

Directors' report

The Directors present their report and the financial statements for the year ended 31 December 1999.

Principal activities The principal activities of the Group during the year were the manufacture, processing and distribution of sewing thread for industrial and domestic use, homewares, fashionwares, knitwear, garments and for the period up to April 1999, precision engineering products.

Share capital There was no change in the issued ordinary share capital during the year.

Major shareholdings As at 25 February 2000, the Group was aware of the following persons who were directly or indirectly interested in 3% or more of the Group's issued ordinary share capital:

	Number of Ordinary Shares	Percentage held
UBS UK Holding Limited (held through Phillips and Drew subsidiaries)	98,016,960	13.93
RIT Capital Partners Plc*	92,585,400	13.16
Guinness Peat Group Plc	44,166,011	6.28
Brandes Investment Partners LP	25,333,518	3.60
Arlington Capital Investors Limited	21,750,000	3.09
Legal and General Investment Management Limited	21,128,574	3.00

*Includes 47,669,000 ordinary shares held by Finance and Trading Limited who act with RIT Capital Partners Plc under Section 204 of the Companies Act 1985.

Acquisitions and disposals Details of acquisitions and disposals during the year are set out in the Financial Review on pages 4 to 6.

Review of the business A review of the business during the year and of prospective future developments is contained within the Chairman's statement and the Reviews set out on pages 1 to 6 which constitute an integral part of this Report.

Property The majority of the Group's freehold and long leasehold properties were professionally valued by Healey and Baker at 30 June 1992. Group occupied properties were generally valued on the basis of open market value for existing use, although certain limited parts were valued

on the basis of depreciated replacement costs. Those properties held surplus to requirements were valued on the basis of open market value. Since the completion of Healey and Baker's 1992 valuation a number of properties have been sold and, in the Directors' view, the surplus over book value, based on the 1992 valuation, has now been reduced to around £47 million.

Results and dividends The results of the Group for the year appear in detail on page 18. The preference dividends, amounting to £715,863 (1998 – £715,863) were paid on their due date.

The Directors recommend a final dividend of 1.5p per share. If approved by shareholders, dividends for the year will total 3p (1998 – 3p). Movements in reserves are set out on pages 45 and 46.

Directors Sir Harry Djanogly, Sir Victor Blank, Messrs Flower, Hartley and Merrifield, Ms Kantor and Lord Owen served as Directors throughout the year. Sir David Alliance resigned as Chairman on 21 July 1999. Mr Ost ceased to be a Director of the Group on 14 April 1999 and Dr Speirs resigned as a Director of the Group on 7 May 1999.

In accordance with the Articles of Association of Coats Viyella Plc Mr Flower, Sir Victor Blank and Lord Owen retire by rotation under Article 110 and, being eligible, offer themselves for re-election.

Directors' interests The interests of the Directors in the share capital of Coats Viyella Plc are shown on page 16.

Coats Viyella 1994 executive share option scheme Options in respect of 4,987,800 ordinary shares were granted on 29 March 1999 to twenty-nine eligible executives at a price of 42 pence per share.

Coats Viyella sharesave scheme No options over ordinary shares were granted under the sharesave scheme during the year.

Employment practices in the UK Progress has been maintained to ensure that employment practices and policies continue to match best practice. The need to improve efficiency and performance has necessitated

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significant structural change leading to further factory closures and headcount reductions. Effective communications have played a major part both in explaining the changes and motivating those remaining. Management training and development activities continued during 1999.

Ethical employment The Group operates throughout the world in full compliance with ILO conventions forbidding the use of child or forced labour. The Group recognises the right of workers to form and join Trade Unions. Workers are employed on the basis of their ability to work and not on the basis of their race, individual characteristic, creed or political opinion. The Group seeks to ensure that its suppliers also act fully in conformity with this policy.

It is the Group's policy to offer equal opportunities to disabled persons applying for vacancies and provide them with the same opportunities for employment, training, career development and promotion as are available to all employees, within the limitation of their aptitude and abilities.

Supplier credit It is the Group's policy that its subsidiaries follow the CBI Code of Practice regarding the prompt payment of suppliers. A copy of the Code may be obtained from the CBI. In particular, for all trade creditors it is the Group's policy to agree the terms of payment at the start of business with that supplier, ensure that suppliers are aware of the terms of payment and pay in accordance with its contractual and other legal obligations.

As the parent company does not trade, the number of days' credit in 1999 was nil (1998 – nil).

Research and development All Divisions have continued to devote resources to research and development to improve products and processes. Contacts are being maintained and developed with outside institutions and centres of design excellence enabling the Group to maintain its leading position in technology and design.

Pension fund The Coats Viyella Pension Plan is a contributory scheme open to most UK employees of the Group and provides benefits additional to those from the State Basic Pension Scheme whilst enabling members to be contracted out of the State Earnings Related Pension

Scheme. In addition to the normal retirement pension there are generous benefits payable if members die in service or retire early because of ill health. Members may also receive an early retirement pension on favourable terms from age 50 onwards.

Insurance for officers of the Group The Group maintains insurance for officers of the Group indemnifying them against certain liabilities incurred by them while acting as officers of the Group.

Charitable donations Payments of £15,000 (1998 – £117,000) were made to charities during the year.

Auditors A resolution to reappoint Deloitte & Touche as the Group's auditors and to authorise the Directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting.

Annual General Meeting Attached to this report on pages 55 and 56 is the Notice of Annual General Meeting, which sets out the resolutions for the ordinary and special business of the Annual General Meeting.

Directors' responsibilities for the financial statements

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group as at the end of the financial year and of the profit or loss for that period. It is also the Directors' responsibility to maintain adequate accounting records, safeguard the assets of the Group and take reasonable steps in preventing and detecting fraud and other irregularities.

The Directors confirm that suitable accounting policies consistently applied and supported by reasonable and prudent judgment and estimates, have been used in the preparation of the financial statements on a going concern basis and that applicable accounting standards have been followed.

By Order of the Board

Christopher Healy
Company Secretary
7 March 2000