

**1 Continuing and discontinued operations and acquisitions**

	2002			2001 (Restated)		
	Continuing £m	Discontinued £m	Total £m	Continuing £m	Discontinued £m	Total £m
Turnover	<b>1,031.4</b>	<b>124.2</b>	<b>1,155.6</b>	1,069.4	177.6	1,247.0
Cost of sales	<b>678.3</b>	<b>63.3</b>	<b>741.6</b>	720.0	90.6	810.6
Net operating expenses						
Distribution costs	<b>205.6</b>	<b>60.8</b>	<b>266.4</b>	215.1	72.0	287.1
Administrative expenses	<b>93.6</b>	<b>17.3</b>	<b>110.9</b>	94.3	23.6	117.9
Other operating income (note 3)	<b>(1.1)</b>	<b>(2.4)</b>	<b>(3.5)</b>	(1.6)	(2.9)	(4.5)
Total	<b>298.1</b>	<b>75.7</b>	<b>373.8</b>	307.8	92.7	400.5
Operating profit	<b>55.0</b>	<b>(14.8)</b>	<b>40.2</b>	41.6	(5.7)	35.9
Profit on sale of fixed assets	<b>3.4</b>	<b>5.3</b>	<b>8.7</b>	9.2	4.4	13.6
Sale or termination of operations:						
Losses	<b>(7.0)</b>	<b>(3.1)</b>	<b>(10.1)</b>	(24.1)	(16.3)	(40.4)
Gains	–	–	–	–	13.6	13.6
	<b>(7.0)</b>	<b>(3.1)</b>	<b>(10.1)</b>	(24.1)	(2.7)	(26.8)

During the year ended 31 December 2002 the Group continued to withdraw from its Indian Textile business and completed the sale of its Jaeger Knitwear business.

A loss of £10.1 million was incurred in respect of the disposal of these operations. The sale of the Jaeger Knitwear business is shown as loss on disposal of discontinued operations following the sale of substantially the whole of the remainder of the Fashion Retail business in January 2003.

Subsequent to the year end, on 23 January 2003 the Group completed the disposal of the majority of its Fashion Retail businesses. In accordance with FRS3, the results of the businesses disposed have been shown as discontinued and prior year figures have been restated accordingly.

For the year ended 31 December 2001, the loss on disposal of continuing operations primarily related to the disposal of a US crafts business, Dimensions Inc, at a total loss of £11.8 million including £12.7 million of previously written off goodwill, and the exit from apparel fabric manufacturing in Madura Coats Limited in India at a cost of £12.8 million. The balance represented net adjustments in respect of prior year disposals.

The loss on disposal of discontinued operations related to the sale of the Group's Branded Clothing businesses and all Home Furnishing businesses other than the Dorma UK bedwear operations.

All acquisitions during the year have been accounted for using the acquisition method.

None of these acquisitions was material for the purposes of The Companies Act 1985, FRS3 or FRS6.

## 2 (a) Analysis of turnover, operating profit and net assets by product

	Turnover		Operating profit		Net assets	
	2002 £m	2001 Restated £m	2002 £m	2001 Restated £m	2002 £m	2001 Restated £m
<b>Thread</b>						
UK and Europe	321.6	325.9	12.8	18.1	125.8	132.8
North America	291.0	304.5	12.0	11.7	174.1	197.6
South America	87.6	103.7	11.5	12.6	64.1	78.8
Asia	222.4	203.8	35.7	29.5	147.0	151.4
Corporate (including net negative goodwill amortisation of £2.1 million (2001 – £nil))	–	–	5.3	0.8	(7.8)	28.8
<b>Total Thread</b>	<b>922.6</b>	<b>937.9</b>	<b>77.3</b>	<b>72.7</b>	<b>503.2</b>	<b>589.4</b>
Reorganisation costs and impairment of fixed assets			(15.2)	(25.7)		
Exceptional items			–	(1.1)		
<b>Thread operating profit</b>			<b>62.1</b>	<b>45.9</b>		
<b>Other businesses</b>						
India Textiles	22.6	32.4	(0.2)	(2.3)	5.8	13.7
Bedwear	75.7	86.6	(1.5)	0.7	22.8	23.7
Fashion Retail	134.7	155.7	(16.3)	(2.3)	44.4	50.5
Other	–	34.4	–	(0.4)	–	0.7
<b>Total other businesses</b>	<b>233.0</b>	<b>309.1</b>	<b>(18.0)</b>	<b>(4.3)</b>	<b>73.0</b>	<b>88.6</b>
Reorganisation costs and impairment of fixed assets			(3.8)	(5.8)		
Exceptional items			(0.1)	0.1		
<b>Other businesses operating loss</b>			<b>(21.9)</b>	<b>(10.0)</b>		
<b>Total Group</b>	<b>1,155.6</b>	<b>1,247.0</b>	<b>40.2</b>	<b>35.9</b>	<b>576.2</b>	<b>678.0</b>
Associated companies			0.9	0.6		
Profit on sale of fixed assets			8.7	13.6		
Loss on sale or termination of operations			(10.1)	(26.8)		
<b>Profit before interest</b>			<b>39.7</b>	<b>23.3</b>		
Net interest payable			(9.4)	(10.5)		
Other finance income			14.3	10.2		
<b>Profit before tax</b>			<b>44.6</b>	<b>23.0</b>		
Tax on profit			(9.1)	(11.0)		
<b>Profit after tax</b>			<b>35.5</b>	<b>12.0</b>		
<b>Headline basis</b>						
Profit before tax			44.4	38.0		
Profit after tax			34.9	26.6		

The analysis of turnover, operating profit before reorganisation costs and impairment of fixed assets and exceptional items, and net assets was:

<b>Continuing</b>						
Total Thread	922.6	937.9	77.3	72.7	503.2	589.4
India Textiles	22.6	32.4	(0.2)	(2.3)	5.8	13.7
Bedwear	75.7	86.6	(1.5)	0.7	22.8	23.7
Fashion Retail	10.5	12.5	(3.2)	(1.1)	0.8	2.2
	<b>1,031.4</b>	<b>1,069.4</b>	<b>72.4</b>	<b>70.0</b>	<b>532.6</b>	<b>629.0</b>
<b>Discontinued</b>						
Fashion Retail	124.2	143.2	(13.1)	(1.2)	43.6	48.3
Other	–	34.4	–	(0.4)	–	0.7
	<b>1,155.6</b>	<b>1,247.0</b>	<b>59.3</b>	<b>68.4</b>	<b>576.2</b>	<b>678.0</b>

**2 (a) Analysis of turnover, operating profit and net assets by product (continued)**

Operating profit margins for the Thread business before reorganisation costs and impairment of fixed assets and exceptional items were:

	Turnover		Operating profit		Operating margin	
	2002 £m	2001 £m	2002 £m	2001 £m	2002 %	2001 %
<b>Thread</b>						
UK and Europe	<b>321.6</b>	325.9	<b>12.8</b>	18.1	<b>4.0</b>	5.6
North America	<b>291.0</b>	304.5	<b>12.0</b>	11.7	<b>4.1</b>	3.8
South America	<b>87.6</b>	103.7	<b>11.5</b>	12.6	<b>13.1</b>	12.2
Asia	<b>222.4</b>	203.8	<b>35.7</b>	29.5	<b>16.1</b>	14.5
Corporate	–	–	<b>5.3</b>	0.8	–	–
<b>Total Thread</b>	<b>922.6</b>	937.9	<b>77.3</b>	72.7	<b>8.4</b>	7.8

**(b) Geographical analysis of turnover, operating profit and net assets by location**

	Turnover		Operating profit		Net assets	
	2002 £m	2001 Restated £m	2002 £m	2001 Restated £m	2002 £m	2001 Restated £m
United Kingdom	<b>121.8</b>	137.3	<b>(5.9)</b>	(3.4)	<b>53.0</b>	88.4
Rest of Europe	<b>261.3</b>	259.6	<b>17.6</b>	20.2	<b>88.8</b>	91.3
North America	<b>301.0</b>	316.3	<b>9.3</b>	9.9	<b>175.5</b>	200.3
South America	<b>87.6</b>	103.7	<b>11.5</b>	12.6	<b>64.1</b>	78.8
Asia, Australasia and Africa	<b>259.7</b>	252.5	<b>39.9</b>	30.7	<b>151.2</b>	170.2
<b>Total continuing operations</b>	<b>1,031.4</b>	1,069.4	<b>72.4</b>	70.0	<b>532.6</b>	629.0
Discontinued operations	<b>124.2</b>	177.6	<b>(13.1)</b>	(1.6)	<b>43.6</b>	49.0
	<b>1,155.6</b>	1,247.0	<b>59.3</b>	68.4	<b>576.2</b>	678.0
Reorganisation costs and impairment of fixed assets			<b>(19.0)</b>	(31.5)		
Exceptional items			<b>(0.1)</b>	(1.0)		
<b>Operating profit</b>			<b>40.2</b>	35.9		
Associated companies			<b>0.9</b>	0.6		
FRS3 exceptional items			<b>(1.4)</b>	(13.2)		
<b>Profit before interest</b>			<b>39.7</b>	23.3		
Net debt					<b>(104.4)</b>	(128.1)
Other fixed and current asset investments					<b>29.8</b>	30.8
Net assets per consolidated balance sheet					<b>501.6</b>	580.7
The geographical analysis of discontinued operations by location was:						
United Kingdom	<b>121.0</b>	155.1	<b>(13.0)</b>	(0.7)	<b>43.8</b>	49.4
Rest of Europe	<b>0.4</b>	19.7	–	(1.2)	<b>(0.6)</b>	(0.4)
North America	<b>2.8</b>	2.8	<b>(0.1)</b>	0.3	<b>0.4</b>	–
	<b>124.2</b>	177.6	<b>(13.1)</b>	(1.6)	<b>43.6</b>	49.0

**Note**

The geographical analysis of turnover by destination has not been presented as it does not differ materially from the analysis by location.

