

18 Notes to the accounts

1 Continuing and discontinued operations and acquisitions

	2003			2002 (Restated)		
	Continuing £m	Discontinued £m	Total £m	Continuing £m	Discontinued £m	Total £m
Turnover	990.4	13.5	1,003.9	1,020.9	134.7	1,155.6
Cost of sales	662.1	6.3	668.4	673.5	68.1	741.6
Net operating expenses						
Distribution costs	201.4	7.3	208.7	197.6	68.8	266.4
Administrative expenses	96.8	2.4	99.2	86.8	18.4	105.2
Other operating income (note 3)	(0.9)	–	(0.9)	(1.1)	(2.4)	(3.5)
Total	297.3	9.7	307.0	283.3	84.8	368.1
Operating profit	31.0	(2.5)	28.5	64.1	(18.2)	45.9
Profit on sale of fixed assets	6.2	14.8	21.0	3.4	5.3	8.7
Sale or termination of operations						
Losses	(4.5)	(42.8)	(47.3)	(7.0)	(3.1)	(10.1)
Gains	2.2	1.5	3.7	–	3.9	3.9
	(2.3)	(41.3)	(43.6)	(7.0)	0.8	(6.2)

During the year ended 31 December 2003, a loss of £42.8 million arose on the sale or termination of discontinued operations, largely in respect of the sale of the UK Fashion Retail businesses and the closure of the US Fashion Retail business. In accordance with FRS3, the results of these businesses have been shown as discontinued. This treatment was followed in 2002 for the results of the UK Fashion Retail businesses, which were sold on 23 January 2003. However, in accordance with FRS3, the results of the US Fashion Retail business were previously shown as part of continuing operations, and therefore prior year figures have now been restated accordingly.

The £4.5 million loss on disposal of continuing activities arose on the sale of the UK manufacturing operation of the Bedwear business to an investment consortium.

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, resulting in a loss of £10.1 million.

Gains on sale or termination of operations of £3.7 million (2002 – £3.9 million) principally represent adjustments in respect of prior year disposals.

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

None of these acquisitions were 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	
	2003 £m	2002 (Restated) £m	2003 £m	2002 (Restated) £m	2003 £m	2002 (Restated) £m
Thread						
UK and Europe	349.3	321.6	13.7	14.8	138.0	123.6
North America	244.8	291.0	2.8	14.0	158.6	165.6
South America	86.0	87.6	7.8	11.5	66.6	64.1
Asia	232.1	222.4	37.5	35.6	143.9	146.9
Corporate (including net goodwill amortisation of £nil (2002 – £2.1 million))	–	–	1.1	6.4	33.1	2.5
Total Thread	912.2	922.6	62.9	82.3	540.2	502.7
Reorganisation costs and impairment of fixed assets			(19.1)	(15.2)		
Exceptional items			(7.4)	–		
Thread operating profit			36.4	67.1		
Other businesses						
India Textiles	8.2	22.6	(0.1)	(0.2)	5.2	5.8
Bedwear	70.0	75.7	(2.6)	(1.1)	19.4	22.8
Fashion Retail	13.5	134.7	(2.5)	(16.0)	1.7	44.4
Total other businesses	91.7	233.0	(5.2)	(17.3)	26.3	73.0
Reorganisation costs and impairment of fixed assets			(1.6)	(3.8)		
Exceptional items			(1.1)	(0.1)		
Other businesses operating loss			(7.9)	(21.2)		
Total Group	1,003.9	1,155.6	28.5	45.9	566.5	575.7
Associated companies			0.9	0.9		
Profit on sale of fixed assets			21.0	8.7		
Loss on sale or termination of operations			(43.6)	(6.2)		
Profit before interest			6.8	49.3		
Amounts written off investments			(0.6)	–		
Net interest payable			(15.3)	(13.0)		
(Loss)/profit before tax			(9.1)	36.3		
Tax on (loss)/profit			(3.8)	(5.1)		
(Loss)/profit after tax			(12.9)	31.2		
Headline basis (note 11)						
Profit before tax			14.8	32.2		
Profit after tax			10.7	26.7		

