

After a year in which trading conditions in most sectors of the global economy remained more depressed than expected, I am very pleased to report that Coats' core business of Thread was able to deliver growth in profits and sales broadly in line with management's original plan. Just as importantly, the sale of Fashion Retail in January means that the transformation of Coats into a business focused on Thread is largely complete. Negotiations on the sale of the remaining non-core business – Bedwear – are well advanced.

The overall group result for 2002 was affected by higher than expected trading losses at Fashion Retail. In the circumstances, we believe the sale of the business for a nominal sum whilst retaining assets with a value of approximately £24 million represents the best available outcome for shareholders. Headline earnings per share increased by 36% to 3.8p.

The present economic and political situation clearly holds great challenges for all businesses but I am confident that the substantial investment already made in restructuring and new capacity in our global Thread business will deliver progress in underlying performance during 2003 and beyond. However, with almost all Thread profits outside the UK, published earnings in sterling will continue to be subject to exchange translation, and in particular fluctuation in the US dollar.

In February this year the Board received a bid approach from a group of shareholders led by Guinness Peat Group. After due consideration and on the basis of advice received from the Group's advisors, Cazenove and HSBC, the Board has decided to recommend an offer at 58.5p per share including the special dividend of 2.5p in lieu of a final dividend. Further details and background to the offer and the Board's recommendation are contained in the offer announcement issued on 6 March 2003.

Sir Harry Djanogly CBE
Chairman