### 3 Operating profit

	2002 £m	2001 £m
<b>Operating profit is stated after charging:</b>		
Depreciation – Owned assets	41.7	45.0
– Leased assets	0.3	0.5
Amortisation of goodwill	(1.6)	0.7
Reorganisation costs	17.1	31.6
Impairment of fixed assets	1.9	(0.1)
Exceptional items	0.1	1.0
Hire of plant and machinery	6.4	6.4
Other operating lease rentals	21.5	20.8
Research and development expenditure	2.1	2.2
Directors' remuneration (note 4)	1.5	2.1
Auditors' remuneration – Audit fees	1.7	1.7
– Non audit related fees – UK	–	0.1
– Overseas	0.3	0.2

In addition to the non audit related fees charged to operating profit, a further £4.5 million was incurred in 2001 in respect of advisory work in relation to the disposal of businesses, and was included in the loss on sale or termination of operations.

#### and after crediting other operating income:

Rental income net of expenses	1.1	0.9
Royalties and licensing income	0.9	1.1
Credit card income	1.5	1.6
Exchange gain	–	0.9
	<b>3.5</b>	<b>4.5</b>

#### Product category analysis of reorganisation costs and impairment of fixed assets

##### Thread

UK and Europe	8.9	11.1
North America	3.8	10.5
South America	1.1	1.8
Asia	1.4	1.7
Corporate	–	0.6

<b>Total Thread</b>	<b>15.2</b>	<b>25.7</b>
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India Textiles	0.3	–
Bedwear	1.3	1.6
Fashion Retail	0.5	–

<b>Continuing operations</b>	<b>17.3</b>	<b>27.3</b>
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Discontinued operations		
Fashion Retail	1.7	4.1
Other	–	0.1

<b>Total</b>	<b>19.0</b>	<b>31.5</b>
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#### Analysis of other exceptional items

Impairment of goodwill	–	1.1
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<b>Continuing operations</b>	<b>–</b>	<b>1.1</b>
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Discontinued operations	0.1	(0.1)
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<b>Total</b>	<b>0.1</b>	<b>1.0</b>
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## 32 Notes to the accounts (continued)

### 4 Directors' emoluments

	2002 £m	2001 £m
Aggregate emoluments	<b>1.5</b>	1.1
Compensation for loss of office	–	1.0
Total	<b>1.5</b>	2.1

Disclosures required by the Companies Act 1985 on Directors' remuneration, including salaries, performance-related bonuses, share options, pension contributions and pension entitlements, and those specified for audit by the Financial Services Authority, are on pages 15 and 17 within the Report on Directors' Remuneration and form part of these financial statements.

### 5 Employees

	2002 Number	2001 Number
The average numbers employed by the Group during the year were:		
Direct	<b>19,250</b>	22,310
Indirect	<b>5,373</b>	5,291
Staff	<b>10,880</b>	12,069
	<b>35,503</b>	39,670
Comprising:		
UK	<b>5,484</b>	6,702
Overseas	<b>30,019</b>	32,968
	<b>35,503</b>	39,670
The total numbers employed at the end of the year were:		
UK	<b>4,879</b>	5,919
Overseas	<b>29,453</b>	31,162
	<b>34,332</b>	37,081
	£m	£m
The costs incurred in respect of these employees were:		
Wages and salaries	<b>287.6</b>	309.7
Social security costs	<b>31.7</b>	37.1
Other pension costs (note 29): included in operating profit	<b>11.6</b>	15.5
included in other finance costs	<b>(14.3)</b>	(10.2)
included in statement of total recognised gains and losses	<b>40.8</b>	5.9
	<b>357.4</b>	358.0

### 6 Interest receivable and similar income

	2002 £m	2001 £m
Interest receivable	<b>7.7</b>	9.5
Income from other fixed and current asset investments	<b>2.5</b>	2.6
Gain on sale of other fixed and current asset investments	–	0.6
Gross interest receivable and similar income	<b>10.2</b>	12.7
Less: credit card interest transferred to other operating income	<b>(0.5)</b>	(0.7)
	<b>9.7</b>	12.0

### 7 Interest payable and similar charges

	2002 £m	2001 £m
Loans	<b>6.2</b>	10.6
Bank overdrafts and other borrowings	<b>7.7</b>	6.9
Discounting interest re onerous leasehold provisions	<b>0.1</b>	0.1
Finance leases	<b>0.3</b>	0.7
	<b>14.3</b>	18.3
Cost of financing convertible debt (note 17)	<b>3.9</b>	3.9
Share of net interest payable of associated companies	<b>0.9</b>	0.3
Total interest payable and similar charges	<b>19.1</b>	22.5
The above interest includes interest on borrowings not repayable in full within five years of:	–	0.6

## 8 Tax on profit on ordinary activities

	2002 £m	2001 Restated £m
UK taxation based on profit for the year:		
Corporation tax at 30%	6.1	5.1
Double taxation relief	(6.1)	(5.1)
Deferred taxation	1.6	(1.4)
Prior year adjustments – Corporation tax	(2.0)	0.8
Deferred taxation	0.3	0.9
Total UK taxation	(1.7)	1.7
Overseas taxation:		
Current taxation	12.4	10.6
Deferred taxation	(1.6)	0.4
Total overseas taxation	10.8	11.0
Prior year adjustments – Current taxation	(1.3)	(1.7)
Deferred taxation	(0.3)	1.3
Total overseas taxation	(1.6)	(0.4)
Associated companies taxation	–	0.1
	9.1	11.0

The tax charge for the year ended 31 December 2001 has been restated to reflect the adoption of FRS19 – Deferred tax, resulting in a £0.1 million reduction in overseas deferred taxation.

The standard rate of current tax for the year, based on the UK standard rate of corporation tax, is 30% (2001 – 30%). The current tax charge for the year is lower than 30% (2001 – higher than 30%) for the reasons set out in the following reconciliation:

	2002 £m	2001 Restated £m
Profit on ordinary activities before tax	44.6	23.0
Tax on profit on ordinary activities at standard rate	13.4	6.9
Adjusted for the effects of:		
Expenses not deductible for tax purposes (including goodwill amortisation)	3.1	3.5
Income not liable to taxation	(4.2)	(5.2)
Losses not recognised	9.4	5.4
Utilisation of brought forward losses not previously recognised	(5.2)	(1.6)
Capital allowances for the year in excess of depreciation	(2.1)	1.3
Other short term timing differences	(1.2)	(2.6)
Profits on sale of fixed assets covered by reliefs	(2.4)	(3.9)
Losses on sales or termination of operations not eligible for relief	2.7	6.6
Inter-group dividends not covered by double tax relief	1.2	1.7
Lower rates of tax on overseas earnings	(2.8)	(0.6)
Withholding tax on remittances	2.5	1.9
Corporation taxes not on profits	1.7	1.7
Local tax incentives	(1.8)	(3.8)
Other	(1.9)	(0.6)
Current tax charge for the year	12.4	10.7

Actuarial losses have been taken to reserves along with the associated tax credit of £12.3 million (2001 – £1.5 million).

## 34 Notes to the accounts (continued)

### 9 Profit for the year

	2002 £m	2001 Restated £m
The Company's loss for the financial year was	<b>(114.1)</b>	(122.9)

Under the provisions of Section 230 Companies Act 1985 a Profit and Loss Account for the Company is not presented.

### 10 Ordinary dividends

	2002	2001	2002 £m	2001 £m
Ordinary shares (equity shares)				
Interim	<b>1.50p</b>	1.50p	<b>10.6</b>	10.6
Special second interim	<b>2.50p</b>	–	<b>17.8</b>	–
Final	–	1.50p	–	10.5
	<b>4.00p</b>	3.00p	<b>28.4</b>	21.1

The interim dividend of 1.5p net per share was paid on 6 January 2003.

In connection with the recommended offer, the Board has declared a special second interim dividend of 2.5p (in lieu of a final dividend for the year). The payment of this dividend is conditional on the offer being declared wholly unconditional. In the event that this offer is not successful, this special second interim dividend will not be paid. In this situation the Board will propose a final dividend.

