

The Directors present their report and the financial statements for the year ended 31 December 2002.

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 and fashionwares.

Share capital Details of the authorised and issued ordinary share capital during the year are shown in note 22 to the accounts.

Major shareholdings As at 5 March 2003, the Company was aware of the following persons who were directly or indirectly interested in 3% or more of the Company's issued ordinary share capital:

	Number of Ordinary Shares	% held
Guinness Peat Group Plc Note 1	179,082,728	25.3
Avenue Holdings Group Limited Note 2	179,082,728	25.3
RIT Capital Partners Plc	50,028,270	7.1
UBS Asset Management Limited	34,595,526	4.9
LFG Holdings Pty Limited	33,117,156	4.7
Chapman International Investments Limited	26,238,154	3.7
Legal & General Investment Management Limited	23,270,098	3.3

Note 1: The Company has been notified that, with effect from 27 February 2003, the nature of the interest of Guinness Peat Group PLC in 179,082,728 ordinary shares (the "Shares") altered as a result of the subscription by RIT Capital Partners Plc (and certain connected parties) and Chapman International Investments Limited for shares carrying, in aggregate, 50% of the voting rights in the share capital of Avenue Holdings Group Limited. The Shares are beneficially owned by a wholly owned subsidiary of Avenue Holdings Group Limited, Avenue Acquisition plc.

Note 2: The Company has been notified that, with effect from 27 February 2003, Avenue Holdings Group Limited acquired an interest in the Shares (see also, Note 1 above).

Acquisitions and disposals Details of acquisitions and disposals during the year are set out in the Financial review on pages 5 to 7.

Review of the business A review of the business during the year and of prospective future developments is contained within the Chairman's statement, the Chief Executive's review and the Financial review set out on pages 1 to 7 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 & 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 & 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 £33 million.

Results and dividends The results of the Group for the year appear in detail on page 20. The preference dividends, amounting to £715,863 (2001 – £715,863) were paid on their due date.

The Board has declared a special second interim dividend of 2.5p (in lieu of a final dividend for the year to 31 December 2002) in connection with the recommended offer for the Company announced on 6 March 2003. The payment of this dividend is conditional on the offer being declared wholly unconditional. In the event that the offer does not become unconditional in all respects the special second interim dividend will not be paid. In this situation the Board will recommend a final dividend. If the special second interim dividend is paid, dividends for the year will total 4.0p (2001 – 3.0p). Movements in reserves are set out on page 23.

Directors Sir Harry Djanogly, Sir Victor Blank, Martin Flower, Jonathan Lea, Bryan Anderson, Keith Merrifield and Blake Nixon served as Directors throughout the year. Eduardo Malone retired from the Board on 10 September 2002.

Directors' interests The interests of the Directors in the share capital of the Company are shown on pages 16 and 17.

Share plans Details for the Executive share plans are given in the Remuneration Report on pages 13 to 18.

Employment practices The Group is committed to ensuring that employment practices and policies continue to match best practice in every market where we operate. Effective employee communications play a key role in ensuring that changes within the Group are understood and wherever possible anticipated and management gatherings were held during the year to review the behavioural changes required to deliver the Group's strategy.

The Group's belief in meaningful employee consultation also resulted during 2002 in the creation of a Select Committee of Coats European Works Council, which provides employee representatives with an opportunity to be consulted in relation to key projects that may affect employment in more than one European country.

The Group continuously develops its employment practices and policies and uses the best practice that exists in its units to the benefit of its wider operations.

Ethical employment Coats operates worldwide in full recognition of key ILO conventions. Coats Worldwide Employment Standards Statement contains the ethical principals which are observed across its global operations. The statement refers to employee rights to a safe and healthy work environment, the right to collective representation and the Group's commitment to ensuring that no persons below the legal age of employment are employed.

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.

Employment within the Group is offered on the basis of the person's ability to work and not on the basis of their race, individual characteristics, creed or political opinion. The Group seeks to ensure that its suppliers also act in full conformity with this policy.

Health and safety The Group is committed to effective health and safety risk management. A senior executive responsible for Health and Safety has been appointed to identify and analyse best practices both within and outside Coats in order in due course to establish a Group wide Health and Safety management system. Such a system will, in particular, allow a more systematic reporting of incidents and better monitoring of the Group's Health and Safety performance so that appropriate information can be published in future years.

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 a supplier
- ensure suppliers are aware of the terms of payment
- pay in accordance with its contractual and other legal obligations

As the parent company does not trade, the number of days' credit in 2002 was nil (2001 – nil).

Research and development Resources have continued to be made available for 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 a leading position in technology and design.

Pension fund The Coats Pension Plan is a contributory scheme open to 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 £13,000 (2001 – £8,000) were made to charities during the year.

Auditors A resolution to re-appoint 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 The 2003 Annual General Meeting will be convened in due course and a Notice of Annual General Meeting will be sent to shareholders.

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 and that applicable accounting standards have been followed.

By Order of the Board
Christopher Healy
Company Secretary
7 March 2003