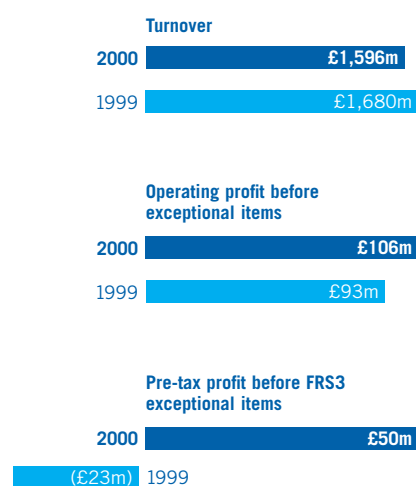


Financial review



Accounting Standards The Group's accounting policies reflect the applicable standards issued by the Accounting Standards Board.

Two standards became mandatory during 2000, FRS15 (Tangible Fixed Assets) and FRS16 (Current Tax), and have been formally adopted in this Annual Report but neither standard has had a significant effect on the Group accounts.

Review of operating results Group turnover for the year was £1,596.1 million (1999 – £1,679.5 million), down 5% on that reported for the previous year and total operating profit before exceptional items was £106.1 million (£92.7 million), an increase of 14%. Both comparisons are materially impacted by discontinued operations, principally the Precision Engineering Division sold in April 1999 and the garments business of Madura Coats Limited, India, sold in January 2000. In addition, substantially all of the Contract Clothing Division was sold to management at the beginning of December so that these accounts include only 11 months trading for that Division.

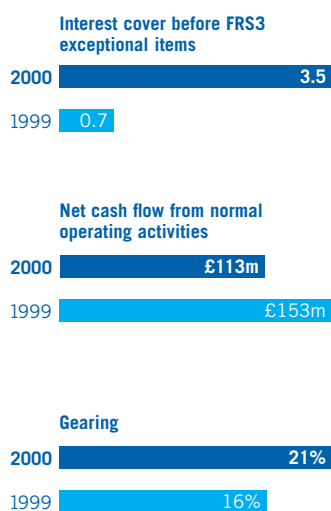
Turnover of continuing operations was £1,364.3 million (£1,262.6 million), an increase of 8%, and operating profit of total continuing operations before exceptional items was £114.8 million (£85.0 million), an increase of 35%. Pre-tax loss of £29.9 million (profit £63.6 million) was significantly down, principally as a result of the net loss on the sale or termination of operations of £84.7 million (including £128.2 million in respect of Contract Clothing), compared with a net gain of £83.8 million in 1999 largely the profit from the sale of the Precision Engineering Division (£114.7 million).

Reorganisation costs were £34.8 million (£67.0 million), reflecting the continued pace of restructuring required to meet global sourcing changes. Other exceptional items were £1.5 million.

Other items of (£80.2) million were made up of the loss on sale of the Contract Clothing Division of £128.2 million, £27.6 million profit on the sale of the garments business in India, £16.5 million profit on the sale of certain brands, principally Ladybird, other net losses on disposals of £0.6 million and profits on sale of fixed assets of £4.5 million. The loss on disposal of the Contract Clothing Division included £5.3 million of goodwill previously written off to reserves.

Considerable progress has been made since the year end in completing further disposals of Branded Clothing and Home Furnishings businesses. As none of these disposals was subject to an unconditional contract at 31 December 2000, in accordance with FRS3 and FRS12, we are unable to include the results of these disposals in the 2000 accounts.

In order to enable shareholders to make an assessment of the likely shape of the Group going forward, we have restated the segmental



analysis to show the turnover and operating profits of the businesses currently in the process of disposal separately from those of the ongoing Coats and Fashion Retail businesses.

On a like-for-like basis, excluding currency movements and the effect of acquisitions and disposals, turnover of total continuing businesses was up 3% and operating profit before exceptional items increased by 25%. For the ongoing businesses of Coats and Fashion Retail, the equivalent increases were 5% on turnover and 32% on operating profit before exceptional items.

For the Group, **net interest costs** of £20.1 million were reduced from 1999 (£21.7 million). After stripping out exceptional and one-off items, the net reduction is almost entirely attributable to the net savings arising in respect of the proceeds from disposals.

The **tax effects** of exceptional items and the termination of loss making operations significantly distort the tax rate. Unrelieved tax losses and reorganisation costs in certain territories, particularly the UK, continue to affect the Group's tax position, but their impact has been mitigated through extensive tax planning and as a result the Group's underlying tax rate is now around 30% (45%).

The principal **exchange rates** to sterling used in preparing the financial statements were:

£m		2000	1999
Average	US\$	1.51	1.62
	Euro	1.64	1.52
Year End	US\$	1.49	1.61
	Euro	1.59	1.61

The translation of 1999 overseas turnover and profits at 2000 average rates increased sales by £23 million and operating profit before exceptional items by £4 million.