### 11 Earnings per share

	2002	2001	2002 £m	2001 Restated £m
Earnings per share are based on profit available for Ordinary shareholders of:			<b>29.6</b>	10.2
and on average number of shares of:	<b>706.4m</b>	703.6m		
resulting in basic and diluted earnings per share of:	<b>4.2p</b>	1.4p		
Less: amortisation of goodwill	<b>(0.2)p</b>	0.1p	<b>(1.6)</b>	0.7
impairment of goodwill	–	0.2p	–	1.1
profit on sale of fixed assets	<b>(1.2)p</b>	(1.9)p	<b>(8.7)</b>	(13.6)
losses on sale or termination of operations	<b>1.4p</b>	3.8p	<b>10.1</b>	26.8
taxation relating to these items	<b>(0.1)p</b>	(0.1)p	<b>(0.4)</b>	(0.4)
minority interests relating to these items	<b>(0.3)p</b>	(0.7)p	<b>(2.0)</b>	(5.1)
Headline earnings per share	<b>3.8p</b>	2.8p	<b>27.0</b>	19.7

Headline earnings per share have been calculated in accordance with Statement of Investment Practice Number 1 issued by The Institute of Investment Management and Research and are provided in order to assist users of accounts to identify earnings derived from trading activities.

Exercise of outstanding share options and conversion of all the £60.458 million (2001 – £60.461 million) 6.25% Senior Convertible Bonds of Coats plc would not result in any dilution of earnings per share.

## 12 Tangible assets

	Land and buildings £m	Plant, machinery and vehicles £m	Total £m
<b>Group</b>			
Cost			
At beginning of year	211.3	661.7	873.0
Exchange difference	(9.0)	(33.1)	(42.1)
Subsidiaries acquired	–	0.7	0.7
Subsidiaries disposed	(0.7)	(14.9)	(15.6)
Additions	4.8	52.1	56.9
Disposals	(7.1)	(35.9)	(43.0)
At 31 December 2002	199.3	630.6	829.9
Depreciation			
At beginning of year	74.6	395.9	470.5
Exchange difference	(3.5)	(16.2)	(19.7)
Subsidiaries acquired	–	0.5	0.5
Subsidiaries disposed	(0.3)	(11.9)	(12.2)
Charge for the year	5.0	37.0	42.0
Impairment of fixed assets	–	1.9	1.9
Disposals	(4.2)	(28.7)	(32.9)
At 31 December 2002	71.6	378.5	450.1
Net book value			
At 31 December 2002	127.7	252.1	379.8
At beginning of year	136.7	265.8	402.5
<b>Land and buildings</b>			
Cost			
Freehold		163.4	173.1
Long leasehold		14.1	14.3
Short leasehold		21.8	23.9
		199.3	211.3
Accumulated depreciation			
Freehold		56.4	59.1
Long leasehold		4.2	3.9
Short leasehold		11.0	11.6
		71.6	74.6

The cost of long leasehold land and buildings includes capitalised interest of £1.4 million. (2001 – £1.4 million).

### Plant, machinery and vehicles

The net book value of capitalised finance leases included in plant, machinery and vehicles is £0.8 million (2001 – £1.5 million).

## 13 Investments

	Associated companies £m	Other £m	Total £m
<b>Group</b>			
Cost			
At beginning of year	0.7	8.7	9.4
Exchange	–	(0.2)	(0.2)
Transfer to investment in subsidiaries	–	(0.1)	(0.1)
Disposals	–	(0.4)	(0.4)
At 31 December 2002	0.7	8.0	8.7
Provisions			
At beginning of year	–	(4.8)	(4.8)
Exchange	–	–	–
At 31 December 2002	–	(4.8)	(4.8)
Share of profits/(losses) retained			
At beginning of year	1.7	–	1.7
Share of losses for the year	(0.1)	–	(0.1)
At 31 December 2002	1.6	–	1.6
Net book value			
At 31 December 2002	2.3	3.2	5.5
At beginning of year	2.4	3.9	6.3
Including investments listed on a recognised Stock Exchange			
At 31 December 2002	–	2.3	2.3
At beginning of year	–	2.5	2.5

Other fixed asset investments include an investment of £0.3 million (2001 – £0.3 million) in the Company's own shares held by the Employee Share Ownership Plan referred to on page 14 of the Report on Directors' Remuneration.

	Shares £m	Subsidiaries Loans £m	Other fixed asset investments £m	Total £m
<b>Company</b>				
Cost				
At beginning of year	1,622.2	493.6	6.2	2,122.0
Additions	8.5	298.4	–	306.9
Group transfers	(829.5)	–	–	(829.5)
Repaid	–	(293.7)	–	(293.7)
At 31 December 2002	801.2	498.3	6.2	1,305.7
Provisions				
At beginning of year	–	–	(5.3)	(5.3)
Provided in the year	(44.0)	(94.7)	–	(138.7)
At 31 December 2002	(44.0)	(94.7)	(5.3)	(144.0)
Net book value				
At 31 December 2002	757.2	403.6	0.9	1,161.7
At beginning of year	1,622.2	493.6	0.9	2,116.7

Principal subsidiaries are listed on page 55.

Loans to subsidiaries include £nil million (2001 – £2.4 million) in respect of back-to-back finance leases. The maturity profile of these leases is shown in note 18.

## 14 Stocks

	Group		Company	
	2002 £m	2001 £m	2002 £m	2001 £m
Raw materials and consumables	52.8	66.7	–	–
Work in progress	66.1	67.9	–	–
Finished goods and goods for resale	136.7	157.3	–	–
	255.6	291.9	–	–

## 15 Debtors

	Group		Company	
	2002 £m	2001 £m	2002 £m	2001 £m
Debtors due within one year:				
Trade debtors	<b>189.4</b>	185.7	–	0.1
Amounts owed by subsidiaries	–	–	<b>3.4</b>	3.5
Amounts owed by associated companies	<b>0.4</b>	1.5	–	–
Corporation and overseas tax recoverable	<b>9.2</b>	12.1	–	0.6
Other debtors	<b>31.1</b>	28.4	<b>0.1</b>	0.5
Prepayments and accrued income	<b>11.7</b>	11.3	–	0.3
	<b>241.8</b>	239.0	<b>3.5</b>	5.0
Debtors due in more than one year:				
Trade debtors	<b>0.6</b>	1.0	–	–
Amounts owed by associated companies	<b>0.8</b>	–	–	–
Other debtors	<b>8.4</b>	15.0	–	0.7
Prepayments and accrued income	<b>0.2</b>	0.2	–	–
	<b>10.0</b>	16.2	–	0.7

## 16 Current asset investments

	Group		Company	
	2002 £m	2001 £m	2002 £m	2001 £m
Listed investments	<b>23.7</b>	23.8	–	–
Unlisted investments	<b>0.6</b>	0.7	–	–
	<b>24.3</b>	24.5	–	–
Market value of listed investments	<b>24.2</b>	25.4	–	–

## 17 Other creditors (amounts falling due within one year)

	Group		Company	
	2002 £m	2001 £m	2002 £m	2001 £m
Trade creditors	<b>118.4</b>	105.1	–	0.1
Loans and loan stock (note 19)	<b>74.1</b>	117.0	<b>55.4</b>	76.5
Amounts owed to subsidiaries	–	–	–	0.1
Amounts owed to associated companies	<b>0.7</b>	0.4	–	–
Bills of exchange	<b>5.6</b>	8.2	–	–
Corporation tax and overseas taxation	<b>23.2</b>	22.3	<b>10.0</b>	10.0
Other taxation and social security	<b>15.7</b>	23.4	–	–
Payments in advance	<b>0.6</b>	–	–	–
Other creditors	<b>30.0</b>	21.5	<b>0.4</b>	0.4
Accruals and deferred income	<b>33.5</b>	37.7	<b>2.9</b>	2.4
Proposed dividends	<b>28.3</b>	21.1	<b>28.3</b>	21.1
Finance lease obligations (note 18)	<b>0.6</b>	0.8	<b>0.3</b>	0.5
Leaving indemnities (note 20)	<b>4.6</b>	3.0	–	–
	<b>335.3</b>	360.5	<b>97.3</b>	111.1
<b>Convertible debt</b>				
Coats plc – £60.458 million 6.25% senior convertible bonds due 2003 (see note)	<b>60.4</b>	–	<b>60.4</b>	–

## Note

On 9 August 1993, Coats plc issued £75.625 million 6.25% senior convertible bonds.

As a result of redemptions and conversions since the issue, the value of bonds currently in issue is £60.458 million (2001 – £60.461 million).

These bonds are convertible into ordinary shares of Coats plc at a price of 270p per share at any time up to 2 August 2003. The conversion price was adjusted in accordance with the Trust Deed with effect from 17 May 1994 as a result of the dilution effect of the enhanced share dividend. The bonds then outstanding will be redeemed at their principal value on 9 August 2003. The Company has the power to redeem the bonds in whole or in part at any time after 31 August 1998.

