

The Directors present their report and the financial statements for the year ended 31 December 2003.

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.

Change in Company status On 3 November 2003 Coats plc re-registered as a private company and its name changed to Coats Ltd.

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

Major shareholdings Following the acquisition of the ordinary shares of the Company by Coats Holdings plc (formerly Avenue Acquisition plc), the Company is a wholly owned subsidiary of Coats Holdings plc.

Acquisitions and disposals Details of acquisitions and disposals during the year are set out in the Operating and financial review on pages 2 to 5.

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 Operating and financial review set out on pages 1 to 5 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 £28 million.

Results and dividends The results of the Group for the year appear in detail on page 10. The preference dividends, amounting to £715,863 (2002 – £715,863) were paid on their due date. No ordinary dividends were declared during the year (2002 – 4.0p per share).

Directors Martin Flower, Jonathan Lea and Blake Nixon served as Directors throughout the year. Sir Victor Blank retired from the Board on 15 April 2003 and Keith Merrifield retired from the Board on 7 May 2003. Sir Harry Djanogly retired from the Board on 27 June 2003 and Bryan Anderson retired from the Board on 31 December 2003. Gary Weiss, Rex Wood-Ward, Don La Vigne and Anthony Gibbs were appointed as Directors on 15 April 2003. Michael Smithyman was appointed as a Director on 20 October 2003 and, as he was appointed since the previous Annual General Meeting of the Company, offers himself for re-election.

Directors' interests None of the Directors who held office at 31 December 2003 had any interests in the shares of the Company or of any of its subsidiaries. Directors' interests in the shares of the ultimate parent company, Coats Group Limited, are declared in the statutory accounts of Coats Holdings plc.

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 remains committed to meaningful employee consultation. A plenary meeting of Coats European Works Council (EWC) took place in April 2003 and the EWC Select Committee, created in 2002, was consulted in relation to key projects affecting 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.

Health and safety The Group is committed to effective Health and Safety risk management. A comprehensive Health and Safety management system was developed in 2003, which will be rolled-out worldwide in 2004. Line management across Coats businesses is fully accountable for the consistent implementation of Coats Health and Safety standards and policies.

Ethical employment Coats operates worldwide in full recognition of key ILO conventions. Coats Worldwide Employment Standards Statement contains the ethical principles 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.

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; and
- pay in accordance with its contractual and other legal obligations.

As the parent company does not trade, the number of days' credit in 2003 was nil (2002 – nil).

Research and development Investment in R&D this year focused primarily on further development of the Group's proprietary colour management systems. These are ahead of any commercial equivalents and support the high performance level we have in the Group's dyehouses. To respond to the increasing complexity of the Group's internal supply chain the business is migrating these colour systems from standalone systems for each dyehouse to networked enterprise-wide systems that provide for fluid communications along the length of the supply chain. We continue to use external research institutions to support this work.

UK 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 Company and its subsidiaries indemnifying them against certain liabilities incurred by them while acting as officers of the Company and its subsidiaries.

Charitable donations Payments of £38,500 (2002 – £13,000 – UK only) were made to charities during the year to UK and overseas recipients.

Auditors On 1 August 2003, Deloitte & Touche transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnership Act 2000. The Company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of Section 26(5) of the Companies Act 1989. A resolution to re-appoint Deloitte & Touche LLP as the Group's auditors and to authorise the Directors to fix their remuneration will be proposed at the Annual General Meeting.

Annual General Meeting Attached to this report on page 48 is the Notice of Annual General Meeting which sets out the resolutions for the business of the Annual General Meeting.

Statement of 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
1 March 2004