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

Continuing						
Total Thread	912.2	922.6	62.9	82.3	540.2	502.7
India Textiles	8.2	22.6	(0.1)	(0.2)	5.2	5.8
Bedwear	70.0	75.7	(2.6)	(1.1)	19.4	22.8
	990.4	1,020.9	60.2	81.0	564.8	531.3
Discontinued						
Fashion Retail	13.5	134.7	(2.5)	(16.0)	1.7	44.4
	1,003.9	1,155.6	57.7	65.0	566.5	575.7

20 Notes to the accounts (continued)

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

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

	Turnover		Operating profit		Operating margin	
	2003 £m	2002 £m	2003 £m	2002 (Restated) £m	2003 %	2002 (Restated) %
Thread						
UK and Europe	349.3	321.6	13.7	14.8	3.9	4.6
North America	244.8	291.0	2.8	14.0	1.1	4.8
South America	86.0	87.6	7.8	11.5	9.1	13.1
Asia	232.1	222.4	37.5	35.6	16.2	16.0
Corporate	–	–	1.1	6.4	–	–
Total Thread	912.2	922.6	62.9	82.3	6.9	8.9

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

	Turnover		Operating profit		Net assets	
	2003 £m	2002 (Restated) £m	2003 £m	2002 (Restated) £m	2003 £m	2002 (Restated) £m
United Kingdom	112.8	121.8	(4.2)	(1.9)	90.9	63.4
Rest of Europe	291.4	260.8	15.1	17.7	103.4	86.7
North America	244.8	291.0	3.1	13.9	156.0	166.0
South America	86.0	87.6	7.5	11.5	66.3	64.1
Asia, Australasia and Africa	255.4	259.7	38.7	39.8	148.2	151.1
Total continuing operations	990.4	1,020.9	60.2	81.0	564.8	531.3
Discontinued operations	13.5	134.7	(2.5)	(16.0)	1.7	44.4
	1,003.9	1,155.6	57.7	65.0	566.5	575.7
Reorganisation costs and impairment of fixed assets			(20.7)	(19.0)		
Exceptional items			(8.5)	(0.1)		
Operating profit			28.5	45.9		
Associated companies			0.9	0.9		
FRS3 exceptional items			(22.6)	2.5		
Profit before interest			6.8	49.3		
Net debt					(131.5)	(104.4)
Other fixed and current asset investments					28.1	29.8
Net assets per consolidated balance sheet					463.1	501.1
The geographical analysis of discontinued operations by location was:						
United Kingdom	9.7	121.0	(1.0)	(12.7)	–	43.8
Rest of Europe	0.5	0.9	(0.6)	(0.5)	(0.1)	(0.8)
North America	3.3	12.8	(0.9)	(2.8)	1.8	1.4
	13.5	134.7	(2.5)	(16.0)	1.7	44.4

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

	2003 £m	2002 (Restated) £m
Operating profit is stated after charging:		
Depreciation – Owned assets	36.1	41.7
– Leased assets	0.2	0.3
Amortisation of goodwill	0.7	(1.6)
Reorganisation costs	16.3	17.1
Impairment of fixed assets	4.4	1.9
Exceptional items	8.5	0.1
Hire of plant and machinery	5.5	6.4
Other operating lease rentals	11.9	21.5
Research and development expenditure	1.5	2.1
Auditors' remuneration – Audit fees	1.7	1.7
– Non audit related fees – UK	0.1	–
– Overseas	0.7	0.3
and after crediting other operating income:		
Rental income net of expenses	0.6	1.1
Royalties and licensing income	0.3	0.9
Credit card income	–	1.5
	0.9	3.5
Product category analysis of reorganisation costs and impairment of fixed assets		
Thread		
UK and Europe	4.6	8.9
North America	13.2	3.8
South America	0.7	1.1
Asia	0.1	1.4
Corporate	0.5	–
Total Thread	19.1	15.2
India Textiles	0.1	0.3
Bedwear	1.5	1.3
Continuing operations	20.7	16.8
Discontinued operations		
Fashion Retail	–	2.2
Total	20.7	19.0
Product category analysis of exceptional items		
Thread – Corporate	7.4	–
Bedwear	1.1	–
Continuing operations	8.5	–
Discontinued operations		
Fashion Retail	–	0.1
Total	8.5	0.1

Thread exceptional items represent the costs incurred by the Company in respect of the offer for the Company by Coats Holdings plc (formerly Avenue Acquisition plc).