In accordance with FRS4, the expenses of the issue have been deducted from the gross proceeds of the issue and, together with the finance costs, are allocated to the profit and loss account over the life of the debt at a constant rate on the carrying amount.

**18 Other creditors (amounts falling due after more than one year)**

	Group		Company	
	2002 £m	2001 £m	2002 £m	2001 £m
Trade creditors	<b>0.1</b>	0.7	–	–
Loans and loan stock (note 19)	<b>3.0</b>	10.7	–	–
Amounts owed to subsidiaries	–	–	<b>423.0</b>	1,243.2
Other creditors	<b>1.3</b>	5.0	–	0.2
Accruals and deferred income	<b>2.0</b>	2.5	–	–
Finance lease obligations	<b>1.7</b>	3.4	<b>0.4</b>	1.9
	<b>8.1</b>	22.3	<b>423.4</b>	1,245.3

The amounts owed to subsidiaries have no specified dates of repayment but are repayable only on receipt of 12 months' notice and do not bear interest.

Finance lease obligations are repayable as follows:

Within one year	<b>0.6</b>	0.8	<b>0.3</b>	0.5
Between one and two years	<b>0.7</b>	1.0	<b>0.4</b>	0.7
Between two and five years inclusive	<b>0.5</b>	1.5	–	0.9
Over five years	<b>0.5</b>	0.9	–	0.3
	<b>2.3</b>	4.2	<b>0.7</b>	2.4

**Convertible debt**

Coats plc – £60.458 million 6.25% senior convertible bonds due 2003 (note 17)	–	60.2	–	60.2
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**19 Borrowings and financial instruments****(a) Loans and loan stock**

	Group		Company	
	2002 £m	2001 £m	2002 £m	2001 £m
Loans	<b>77.1</b>	118.5	<b>55.4</b>	76.5
Loan stock	–	9.2	–	–
	<b>77.1</b>	127.7	<b>55.4</b>	76.5
Repayable within one year	<b>(74.1)</b>	(117.0)	<b>(55.4)</b>	(76.5)
Amounts falling due after more than one year	<b>3.0</b>	10.7	–	–
Repayable as follows:				
Between one and two years	<b>2.3</b>	0.9	–	–
Between two and five years	<b>0.7</b>	0.6	–	–
After five years	–	9.2	–	–
	<b>3.0</b>	10.7	–	–

**Loans**

Repayable within five years:

Bank loans	<b>73.4</b>	112.0	<b>52.3</b>	73.1
Other loans	<b>3.7</b>	6.1	<b>3.1</b>	3.4
Not wholly repayable within five years:				
Bank loans	–	0.4	–	–
	<b>77.1</b>	118.5	<b>55.4</b>	76.5
Loans repayable after one year:				
Other	<b>3.0</b>	1.5	–	–

The rates of interest paid on the above loans conform to the terms ruling in each country and the repayment dates extend to 2007.

## 19 Borrowings and financial instruments (continued)

### (a) Loans and loan stock (continued)

	Group		Company	
	2002 £m	2001 £m	2002 £m	2001 £m
<b>Loan stock</b>				
Not wholly repayable within five years:				
Coats Patons Ltd 6.75% unsecured stock 2002/2007	–	6.5	–	–
Coats Patons Ltd 4.5% unsecured stock 2002/2007	–	2.7	–	–
	–	9.2	–	–
<b>Net debt</b>				
Loans and loan stock	<b>77.1</b>	127.7	<b>55.4</b>	76.5
Bank overdrafts	<b>26.8</b>	24.9	<b>26.5</b>	22.6
Lease finance	<b>2.3</b>	4.2	<b>0.7</b>	2.4
	<b>106.2</b>	156.8	<b>82.6</b>	101.5
Convertible debt	<b>60.4</b>	60.2	<b>60.4</b>	60.2
Total borrowings	<b>166.6</b>	217.0	<b>143.0</b>	161.7
Cash and short term deposits	<b>(62.2)</b>	(88.9)	<b>(3.1)</b>	(19.7)
Net debt	<b>104.4</b>	128.1	<b>139.9</b>	142.0
			Group 2002 £m	Group 2001 £m
<b>Maturity of debt</b>				
Total borrowings are repayable as follows:				
Within one year			<b>161.9</b>	142.7
Between one and two years			<b>3.0</b>	62.1
Between two and five years			<b>1.2</b>	2.1
After five years			<b>0.5</b>	10.1
			<b>166.6</b>	217.0
Total secured indebtedness			<b>9.5</b>	9.3
Total indebtedness guaranteed by parent company			<b>30.5</b>	25.1

### (b) Financial instruments

#### Group

The Group's policies as regards derivatives and other financial information are set out in the Financial review on pages 5 to 7 and the Statement of accounting policies on pages 24 to 27. The Group does not trade in financial instruments.

Short term debtors and creditors have been omitted from all disclosures other than the currency profile.

Details of non-equity shares issued by the Group are given in note 22.

#### Maturity profile of financial liabilities

The maturity profile of the Group's total borrowings is stated in note 19(a). Total borrowings include the Group's finance lease obligations and convertible debt; the payment profile of both of these liabilities is further analysed in note 17 and 18.

The 4.9% Cumulative preference shares issued by Coats plc are not redeemable (see note 22).

#### Undrawn committed borrowing facilities

At 31 December 2002 the Group had undrawn committed borrowing facilities of £117.8 million (2001 – £86.5 million) expiring in more than one year.

**19 Borrowings and financial instruments (continued)****(b) Financial instruments (continued)****Currency analysis of net assets**

The analysis of net assets by currency is as follows:

	2002 £m	2001 Restated £m
Currency analysis of net assets		
Sterling	<b>141.8</b>	172.1
US dollar and dollar related	<b>211.0</b>	264.0
Euro	<b>72.2</b>	71.3
Indian rupee	<b>31.1</b>	44.3
Other	<b>120.1</b>	126.3
	<b>576.2</b>	678.0

**Interest rate and currency profile**

The interest rate and currency profile of the Group's financial liabilities and assets by principal currency is stated after taking into account the various interest rate and currency swaps entered into by the Group.

In this analysis, fixed rate financial liabilities and assets are defined as those where the interest rate is fixed for a period of more than one year from the balance sheet date.

**Financial liabilities**

	Fixed rate £m	Floating rate £m	Non-interest bearing £m	Total £m
31 December 2002				
Sterling cross currency swaps	–	<b>(144.8)</b>	–	<b>(144.8)</b>
Sterling	<b>2.0</b>	<b>60.7</b>	–	<b>62.7</b>
US dollar and related	<b>36.7</b>	<b>142.4</b>	<b>0.4</b>	<b>179.5</b>
Euro	<b>5.8</b>	<b>9.0</b>	<b>0.2</b>	<b>15.0</b>
Other	<b>0.4</b>	<b>53.7</b>	<b>0.1</b>	<b>54.2</b>
Gross financial liabilities	<b>44.9</b>	<b>121.0</b>	<b>0.7</b>	<b>166.6</b>

	Weighted average interest rate %	Fixed rate Weighted average period for which the rate is fixed Years	Non-interest bearing Weighted average period until maturity Years
31 December 2002			
Sterling	<b>7.8</b>	<b>3.2</b>	–
US dollar and related	<b>4.4</b>	<b>2.5</b>	–
Euro	<b>5.0</b>	<b>1.9</b>	<b>2.3</b>
Other	<b>12.0</b>	<b>3.8</b>	–

Interest on floating rate liabilities is based on the relevant inter bank offered rate.

	Fixed rate £m	Floating rate £m	Non-interest bearing £m	Total £m
31 December 2001				
Sterling cross currency swaps	–	(172.5)	–	(172.5)
Sterling	71.8	21.7	–	93.5
US dollar and related	42.0	202.5	–	244.5
Euro	3.5	11.9	0.2	15.6
Other	1.3	34.6	–	35.9
Gross financial liabilities	118.6	98.2	0.2	217.0

**19 Borrowings and financial instruments (continued)**  
**(b) Financial instruments (continued)**

	Weighted average interest rate %	Fixed rate Weighted average period for which the rate is fixed Years	Non-interest bearing Weighted average period until maturity Years
31 December 2001			
Sterling	6.3	2.2	–
US dollar and related	4.7	3.5	–
Euro	5.3	3.0	2.8
Other	10.2	2.6	–

Interest on floating rate liabilities is based on the relevant inter bank offered rate.

The financial liabilities other than borrowings in creditors falling due after more than one year and other provisions are not material.

**Financial assets**

	Fixed rate £m	Floating rate £m	Non-interest bearing £m	Total £m
31 December 2002				
Sterling cross currency swaps	–	(25.7)	–	(25.7)
Sterling	–	4.5	–	4.5
US dollar and related	–	16.6	3.7	20.3
Euro	–	34.2	1.3	35.5
Other	–	21.2	6.4	27.6
Gross financial assets	–	50.8	11.4	62.2

	Fixed rate £m	Floating rate £m	Non-interest bearing £m	Total £m
31 December 2001				
Sterling cross currency swaps	–	(33.7)	–	(33.7)
Sterling	–	11.4	–	11.4
US dollar and related	–	33.0	1.2	34.2
Euro	–	47.9	2.3	50.2
Other	–	17.8	9.0	26.8
Gross financial assets	–	76.4	12.5	88.9

Interest on floating rate bank deposits is based on the relevant national inter bank rates and is fixed in advance for periods of up to one year.