No employer cash contributions were made to the UK pension plan. During the year an actuarial valuation of the plan was carried out which disclosed a surplus of £222.4 million. The actuaries have recommended that the suspension of employer cash contributions continue until the next valuation. Due to the continuing actuarial surplus of assets in the plan, a net credit of £5.2 million (£4.5 million) is included in the results for the period.

Towards the end of the year the new accounting standard dealing with accounting for FRS17 (Retirement Benefits) was published. This will not become fully effective until the year ending 31 December 2003. This standard will have a material impact on the Group accounts, particularly in the light of the current disposal programme. Until this

programme is completed and the implications for the pension plan have been fully reviewed, the Group will continue to follow the existing accounting standard (SSAP 24).

Net **cash inflow** from normal operating activities was £113.2 million (£158.5 million) of which continuing operations accounted for £134.2 million (£143.6 million). There was an increase in net working capital of £41.3 million (reduction £31.6 million) but £22.5 million of the increase related to the discontinued operations. The remainder of the increase related largely to Coats where stocks were increased to support the higher industrial thread sales and the global expansion of the speciality filament thread business. The cash cost of reorganisation was £39.9 million (£40.1 million).

Average **net working capital** during the year was 29.2% of sales (26.2%) and **capital expenditure** in 2000 was:

£m	2000	1999
UK	13.4	20.0
Overseas	38.4	35.6
Total	51.8	55.6

With the acceleration of the migration of apparel manufacture from high cost territories and the globalisation of supply chains, the Group spent £51.8 million (of which £9.0 million arose in discontinued operations – 1999 £17.9 million) on upgrading its plant and equipment and expanding its network of service centres.

Reorganisation costs In 2000 reorganisation costs of £34.8 million were incurred or provided, compared with £67.0 million in 1999. Benefits from previous schemes are being achieved and new schemes continue to be accelerated in order to keep pace with the shifts in the marketplace.

Some £16 million of this year's provisions are attributable to Coats, of which some £4 million was incurred in integrating the Barbour Threads businesses, £6 million was incurred in Europe, £5 million in North America and £2.5 million in the UK with a major reorganisation of the European zips business and further reductions in spinning capacity and overheads. Contract Clothing accounted for £12 million prior to the decision to dispose of the business. A full segmental analysis of reorganisation costs is included in note 3 of the Report and Accounts.

Acquisitions and disposals There were no significant acquisitions during the year. Since the year end, however, the Group has agreed to acquire the industrial thread business of Dollfus Mieg et Cie, a French textile group.

As previously reported, the Group sold its Contract Clothing Division to management in December 2000, giving rise to a net loss on disposal of £128.2 million after accounting for £5.3 million of goodwill previously written off on acquisition. While the accounting loss amounted to £128.2 million, the cash cost of the disposal will be around £15 million once all the retained assets are sold.

Gains on other sales and terminations of operations principally relate to the sale of the Indian garments business (£27.6 million) and the sale of certain Viyella brands (£16.5 million).

Review of financial needs and resources Year end net debt at £148.2 million was some £23 million higher than at the end of 1999. Half of the increase related to exchange losses on foreign borrowings and the remainder to the financing of increased levels of working capital. In addition approximately £19 million of the proceeds from the sale of the Indian garments business have been invested in tax efficient instruments which are classified as current asset investments.

These changes together with the reduction in shareholder funds resulting from the loss on disposing of the Contract Clothing Division has increased Group gearing to 21% (16%).

A combination of permanent debt finance, and a prudent combination of committed and uncommitted bank facilities to cover working capital requirements, provide the Group's borrowing facilities. Consequent on the decision to divest the whole of the Viyella businesses, the Group's borrowing facilities were renegotiated to reflect a reduced level of operations. Details of borrowings are provided in note 19 of the Report and Accounts. The Group has facilities at the year end of £415 million (£514 million), of which £220 million (£279 million) were committed. The Group was not in breach of any of its borrowing covenants.

The Group policy on interest rates is to minimise exposure by ensuring an appropriate balance of fixed and floating rates. This exposure is managed through the use of interest rate swaps and forward rate agreements, the nominal principal of which does not exceed the underlying debt and cash positions covered.

The Group's translation exposure in the Profit and Loss account is not hedged. However, the Group's net assets are subject to hedges where it is felt that a currency could have a material impact on Shareholders' funds. At 31 December 2000, after taking into account currency denominated liabilities, approximately 2% of Shareholders' funds is exposed to fluctuations in the Sterling/US dollar exchange rate, and approximately 8% to the Sterling/Euro exchange rate.

Further details are provided in note 19 of the Report and Accounts.