortfall is being amortised over the expected future service of the current actives which is calculated to be 2.6 years.

ADDITIONAL DISCLOSURES

Under the transitional arrangements included in FRS17 (Retirement Benefits) the following additional disclosures are required in respect of the Group pension and post retirement healthcare arrangements. The full actuarial valuations of the pension schemes and the review of the healthcare scheme disclosed above have been updated to 28th December 2002 by independent qualified Actuaries.

The main financial assumptions used in calculating the FRS17 liability are:

	UK Pension Schemes		Irish Pension Schemes		Private Healthcare	
	2002	2001	2002	2001	2002	2001
Inflation	2.2%	2.5%	2.25%	2.5%	-	-
Rate of increase in salaries						
- Ordinary members	2.7%	3%	3.25%	4%	-	-
- Executive members	-	-	3.75%	4.5%	-	-
Rate of increase for pensions in payment and deferred pensions	2.2%	2.5%	2.25%	2.5%	-	-
Rate of increase in medical costs	-	-	-	-	8%	8%
Rate used to discount scheme liabilities	5.6%	6%	5.5%	6%	5.6%	5.4%

The rate of increase in medical costs is assumed to reduce, on a straight line basis in years 2 to 7, to 3.75% and remain constant thereafter.

The Company made the following contributions to the pension schemes:

Johnson Group Staff Pension Scheme	1.1.02 to 30.6.02 1.7.02 onwards	Nil 24.7% of basic salary
Johnson Group Retirement Plan	1.1.02 to 30.6.02 1.7.02 onwards	between 2% and 3.5% of pensionable salary, dependent on grade between 3% and 5.25% of pensionable salary, dependent on grade
Semara Augmented Pension Plan	- Ordinary and Executive members	Nil
Connacht Court Scheme	- Ordinary members - Executive members	9.4% of pensionable salary 17.9% of pensionable salary

Pending a review of pension arrangements, which the Directors believe will reduce the costs to the Company, the Company will continue to contribute to the Schemes at the above rates, except for the Connacht Court Scheme where the Company has increased its contributions from 1st January 2003 to 10.7% and 27.5% of pensionable salary for Ordinary and Executive members respectively.

The post retirement healthcare scheme is unfunded. The Company accounted for a charge of £1,600 per eligible member in the profit and loss account in 2002 and expects this to remain unchanged in 2003.

NOTES TO THE FINANCIAL STATEMENTS

33. FINANCIAL COMMITMENTS OF SUBSIDIARY UNDERTAKINGS *Continued* The assets in the schemes and the expected rates of return were:

	UK Pension Schemes		Irish Pension Schemes		Post Retirement Healthcare		Total £m
	Long term rate of return	Value £m	Long term rate of return	Value £m	Long term rate of return	Value £m	
December 2002							
Equities	6.5%	82.9	7.5%	2.4	—	—	85.3
Bonds	4.9%	28.9	5.0%	0.8	—	—	29.7
Other	2.2%	2.1	5.8%	0.4	—	—	2.5
Total market value of assets		113.9		3.6		—	117.5
Present value of scheme liabilities		(141.1)		(4.4)		(1.9)	(147.4)
Shortfall in scheme		(27.2)		(0.8)		(1.9)	(29.9)
Related deferred tax asset		8.2		0.2		0.6	9.0
Net liability		(19.0)		(0.6)		(1.3)	(20.9)

If the above were to be reflected in the balance sheet at 28th December 2002 the effect would be to reduce net assets and profit and loss reserves by £24.2 million.

	UK Pension Schemes		Irish Pension Schemes		Post Retirement Healthcare		Total £m
	Long term rate of return	Value £m	Long term rate of return	Value £m	Long term rate of return	Value £m	
December 2001							
Equities	7%	106.3	8%	2.9	—	—	109.2
Bonds	5.4%	25.1	5.5%	0.8	—	—	25.9
Other	3.3%	5.1	6.3%	0.5	—	—	5.6
Total market value of assets		136.5		4.2		—	140.7
Present value of scheme liabilities		(126.3)		(3.8)		(2.2)	(132.3)
Surplus/(shortfall) in scheme		10.2		0.4		(2.2)	8.4
Related deferred tax (liability)/asset		(3.1)		(0.1)		0.7	(2.5)
Net asset/(liability)		7.1		0.3		(1.5)	5.9

If the above were to be reflected in the balance sheet at 29th December 2001 the effect would be to increase net assets and profit and loss reserves by £2.2 million.

The FRS17 liability has increased during the year ended 28th December 2002 as set out below:

	£m
At 29th December 2001	8.4
Current service cost	(3.0)
Contributions	1.9
Past service cost	(0.5)
Other finance income	1.4
Actuarial losses	(38.1)
At 28th December 2002	(29.9)

Had the Group adopted FRS17 early, the following amount would have been included in the profit and loss account:

	£m
Current service cost	3.0
Past service cost	0.5
Total which would have been charged to total operating profit under FRS17	3.5
Expected return on scheme assets	9.2
Interest on scheme liabilities	(7.8)
Net amount which would have been included in other financial income under FRS17	1.4
Total which would have been charged to profit before taxation	2.1

In addition, the following amounts would have been recognised in the statement of total recognised gains and losses:

	£m	2002 % of scheme assets
Difference between actual and expected return on scheme assets	(29.7)	(25)
Experience losses on scheme liabilities	(1.7)	(1)
Changes in assumptions	(6.7)	(6)
	(38.1)	