All of the non-interest bearing financial assets mature within one week of the balance sheet date.

**Fair values of financial assets and liabilities**

Set out below is a comparison by category of book value and estimated fair value of the Group's financial assets and liabilities:

	2002		2001	
	Book value £m	Estimated fair value £m	Book value £m	Estimated fair value £m
Primary financial instruments held or issued to finance the Group's operations:				
Cash and short term deposits	(62.2)	(62.2)	(88.9)	(88.9)
Loans and loan stock	77.1	77.1	127.7	127.6
Lease finance	2.3	2.4	4.2	4.3
Convertible debt	60.4	60.3	60.2	59.8
Bank overdrafts	26.8	26.8	24.9	24.9
	166.6	166.6	217.0	216.6
Derivative financial instruments held to manage the Group's interest rate and currency profile:				
Forward foreign exchange contracts	(3.3)	(3.3)	(1.4)	(1.3)
Interest rate swaps	–	3.6	0.4	(0.3)
	(3.3)	0.3	(1.0)	(1.6)
Coats plc 4.9% Cumulative Preference shares	14.6	9.9	14.6	11.1

Market values have been used to determine the estimated fair values of forward exchange contracts, all swaps and listed instruments held or issued. The estimated fair value of all other items has been calculated by discounting expected cash flows at the interest rates prevailing at the year end.

**19 Borrowings and financial instruments (continued)****(b) Financial instruments (continued)****Hedging**

The aggregate unrecognised loss at 31 December 2002, being the difference between book value and estimated fair value of the above derivative financial instruments, is £3.6 million (2001 – £0.6 million gain). Of this approximately £1.1 million loss (2001 – approximately £0.3 million gain) will be recognised in the profit and loss account for the year ending 31 December 2003.

**Currency exposures**

The main functional currencies of the Group are sterling, US dollar and the euro. The following analysis of net monetary assets and liabilities shows the Group's currency exposures after the effects of forward contracts and other financial derivatives used to manage the currency exposure. The amounts shown represent the transactional exposures that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and monetary liabilities of the Group which are not denominated in the functional currency of the operating unit involved, other than certain non-sterling borrowings treated as hedges of net investments in overseas operations.

	Sterling £m	US Dollar £m	Euro £m	Other £m	Total £m
31 December 2002					
Sterling	–	(4.8)	(0.6)	–	(5.4)
US dollar	0.4	–	(0.8)	1.3	0.9
Euro	–	(0.6)	–	–	(0.6)
Other	0.1	12.8	4.9	(0.1)	17.7
	0.5	7.4	3.5	1.2	12.6
31 December 2001					
Sterling	–	(1.6)	2.4	0.3	1.1
US dollar	–	–	(2.1)	0.4	(1.7)
Euro	(0.4)	(0.3)	–	0.2	(0.5)
Other	0.9	2.8	4.8	(1.1)	7.4
	0.5	0.9	5.1	(0.2)	6.3

( ) represents uncovered monetary liabilities.

**20 Provisions for liabilities and charges**

	Deferred taxation Restated £m	Closures and reorganisation £m	Leaving indemnities £m	Total Restated £m
<b>Group</b>				
At beginning of year as originally reported	(2.8)	35.6	5.0	37.8
Prior period adjustment (deferred tax)	30.9	–	–	30.9
At beginning of year as restated	28.1	35.6	5.0	68.7
Exchange difference	(1.6)	(1.0)	(0.5)	(3.1)
Provided – deferred tax	–	–	–	–
– reorganisations	–	17.1	–	17.1
– sale or termination of operations	–	10.1	–	10.1
– discounting interest	–	0.1	–	0.1
– other	–	2.3	1.8	4.1
Transfer from current tax	0.1	–	–	0.1
Transfer to pension liabilities	(4.0)	(1.1)	–	(5.1)
Utilised	–	(34.6)	(3.1)	(37.7)
At 31 December 2002	22.6	28.5	3.2	54.3
				Total £m
<b>Company</b>				
At beginning of year				1.5
Provided – sale or termination of operations				0.6
– other				(0.1)
Utilised				(0.8)
At 31 December 2002				1.2

**20 Provisions for liabilities and charges (continued)**

	2002 £m	2001 Restated £m
<b>Analysis of Group deferred tax liability</b>		
Capital allowances in excess of depreciation	<b>26.8</b>	26.4
Other timing differences	<b>2.5</b>	5.5
Losses carried forward	<b>(6.7)</b>	(3.8)
	<b>22.6</b>	28.1

The Group has unutilised tax losses of £137.7 million (2001 – £117.0 million) and unrecovered advance corporation tax of £69.1 million (2001 – £63.0 million) that have not been recognised since it is more likely than not that there will be no suitable future taxable profits against which they may be offset.

**Other provisions**

Provisions for reorganisations and closures will usually be utilised within one year.

In many countries including India and much of South America, there are legal requirements to make payments to employees on the termination of their employment by retirement, redundancy, or otherwise. These payments are commonly based on the number of years service with the Company that each employee has. The Group's policy is to accrue for this liability on a service basis and to charge amounts actually paid out against the provisions. The resultant provisions are included above under the heading "leaving indemnities".

The maturity profile of provisions for leaving indemnities is as follows:

	£m	£m
Payable between one and two years	<b>0.3</b>	0.6
Payable between two and five years	<b>0.4</b>	0.9
Payable in more than five years	<b>2.5</b>	3.5
	<b>3.2</b>	5.0

**21 Goodwill**

The fair values attributed to the net tangible assets acquired during the year were:

	Book value £m	Fair value adjustments £m	Fair value to the Group £m
Fixed assets	<b>0.2</b>	–	<b>0.2</b>
Current assets	<b>2.2</b>	<b>0.1</b>	<b>2.3</b>
Creditors and provisions	<b>(1.3)</b>	–	<b>(1.3)</b>
Pension liabilities	<b>(1.4)</b>	–	<b>(1.4)</b>
Cash	<b>0.4</b>	–	<b>0.4</b>
Minority interest	<b>22.3</b>	–	<b>22.3</b>
	<b>22.4</b>	<b>0.1</b>	<b>22.5</b>
Fair value of consideration: cash			<b>11.5</b>
transfer from fixed asset investments			<b>0.1</b>
			<b>11.6</b>
Goodwill arising during the year			<b>(10.9)</b>
Positive			–
Negative			<b>(10.9)</b>
			<b>(10.9)</b>

The fair value adjustments relate to minor adjustments to stock valuations in respect of 2001 acquisitions.

**21 Goodwill (continued)**

The goodwill capitalised in the balance sheet is as follows:

	Cost £m	Amortisation and impairment £m	Net £m
<b>Positive goodwill</b>			
At beginning of year	<b>60.3</b>	<b>8.5</b>	<b>51.8</b>
Exchange	<b>(0.8)</b>	<b>(0.1)</b>	<b>(0.7)</b>
Amortised in the year	–	<b>2.8</b>	<b>(2.8)</b>
Disposals	<b>(0.9)</b>	<b>(0.9)</b>	–
Carried forward at 31 December 2002	<b>58.6</b>	<b>10.3</b>	<b>48.3</b>
<b>Negative goodwill</b>			
At beginning of year	<b>7.1</b>	<b>2.4</b>	<b>4.7</b>
Exchange	<b>(0.2)</b>	<b>(0.2)</b>	–
Acquisitions	<b>10.9</b>	–	<b>10.9</b>
Amortised in the year	–	<b>4.4</b>	<b>(4.4)</b>
Carried forward at 31 December 2002	<b>17.8</b>	<b>6.6</b>	<b>11.2</b>

Of the negative goodwill arising during the year, £3.7 million (2001 – £1.9 million) has been identified as relating to working capital and released during the year. The balance has been capitalised in accordance with FRS10 and will be amortised over ten years.

There was no purchased goodwill attributable to businesses sold or terminated during the year (2001 – £12.5 million). As at 31 December 2002, the cumulative amount of goodwill on acquisitions made prior to 1 January 1998 charged to reserves is £192 million (2001 – £192 million).