22 Notes to the accounts (continued)

4 Directors' emoluments

	2003 £m	2002 £m
Aggregate emoluments	1.6	1.5
Compensation for loss of office	0.3	–
Aggregate gains on share options (see note)	0.3	–
Aggregate awards under long term incentive schemes	1.1	–
	3.3	1.5
Emoluments (including gains on share options and awards under long term incentive schemes) in respect of highest paid director	1.2	0.6
Accrued pension entitlement in respect of highest paid director	0.3	0.3
	Number	Number
Number of directors to whom retirement benefits are accruing in respect of defined benefit schemes	3	3

Note

Share options held by three Directors were either exercised or cancelled following the acquisition of the Group by Coats Holdings plc (formerly Avenue Acquisition plc). Options with an exercise price exceeding 58.5p lapsed, while options with an exercise price below 58.5p were either exercised or cancelled for cash.

5 Employees

	2003 Number	2002 Number
The average numbers employed by the Group during the year were:		
Direct	18,396	19,250
Indirect	5,476	5,373
Staff	8,362	10,880
	32,234	35,503
Comprising:		
UK	2,443	5,484
Overseas	29,791	30,019
	32,234	35,503
The total numbers employed at the end of the year were:		
UK	2,056	4,879
Overseas	29,079	29,453
	31,135	34,332
	£m	(Restated) £m
The costs incurred in respect of these employees were:		
Wages and salaries	242.8	287.6
Social security costs	32.5	31.7
Other pension costs: included in operating profit (note 29)	3.7	5.9
	279.0	325.2

6 Interest receivable and similar income

	2003 £m	2002 £m
Interest receivable	3.2	7.7
Income from other fixed and current asset investments	1.8	2.5
Gross interest receivable and similar income	5.0	10.2
Less: credit card interest transferred to other operating income	–	(0.5)
	5.0	9.7

7 Interest payable and similar charges

	2003 £m	2002 (Restated) £m
Loans	6.5	6.2
Bank overdrafts and other borrowings	6.6	7.7
Discounting interest re onerous leasehold provisions	0.1	0.1
Discounting interest re pension provisions	3.9	3.6
Finance leases	0.1	0.3
	17.2	17.9
Cost of financing convertible debt (note 17)	2.4	3.9
Share of net interest payable of associated companies	0.7	0.9
Total interest payable and similar charges	20.3	22.7

8 Tax on (loss)/profit on ordinary activities

	2003 £m	2002 (Restated) £m
UK taxation based on (loss)/profit for the year:		
Corporation tax at 30%	4.2	6.1
Double taxation relief	(4.2)	(6.1)
Deferred taxation	–	(0.1)
Prior year adjustments – Corporation tax	(1.1)	(2.0)
Deferred taxation	<u>–</u>	<u>0.3</u>
	(1.1)	(1.7)
Total UK taxation	(1.1)	(1.8)
Overseas taxation:		
Current taxation	11.0	12.4
Deferred taxation	(1.7)	(3.9)
	9.3	8.5
Prior year adjustments – Current taxation	0.5	(1.3)
Deferred taxation	(4.9)	<u>(0.3)</u>
	(4.4)	(1.6)
Total overseas taxation	4.9	6.9
Associated companies taxation	–	–
	3.8	5.1

The tax charge for the year ended 31 December 2002 has been restated to reflect the adoption of SSAP 24 – Accounting for Pension Costs, resulting in a £4.0 million reduction in deferred taxation, of which £1.7 million relates to the UK and £2.3 million to overseas operations.

24 Notes to the accounts (continued)

8 Tax on (loss)/profit on ordinary activities (continued)

The standard rate of current tax for the year, based on the UK standard rate of corporation tax, is 30% (2002 – 30%). The current tax charge for the year is higher than 30% for the reasons set out in the following reconciliation:

	2003 £m	2002 (Restated) £m
(Loss)/profit on ordinary activities before tax	(9.1)	36.3
Tax on (loss)/profit on ordinary activities at standard rate	(2.7)	10.9
Adjusted for the effects of:		
Expenses not deductible for tax purposes (including goodwill amortisation)	7.1	3.1
Income not liable to taxation	(2.7)	(4.2)
Losses not recognised	10.3	9.4
Utilisation of brought forward losses not previously recognised	(3.5)	(5.2)
Capital allowances for the year in excess of depreciation	(4.0)	(2.1)
Other short term timing differences	1.1	1.3
Profits on sale of fixed assets covered by reliefs	(5.6)	(2.4)
Losses on sales or termination of operations not eligible for relief	12.3	2.7
Intra-Group dividends not covered by double tax relief	2.3	1.2
Lower rates of tax on overseas earnings	(4.5)	(2.8)
Withholding tax on remittances	2.3	2.5
Corporation taxes not on profits	2.2	1.7
Local tax incentives	(1.3)	(1.8)
Other	(2.3)	(1.9)
Current tax charge for the year	11.0	12.4

9 Loss for the year

	2003 £m	2002 £m
The Company's loss for the financial year was	(28.5)	(114.1)

Under the provisions of Section 230 Companies Act 1985, a profit and loss account for the Company is not presented.

10 Ordinary dividends

	2003	2002	2003 £m	2002 £m
Ordinary shares (equity shares)				
Interim	–	1.50p	–	10.6
Special second interim	–	2.50p	–	17.8
	–	4.00p	–	28.4

No dividends were declared during the year. The 2002 special second interim dividend (in lieu of a final dividend) was declared in connection with the recommended offer for the shares of the Company by Coats Holdings plc (formerly Avenue Acquisition plc), and became payable when the offer was declared wholly unconditional.

11 (Loss)/earnings per share

	2003	2002 (Restated)	2003 £m	2002 (Restated) £m
(Loss)/earnings per share are based on (loss)/profit available for Ordinary shareholders of:			(20.2)	25.3
and on an average number of shares of:	708.3m	706.4m		
resulting in basic and diluted (loss)/earnings per share of:	(2.9)p	3.6p		
Less: amortisation of goodwill	0.1p	(0.2)p	0.7	(1.6)
amounts written off investments	0.1p	–	0.6	–
profit on sale of fixed assets	(3.0)p	(1.2)p	(21.0)	(8.7)
losses on sale or termination of operations	6.2p	0.9p	43.6	6.2
taxation relating to these items	–	(0.1)p	(0.3)	(0.4)
minority interests relating to these items	–	(0.3)p	0.2	(2.0)
Headline earnings per share	0.5p	2.7p	3.6	18.8

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. Headline earnings represent the (loss)/profit attributable to Ordinary shareholders adjusted for amortisation of goodwill, amounts written off investments, profit on sale of fixed assets, losses on sale or termination of operations and the associated impact on taxation and minority interests.

12 Tangible assets

	Land and buildings £m	Plant, machinery and vehicles £m	Total £m
Group			
Cost			
At beginning of year	199.3	630.6	829.9
Exchange difference	(8.4)	(32.0)	(40.4)
Subsidiaries acquired	0.2	1.3	1.5
Subsidiaries disposed	(13.0)	(52.3)	(65.3)
Additions	9.1	48.8	57.9
Disposals	(9.9)	(24.0)	(33.9)
At 31 December 2003	177.3	572.4	749.7
Depreciation			
At beginning of year	71.6	378.5	450.1
Exchange difference	(3.1)	(15.8)	(18.9)
Subsidiaries disposed	(11.2)	(41.3)	(52.5)
Charge for the year	3.9	32.4	36.3
Impairment of fixed assets	1.7	2.7	4.4
Disposals	(0.6)	(16.7)	(17.3)
At 31 December 2003	62.3	339.8	402.1
Net book value			
At 31 December 2003	115.0	232.6	347.6
At beginning of year	127.7	252.1	379.8
Land and buildings			
		2003 £m	2002 £m
Cost			
Freehold		164.0	163.4
Long leasehold		1.4	14.1
Short leasehold		11.9	21.8
		177.3	199.3
Accumulated depreciation			
Freehold		57.4	56.4
Long leasehold		0.1	4.2
Short leasehold		4.8	11.0
		62.3	71.6

The cost of long leasehold land and buildings includes capitalised interest of £nil (2002 – £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 (2002 – £0.8 million).