NOTES TO THE FINANCIAL STATEMENTS

34. PRINCIPAL SUBSIDIARY UNDERTAKINGS

	Principal activity	Country of incorporation or registration	Country of principal operations
Johnsons Apparelmaster Limited	Textile Rental and Specialist Linen Rental (Stalbridge)	England	Great Britain
Central Laundries Limited	Textile Rental	Northern Ireland	Northern Ireland
CCM Limited	Garment Sourcing	England	Great Britain
Johnsons Washroom Services Limited	Washroom Services	England	Great Britain
Connacht Court Limited	Textile Rental	Eire	Eire
Micron Clean (Ireland) Limited	Specialist Textile Rental	Eire	Eire
Johnson Cleaners UK Limited	Drycleaning	England	Great Britain
Johnson Group Management Services Limited	Management Services	England	Great Britain
Johnson Group Properties PLC	Property	England	Great Britain
Johnson (CCG) Limited	Holding Company	England	Great Britain
Johnson Finance Limited	Finance	England	Great Britain
Johnson Investment Limited	Holding Company	England	Great Britain
Semara Estates Limited	Property	England	Great Britain
Connacht Court Group Limited	Holding Company	Eire	Eire

All subsidiary undertakings are wholly owned and have coterminous year ends. A full list of subsidiary undertakings will be annexed to the next annual return of Johnson Service Group PLC to be filed with the Registrar of Companies.

Except as shown below, Johnson Service Group PLC holds 100% of the share capital of the principal subsidiary undertakings and all of the share capital is Ordinary share capital.

Johnson Investments Limited holds 100% of the Ordinary shares of Johnsons Apparelmaster Limited, CCM Limited and Semara Estates Limited, through an intermediate non trading subsidiary and directly holds 100% of the 'A' Ordinary shares in CCM Limited and Semara Estates Limited.

Johnson (CCG) Limited holds 100% of the share capital of Connacht Court Group Limited, which includes cumulative redeemable preference shares.

Connacht Court Group Limited holds 100% of the issued share capital of Connacht Court Limited (which includes cumulative preference shares). Connacht Court Limited holds 100% of the issued share capital of Micron Clean (Ireland) Limited.

AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF JOHNSON SERVICE GROUP PLC

We have audited the financial statements which comprise the consolidated profit and loss account, the consolidated and Company balance sheet, the consolidated cash flow statement, the Group statement of total recognised gains and losses and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the directors' remuneration report ("the auditable part").

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

Our responsibility is to audit the financial statements and the auditable part of the directors' remuneration report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report including the opinion has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

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

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

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

BASIS OF AUDIT OPINION

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

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

OPINION

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group at 28th December 2002 and of the loss and cash flows of the Group for the 52 weeks then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the directors' remuneration report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Liverpool
4th March 2003

WEB SITE AND ELECTRONIC COMMUNICATIONS

WEB SITE ADDRESS

www.johnsonplc.com

ELECTRONIC COMMUNICATIONS

The Company now offers Shareholders the opportunity to receive communications such as notices of Shareholder meetings and the annual report and accounts electronically. The Company encourages the use of electronic communication as, not only does it save the Company printing and mailing costs, it is also a more convenient and prompt method of communication.

If you decide to receive communications electronically, you will be sent an e.mail message each time a new Shareholder report or notice of meeting is published. The e.mail will contain links to the appropriate website where documents can be viewed. You will, in future years, also be able to electronically register your proxy votes for general meetings of the Company if you so wish. It is possible to change your instruction at any time by amending your details on the register.

If you would like to receive electronic communications, you will need to register your e.mail address by accessing the Shareholder Services page within the Investor Relations section of the Company's website at www.johnsonplc.com.

If you decide not to register an e.mail address with the registrar, you will continue to receive all communications in hard copy form.

If you have any queries regarding electronic communications, please contact the Company's registrar, Capita Registrars, on 0870 1623100.

JOHNSON

SERVICE GROUP PLC

The UK's leading workwear rental business, providing a comprehensive clothing portfolio to the workplace, supported by sourcing, supply and aftercare service solutions.

The UK's market leader in the provision of premium linen, catering garments and aftercare support services to the hospitality, food service and corporate entertainment markets.

Specialist washroom, hygiene and support services to UK businesses. Committed to maintaining our customers' washroom environments through discreet service excellence.

Ireland's leading provider of textile rental and aftercare services, including specialist 'clean room' processing units to support the health, pharmaceutical and food service sectors.

One of Europe's leading workwear sourcing and manufacturing companies. Delivering innovative supply solutions through global partnerships and bespoke customer managed services.

Britain's number one drycleaners with a network of conveniently located stores nationwide. Leaders in drycleaning, specialist textile and garment aftercare services.

We would like to thank all the Group employees who are featured in this year's annual report – Graeme Addison, Steve Anderton, Owen Bailey, Christine Boyle, Raksha Chohan, Rikki Fraser, Paul Felstead, Shane Foxlow, Stephen Goddard, Janet Gornall, Georgina Gulliford, Laura Hatcher, Colin Hobbs, Paul Hutton, Ranbir Kaur, Balbir Khera, Vikki Lafford, Amanda Martin, Patricia Meggison, Geoff Milverton, Feroz Patel, Eileen Ross, Melanie Saralis, Alfa Sindhi, Donald Smith, Maureen Swanwick, Paul Taylor, Emma Thomas, Paul Waite, Sian Wissen, Louise Wolstenholme.

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