**22 Called up share capital**

	Number of shares	2002 £m	Number of shares	2001 £m
<b>Authorised:</b>				
Ordinary shares of 20p each	<b>876,952,750</b>	<b>175.4</b>	876,952,750	175.4
4.9% Cumulative Preference shares of £1 each	<b>14,609,450</b>	<b>14.6</b>	14,609,450	14.6
		<b>190.0</b>		190.0
<b>Allotted and fully paid:</b>				
Ordinary shares of 20p each – equity shares	<b>707,973,426</b>	<b>141.6</b>	705,360,873	141.1
4.9% Cumulative Preference shares of £1 each – non equity shares	<b>14,609,449</b>	<b>14.6</b>	14,609,449	14.6
		<b>156.2</b>		155.7

The 4.9% Cumulative Preference shares of £1 each confer on the holders thereof the right to receive a cumulative preferential dividend at the rate of 4.9% on the capital for the time being paid up thereon and the right on a winding up or repayment of capital to a return of the capital paid thereon (together with a premium calculated at the rate of £0.125 for every £1 of such capital) and a sum equal to any arrears or deficiency of the fixed dividend thereon calculated down to the date of the return of capital subject to such taxes as shall be in force at that date and to be payable whether such dividend has been declared or earned or not in priority to any payment to the holders of the Ordinary shares, but the Preference shares shall not entitle the holders to any further or other participation in the profits or assets of Coats plc.

The Preference shares shall not entitle the holders thereof to attend or vote at any general meeting unless either:

- (i) at the date of the meeting, the fixed dividend on the Preference shares is six months in arrears, and so that for this purpose such dividend shall be deemed to be payable half-yearly on the 31 March and the 30 September in every year; or
- (ii) the business of the meeting includes the consideration of a resolution for winding up or reducing the capital of Coats plc or directly and adversely affecting any of the special rights or privileges for the time being attached to the Preference shares.

The Preference shares shall nevertheless entitle the holders thereof to receive notice of every general meeting. At a general meeting at which the holders of Preference shares are entitled to attend and vote the Preference shares shall, in voting upon a poll, entitle a holder thereof or the proxy to the vote only for every Preference share held.

## 22 Called up share capital (continued)

The conversion rights attaching to the £60.458 million 6.25% Senior Convertible Bonds issued by Coats plc are detailed in note 17.

Options granted for ordinary shares not exercised are as follows:

	Options granted	Price per share	Period of option	Number of shares
1984 Executive Share Option Scheme	1993 to 1994	223.41p to 256.08p	2003 to 2004	<b>135,320</b>
Overseas Executive Share Option Scheme	1993 to 1994	223.41p to 256.08p	2003 to 2004	<b>389,774</b>
1994 Executive Share Option Scheme	1994 to 2001	33.75p to 214.50p	2003 to 2011	<b>13,475,677</b>
Sharesave Scheme	1995 to 1997	110.00p to 156.00p	2003	<b>557,269</b>
2002 Executive Share Option Plan	2002	52.50p to 54.75p	2003 to 2012	<b>6,750,000</b>
				<b>21,308,040</b>

Options exercised during the year totalled 2,611,443 (2001 – 1,734,073). The consideration was £1.0 million (2001 – £0.6 million).

In addition 1,110 shares were issued on conversion of 6.25% convertible bonds due 2003.

## 23 Other reserves

	Share premium account £m	Other capital reserve £m	Pension reserve Restated £m	Total Restated £m
<b>Group</b>				
At beginning of year as originally reported	<b>206.7</b>	<b>34.1</b>	<b>(2.2)</b>	<b>238.6</b>
Prior period adjustment (Deferred tax – note 29)	–	–	<b>3.1</b>	<b>3.1</b>
At beginning of year as restated	<b>206.7</b>	<b>34.1</b>	<b>0.9</b>	<b>241.7</b>
Shares issued during the year	<b>0.5</b>	–	–	<b>0.5</b>
Actuarial losses (note 29)	–	–	<b>(28.5)</b>	<b>(28.5)</b>
Transfer from profit and loss account	–	–	<b>(2.2)</b>	<b>(2.2)</b>
At 31 December 2002	<b>207.2</b>	<b>34.1</b>	<b>(29.8)</b>	<b>211.5</b>
<b>Company</b>				
At beginning of year	<b>206.7</b>	<b>35.6</b>	–	<b>242.3</b>
Shares issued during the year	<b>0.5</b>	–	–	<b>0.5</b>
At 31 December 2002	<b>207.2</b>	<b>35.6</b>	–	<b>242.8</b>

## 24 Profit and loss account

	Group Restated £m	Company £m
At beginning of year as originally reported	<b>148.4</b>	<b>303.4</b>
Prior year adjustment (Deferred tax)	<b>(30.4)</b>	–
At beginning of year as restated	<b>118.0</b>	<b>303.4</b>
Foreign currency translation (losses)/gains		
– overseas net assets*	<b>(34.4)</b>	
– related hedging	<b>9.0</b>	
	<b>(25.4)</b>	<b>0.3</b>
Retained profit/(loss) for the year	<b>1.2</b>	<b>(143.2)</b>
Transfer to pension reserve	<b>2.2</b>	–
At 31 December 2002	<b>96.0</b>	<b>160.5</b>
Retained in Group companies (including £40.9 million overseas)	<b>94.4</b>	
Retained in associated companies	<b>1.6</b>	
	<b>96.0</b>	

\*Including £17.5 million of net exchange gains arising on foreign currency borrowings less deposits.

## 46 Notes to the accounts (continued)

### 25 Equity minority interests

	Group	
	2002	2001
	£m	Restated £m
Equity minority interests	<b>37.9</b>	65.3

The reported equity minority interest at 31 December 2001 was £65.8 million. The restated balance of £65.3 million reflects an adjustment of £0.5 million relating to the adoption of FRS19 – Deferred tax.

### 26 Future capital expenditure

	Group		Company	
	2002	2001	2002	2001
	£m	£m	£m	£m
Contracted but not provided for	<b>6.8</b>	3.3	–	–
Authorised but not contracted for	<b>45.5</b>	12.5	–	–
	<b>52.3</b>	15.8	–	–

### 27 Contingent liabilities

	Group		Company	
	2002	2001	2002	2001
	£m	£m	£m	£m
Loan, overdraft and finance lease guarantees in respect of certain subsidiaries (see note 19)	–	–	<b>30.5</b>	25.1
Others including performance guarantees and documentary credits on overseas contracts	<b>22.0</b>	28.9	<b>4.0</b>	8.0
Company undertaking relating to deferred tax liabilities of UK subsidiaries (note 20)	–	–	<b>5.0</b>	10.2

### 28 Operating lease rentals

	Group		Company	
	2002	2001	2002	2001
	£m	£m	£m	£m
The committed amounts payable during 2003 are:				
Leases of land and buildings expiring:				
Within one year	<b>1.3</b>	2.8	–	–
Within two to five years inclusive	<b>5.1</b>	6.4	–	–
Over five years	<b>12.2</b>	13.3	–	–
	<b>18.6</b>	22.5	–	–
Other operating leases expiring:				
Within one year	<b>0.8</b>	1.9	–	–
Within two to five years inclusive	<b>3.0</b>	2.7	–	–
	<b>3.8</b>	4.6	–	–

## 29 Pensions

	Group	
	2002 £m	2001 Restated £m
Pension assets UK	<b>11.5</b>	24.4
North America	<b>19.6</b>	26.3
	<b>31.1</b>	50.7
Pension and other post retirement liabilities	<b>60.9</b>	49.8

Following the adoption of FRS19 – Deferred tax, the pension related deferred tax assets at 31 December 2001 and 31 December 2000 have been increased by £3.1million to £5.4 million and £3.4 million to £6.0 million respectively.

The Group operates a number of defined benefit and defined contribution plans throughout the world. The principal defined benefit arrangements are in the UK and North America and the assets of these plans are mainly held under self-administered trust funds and hence are separated from the Group's assets. The Group accounts for pension costs in accordance with FRS17 – Retirement Benefits and therefore the costs in respect of defined benefit plans have been assessed in accordance with the advice of independent, professionally qualified actuaries and consultants.

## (a) UK

The Group operates a defined benefit scheme in the UK. A full actuarial valuation was carried out at 1 April 2000 and updated to 31 December 2002 by a qualified independent actuary. The major assumptions used by the actuary were:

	At 31 Dec 2002	At 31 Dec 2001	At 31 Dec 2000
Rate of increase in salaries (%)	3.80	4.00	4.00
Rate of increase in pensions in payment (%)	2.30	2.50	2.50
Discount rate (%)	5.60	6.00	6.00
Inflation assumption (%)	2.30	2.50	2.50

The assets in the scheme and the expected rate of return were:

	Long term rate of return expected at 31 Dec 2002	Value at 31 Dec 2002 £m	Long term rate of return expected at 31 Dec 2001	Value at 31 Dec 2001 £m	Long term rate of return expected at 31 Dec 2000	Value at 31 Dec 2000 £m
Equities	6.00%	406.2	6.50%	719.3	6.50%	915.2
Corporate bonds and gilts	5.00%	883.4	5.40%	719.2	5.50%	654.6
Total market value of assets		1,289.6		1,438.5		1,569.8
Actuarial value of scheme liabilities		(1,273.1)		(1,219.5)		(1,177.8)
Gross surplus		16.5		219.0		392.0
Adjustment due to surplus cap		–		(184.1)		(352.6)
Recoverable surplus in the scheme		16.5		34.9		39.4
Related deferred tax liability		(5.0)		(10.5)		(11.9)
Net pension asset		11.5		24.4		27.5

The analysis of amounts charged to operating profit and credited to other finance income are summarised in 29(d) and 29(e) below.

Analysis of amounts recognised in the statement of total recognised gains and losses are:

	Group	
	2002 £m	2001 £m
Actual return less expected return on assets	<b>(160.1)</b>	(139.1)
Experience gains and losses on liabilities	<b>(10.0)</b>	(25.1)
Changes in assumptions	<b>(38.0)</b>	–
Actuarial loss	<b>(208.1)</b>	(164.2)
Adjustment due to surplus cap	<b>184.1</b>	159.6
Actuarial loss recognised in statement of total recognised gains and losses	<b>(24.0)</b>	(4.6)

**29 Pensions (continued)**

The movements in the gross and recognised surpluses during the year were:

	Gross surplus		Recognised surplus	
	2002 £m	2001 £m	2002 £m	2001 £m
At the beginning of the year	<b>219.0</b>	392.0	<b>34.9</b>	39.4
Movement in year:				
Current service cost	<b>(6.4)</b>	(7.7)	<b>(6.4)</b>	(7.7)
Contributions	–	0.1	–	0.1
Cost of benefit improvements	–	(8.9)	–	–
Other finance income	<b>12.0</b>	24.0	<b>12.0</b>	7.7
Actuarial loss	<b>(208.1)</b>	(180.5)	<b>(24.0)</b>	(4.6)
At the end of the year	<b>16.5</b>	219.0	<b>16.5</b>	34.9

The actuarial valuation at 31 December 2002 showed a decrease in the gross surplus in the scheme from £219.0 million to £16.5 million and a fall in the recognised recoverable surplus from £34.9 million to £16.5 million. The recognised recoverable surplus in 2001 was restricted to the present value of the anticipated long term contribution holiday relating to the Group's core UK business.

No improvements in benefits were made in 2002 (2001 – £8.9 million). In 2001 the costs were charged against the unrecognised surplus in the scheme. It has been agreed with the trustee that the contribution holiday will continue until the next formal actuarial review of the scheme.

The history of experience gains and losses has been:

	Group		
	2002 £m	2001 £m	2000 £m
Difference between the expected and actual return on scheme assets	<b>(160.1)</b>	(139.1)	(95.0)
Percentage of scheme assets	<b>(12)%</b>	(9)%	(6)%
Experience gains and losses on scheme liabilities	<b>(10.0)</b>	(25.1)	(13.3)
Percentage of scheme liabilities	<b>(1)%</b>	(2)%	(1)%
Total amount recognised in statement of total recognised gains and losses	<b>(24.0)</b>	(4.6)	4.5
Percentage of scheme liabilities	<b>(2)%</b>	–	–

As it is not possible to allocate the assets and liabilities of the UK pension scheme between individual companies, the above amounts are reflected on consolidation only. As a result there are no pension assets or liabilities included in the accounts of the Company.

**(b) North America**

The Group operates defined benefit schemes in the USA and Canada. Full actuarial valuations were carried out at 31 December 2002 by a qualified independent actuary. The major assumptions used by the actuary were:

	At 31 Dec 2002	At 31 Dec 2001	At 31 Dec 2000
Rate of increase in salaries (%)	5.00	6.00	4.25
Discount rate (%)	6.75	7.25	7.50

## 29 Pensions (continued)

The assets in the scheme and the expected rate of return were:

	Long term rate of return expected at 31 Dec 2002	Value at 31 Dec 2002 £m	Long term rate of return expected at 31 Dec 2001	Value at 31 Dec 2001 £m	Long term rate of return expected at 31 Dec 2000	Value at 31 Dec 2000 £m
Equities	8.00%	83.1	9.25%	114.4	9.00%	129.5
Corporate bonds	5.50%	54.0	6.50%	60.5	6.50%	65.0
Other	3.50%	4.8	5.75%	6.4	5.50%	3.8
Total market value of assets		141.9		181.3		198.3
Actuarial value of scheme liabilities		(110.2)		(117.7)		(118.3)
Gross surplus		31.7		63.6		80.0
Adjustment due to surplus cap		(0.5)		(21.5)		(41.5)
Recoverable surplus in the scheme		31.2		42.1		38.5
Related deferred tax liability		(11.6)		(15.8)		(14.9)
Net pension asset		19.6		26.3		23.6

The analysis of amounts charged to operating profit and credited to other finance income are summarised in 29(d) and 29(e) below.

	Group	
	2002 £m	2001 £m
Analysis of amounts recognised in the statement of total recognised gains and losses are:		
Actual return less expected return on assets	<b>(22.1)</b>	(19.2)
Experience gains and losses on liabilities	<b>2.2</b>	(0.3)
Changes in assumptions	<b>(6.7)</b>	(1.4)
Actuarial loss	<b>(26.6)</b>	(20.9)
Adjustment due to surplus cap	<b>17.2</b>	20.6
Actuarial loss recognised in statement of total recognised gains and losses	<b>(9.4)</b>	(0.3)

The movements in the gross and recognised surpluses during the year were:

	Gross surplus		Recognised surplus	
	2002 £m	2001 £m	2002 £m	2001 £m
At the beginning of the year	<b>63.6</b>	80.0	<b>42.1</b>	38.5
Movement in year:				
Current service cost	<b>(2.0)</b>	(2.7)	<b>(2.0)</b>	(2.7)
Contributions	–	0.1	–	0.1
Cost of benefit improvements	<b>(3.1)</b>	(0.5)	–	–
Other finance income	<b>2.1</b>	5.8	<b>2.1</b>	5.8
Actuarial loss	<b>(26.6)</b>	(20.9)	<b>(9.4)</b>	(0.3)
Transfer from pension liabilities	<b>1.9</b>	–	<b>1.9</b>	–
Exchange difference	<b>(4.1)</b>	1.8	<b>(3.5)</b>	0.7
At the end of the year	<b>31.8</b>	63.6	<b>31.2</b>	42.1

The actuarial valuation at 31 December 2002 showed a decrease in the gross surplus in the scheme from £63.6 million to £31.8 million and a decrease in the recognised recoverable surplus from £42.1 million to £31.2 million. The recognised recoverable surplus has been restricted to the present value of the anticipated long term contribution holiday. Improvements in US benefits costing £3.1 million were made in 2002 (2001 – £0.5 million). In both years the costs were charged against the unrecognised surplus in the scheme. It has been agreed with the trustee that the contribution holiday will continue until the next formal actuarial review of the scheme.

**29 Pensions (continued)**

The history of experience gains and losses has been:

	2002 £m	2001 £m	Group 2000 £m
Difference between the expected and actual return on scheme assets	<b>(22.1)</b>	(19.2)	(10.1)
Percentage of scheme assets	<b>(16)%</b>	(11)%	(5)%
Experience gains and losses on scheme liabilities	<b>2.2</b>	(0.3)	2.5
Percentage of scheme liabilities	<b>2%</b>	–	2%
Total amount recognised in statement of total recognised gains and losses	<b>(9.4)</b>	(0.3)	7.0
Percentage of scheme liabilities	<b>(9)%</b>	–	6%

**(c) Other schemes**

The Group operates defined benefit schemes in other countries, mainly in Europe. In the majority of cases, as is normal local practice, these schemes are unfunded and provisions are carried in the balance sheets of the companies concerned.

These liabilities have been reassessed in line with FRS17 at 31 December 2002 with the assistance and advice of independent qualified actuaries. The average major assumptions made by the actuaries were:

	At 31 Dec 2002	At 31 Dec 2001	At 31 Dec 2000
Rate of increase in salaries (%)	3.00	3.00	3.00
Rate of increase in pensions in payment (%)	2.00	2.00	2.00
Discount rate (%)	5.50	6.00	6.00

The net liabilities of these schemes (including pensions and other post retirement benefits) were:

	Value at 31 Dec 2002 £m	Value at 31 Dec 2001 Restated £m	Value at 31 Dec 2000 £m
Assets:			
Equities	2.2	2.4	1.0
Corporate bonds	4.1	2.3	1.1
Other	0.6	0.7	0.4
Total market value of assets	6.9	5.4	2.5
Actuarial value of scheme liabilities	(72.5)	(60.6)	(60.6)
	(65.6)	(55.2)	(58.1)
Related deferred tax asset	4.7	5.4	6.0
Net pension liabilities	(60.9)	(49.8)	(52.1)

The analysis of amounts charged to operating profit and credited to other finance income are summarised in 29(d) and 29(e) below.

**29 Pensions (continued)**

Analysis of amounts recognised in the statement of total recognised gains and losses are:

	2002 £m	Group 2001 £m
Actual return less expected return on assets	<b>(1.0)</b>	(0.2)
Experience gains and losses on liabilities	<b>(3.5)</b>	0.1
Changes in assumptions	<b>(3.4)</b>	(0.2)
	<b>(7.9)</b>	(0.3)
Adjustment due to surplus cap	<b>0.5</b>	–
Actuarial loss recognised in statement of total recognised gains and losses	<b>(7.4)</b>	(0.3)

The movements in net defined benefit liabilities during the year were:

Liabilities of the schemes at the beginning of the year	<b>(55.2)</b>	(58.1)
Movement in year:		
Current service cost	<b>(4.0)</b>	(4.7)
Settlements and curtailments	<b>0.7</b>	–
Past service credit	<b>0.1</b>	–
Contributions	<b>14.6</b>	9.8
Other finance income	<b>(3.7)</b>	(3.4)
Actuarial loss	<b>(7.4)</b>	(0.3)
Companies acquired	<b>(1.4)</b>	–
Transfer from creditors	<b>(4.2)</b>	–
Transfer from reorganisation provisions	<b>(1.2)</b>	–
Transfer to pension assets	<b>(1.9)</b>	–
Exchange difference	<b>(2.0)</b>	1.5
Liabilities of the schemes at the end of the year	<b>(65.6)</b>	(55.2)

**(d) Analysis of amounts charged to operating profit**

	2002 £m	Group 2001 Restated £m
Current service cost		
UK – continuing operations (including £2.8 million (2001 – £3.0 million) for Thread businesses)	<b>4.5</b>	5.3
– discontinued operations	<b>1.9</b>	2.4
North America	<b>2.0</b>	2.7
Other overseas assets	<b>–</b>	0.4
Other scheme liabilities	<b>4.0</b>	4.7
	<b>12.4</b>	15.5
Past service cost	<b>3.1</b>	9.4
Covered by unrecognised surplus	<b>(3.1)</b>	(9.4)
	<b>–</b>	–
Settlements and curtailments	<b>(0.7)</b>	–
Past service credit	<b>(0.1)</b>	–
Total operating charge	<b>11.6</b>	15.5

**29 Pensions (continued)****(e) Other finance income**

Analysis of net returns on pension schemes:

		Group	
		2002 £m	2001 £m
Expected return on pension scheme assets	UK	<b>83.0</b>	76.7
	North America	<b>10.1</b>	14.5
	Other overseas assets	–	0.3
	Other scheme liabilities	<b>0.5</b>	–
		<b>93.6</b>	91.5
Interest on pension liabilities	UK	<b>(71.0)</b>	(69.0)
	North America	<b>(8.0)</b>	(8.7)
	Other overseas assets	–	(0.2)
	Other scheme liabilities	<b>(4.2)</b>	(3.4)
		<b>(83.2)</b>	(81.3)
Refund received from discontinued scheme		<b>3.9</b>	–
Net return		<b>14.3</b>	10.2

**(f) Actuarial gains and losses charged to statement of total recognised gains and losses**

UK	<b>(24.0)</b>	(4.6)
North America	<b>(9.4)</b>	(0.3)
Other overseas assets	–	(0.7)
Other scheme liabilities	<b>(7.4)</b>	(0.3)
Total actuarial losses	<b>(40.8)</b>	(5.9)
Related deferred tax movement	<b>12.3</b>	1.5
Net loss	<b>(28.5)</b>	(4.4)

**30 Related party transactions**

There are no individual transactions with related parties which are material to the Group. Set out in the table is an aggregation of related party transactions defined by type and relationship.

	Associated companies 2002 £m	Associated companies 2001 £m
<b>Group</b>		
Sales to	<b>1.0</b>	0.5
Purchases from	<b>3.3</b>	3.3
Other income	<b>1.4</b>	1.0
Debtors	<b>1.2</b>	1.5
Creditors	<b>0.7</b>	0.4

**Company**

The Company has taken advantage of the exemption allowed by FRS8, Related Party Transactions, whereby the Company is exempted from disclosure of related party transactions when any such relevant items are included within the Group's disclosure.

**Directors**

Further details of transactions with Directors are given in the Report on Directors' Remuneration on pages 13 to 18.

### 31 Notes to the cash flow statement

#### (a) Reconciliation of operating profit to net cash inflow from operating activities

	2002 £m	2001 £m
Operating profit	40.2	35.9
Dividends from associated companies	–	0.1
Depreciation	42.0	45.5
Amortisation of goodwill	(1.6)	0.7
Reorganisation costs	17.1	31.6
Impairment of fixed assets	1.9	(0.1)
Other exceptional items	0.1	1.0
Decrease/(increase) in stocks	22.4	(7.4)
(Increase)/decrease in debtors	(9.4)	30.4
Increase/(decrease) in creditors	5.8	(33.1)
Refund from discontinued pension scheme	3.9	–
Other non-cash movements	(2.9)	9.8
Net cash inflow from normal operating activities	119.5	114.4
Continuing operations	125.1	116.7
Discontinued operations	(5.6)	(2.3)
	119.5	114.4
Net cash outflow in respect of reorganisation costs:		
Utilisation of provisions – closures and reorganisation	(19.2)	(29.5)
– other	–	0.1
– non-cash asset write downs	0.4	1.9
	(18.8)	(27.5)
Net cash inflow from operating activities	100.7	86.9

#### (b) Analysis of financing cash flows

Issue of ordinary share capital	1.0	0.6
Issue of shares to minorities	0.6	0.1
	1.6	0.7
Decrease in borrowings: – new short term loans	19.5	116.1
– repayment of amounts borrowed	(61.9)	(126.9)
– capital element of finance lease rental payments	(2.0)	(24.4)
	(44.4)	(35.2)
Net cash outflow from financing	(42.8)	(34.5)

#### (c) Analysis of net debt

	At 1 January 2002 £m	Cash flow £m	Acquisitions/ disposals (excl. cash/ overdrafts) £m	Other non-cash changes £m	Exchange £m	At 31 December 2002 £m
Cash at bank and in hand	63.0					49.4
Bank overdrafts	(24.9)					(26.8)
Net cash	38.1	(15.3)			(0.2)	22.6
Short term deposits	25.9	(12.0)			(1.1)	12.8
Loans and loan stock	(127.7)	42.4			8.2	(77.1)
Convertible debt	(60.2)	–		(0.2)	–	(60.4)
Lease finance	(4.2)	2.0		(0.2)	0.1	(2.3)
		44.4				
Total	(128.1)	17.1	–	(0.4)	7.0	(104.4)

**31 Notes to the cash flow statement (continued)**

	2002 £m	2001 £m
<b>(d) Purchase of subsidiary undertakings</b>		
Tangible fixed assets	<b>0.2</b>	6.3
Stocks	<b>0.9</b>	10.4
Debtors	<b>1.0</b>	13.2
Current asset investment	<b>0.4</b>	0.8
Cash at bank and in hand	<b>0.4</b>	3.5
Loans	–	(0.4)
Creditors	<b>(1.3)</b>	(11.1)
Provisions	–	(2.3)
Pension liabilities	<b>(1.4)</b>	–
Minority shareholders interests	<b>22.3</b>	10.5
	<b>22.5</b>	30.9
Goodwill	<b>(10.9)</b>	(6.1)
Total	<b>11.6</b>	24.8
Satisfied by:		
Cash	<b>11.6</b>	22.4
Loan notes issued	–	2.5
Transfer from deferred consideration	<b>(0.1)</b>	(0.1)
Transfer from fixed asset investments	<b>0.1</b>	–
	<b>11.6</b>	24.8
<b>(e) Sale of subsidiary undertakings</b>		
Goodwill	–	3.7
Tangible fixed assets	<b>3.4</b>	21.8
Stock	<b>3.4</b>	29.9
Debtors	<b>1.2</b>	33.8
Cash at bank and in hand	–	3.5
Creditors	<b>(1.3)</b>	(18.0)
Provisions	<b>(1.7)</b>	(23.4)
Current and deferred taxation	–	(0.9)
	<b>5.0</b>	50.4
Loss on disposal	<b>(10.1)</b>	(26.8)
Profit on sale of fixed assets	–	4.0
Write-back of purchased goodwill	–	12.5
	<b>(5.1)</b>	40.1
Satisfied by:		
Cash	<b>1.0</b>	36.6
Deferred consideration	–	4.8
Fixed asset investments	–	0.1
Transfer from deferred consideration	<b>(6.1)</b>	(1.4)
	<b>(5.1)</b>	40.1
<b>(f) Cash flow relating to exceptional items</b>		
Profit on sale of fixed assets	<b>8.7</b>	13.6
Book value of fixed assets sold	<b>4.6</b>	11.7
Less: included in sale of operations	–	(6.8)
Proceeds of sale of fixed assets	<b>13.3</b>	18.5
Proceeds of sale or termination of operations (note e)	<b>1.0</b>	36.6

**32 Post balance sheet events**

The Group completed the disposal of the majority of its Fashion Retail businesses on 23 January 2003 for a nominal consideration. The net assets of the businesses sold totalled approximately £36.0 million and the loss on disposal of approximately £38.0 million, including expenses, will be reflected in the accounts for the year ending 31 December 2003.

On 28 February 2003, the Group completed its acquisition of the industrial thread business of Vicunha Textil, Brazil's largest textile manufacturer for approximately £6.0 million. Goodwill of approximately £5.0 million arises on this acquisition, and this will be accounted for in the accounts for the year ending 31 December 2003.