26 Notes to the accounts (continued)

13 Investments

	Associated companies £m	Other £m	Total £m	
Group				
Cost				
At beginning of year	0.7	8.0	8.7	
Exchange	–	(0.2)	(0.2)	
Disposals	–	(1.1)	(1.1)	
At 31 December 2003	0.7	6.7	7.4	
Provisions				
At beginning of year	–	(4.8)	(4.8)	
Provided during the year	–	(0.7)	(0.7)	
Disposals	–	0.8	0.8	
At 31 December 2003	–	(4.7)	(4.7)	
Share of profits/(losses) retained				
At beginning of year	1.6		1.6	
Share of losses for the year	(0.1)		(0.1)	
At 31 December 2003	1.5		1.5	
Net book value				
At 31 December 2003	2.2	2.0	4.2	
At beginning of year	2.3	3.2	5.5	
Including investments listed on a recognised Stock Exchange				
At 31 December 2003	–	1.9	1.9	
At beginning of year	–	2.3	2.3	
	Shares £m	Subsidiaries Loans £m	Other fixed asset investments £m	Total £m
Company				
Cost				
At beginning of year	801.2	498.3	6.2	1,305.7
Disposals	–	–	(1.5)	(1.5)
Repaid	–	(80.0)	–	(80.0)
At 31 December 2003	801.2	418.3	4.7	1,224.2
Provisions				
At beginning of year	(44.0)	(94.7)	(5.3)	(144.0)
Provided in the year	–	(46.2)	(0.7)	(46.9)
Released in the year	17.6	–	–	17.6
Disposals	–	–	1.3	1.3
Utilised in the year	–	68.0	–	68.0
At 31 December 2003	(26.4)	(72.9)	(4.7)	(104.0)
Net book value				
At 31 December 2003	774.8	345.4	–	1,120.2
At beginning of year	757.2	403.6	0.9	1,161.7

Principal subsidiary undertakings are listed on page 47.

14 Stocks

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Raw materials and consumables	42.9	52.8	–	–
Work in progress	72.0	66.1	–	–
Finished goods and goods for resale	113.1	136.7	–	–
	228.0	255.6	–	–

15 Debtors

	Group		Company	
	2003 £m	2002 (Restated) £m	2003 £m	2002 £m
Debtors due within one year:				
Trade debtors	161.3	189.4	–	–
Amounts owed by parent company	1.7	–	1.7	–
Amounts owed by subsidiaries	–	–	0.3	3.4
Amounts owed by associated companies	0.2	0.4	–	–
Corporation and overseas tax recoverable	8.6	9.2	–	–
Other debtors	24.9	31.1	–	0.1
Prepayments and accrued income	9.3	11.7	–	–
Pension fund prepayments	0.6	1.9	–	–
	206.6	243.7	2.0	3.5
Debtors due in more than one year:				
Trade debtors	0.4	0.6	–	–
Amounts owed by associated companies	0.7	0.8	–	–
Other debtors	10.0	8.4	–	–
Prepayments and accrued income	0.2	0.2	–	–
Pension fund prepayments	37.7	38.2	–	–
	49.0	48.2	–	–

16 Current asset investments

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Listed investments	22.8	23.7	–	–
Unlisted investments	1.1	0.6	–	–
	23.9	24.3	–	–
Market value of listed investments	22.8	24.2	–	–

28 Notes to the accounts (continued)

17 Other creditors (amounts falling due within one year)

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Trade creditors	95.8	118.4	0.1	–
Loans (note 19)	174.2	74.1	144.9	55.4
Amounts owed to subsidiaries	–	–	0.4	–
Amounts owed to associated companies	0.3	0.7	–	–
Bills of exchange	5.4	5.6	–	–
Corporation tax and overseas taxation	22.9	23.2	10.0	10.0
Other taxation and social security	10.0	15.7	–	–
Payments in advance	0.1	0.6	–	–
Other creditors	29.6	30.0	0.4	0.4
Accruals and deferred income	21.3	33.5	0.7	2.9
Proposed dividends	–	28.3	–	28.3
Finance lease obligations (note 18)	0.6	0.6	0.4	0.3
Leaving indemnities (note 20)	4.2	4.6	–	–
	364.4	335.3	156.9	97.3
Convertible debt				
£60.458 million 6.25% senior convertible bonds due 2003 (see note)	–	60.4	–	60.4

Note

On 9 August 1993, the Company issued £75.625 million 6.25% senior convertible bonds.

As a result of redemptions and conversions since the issue, the value of bonds in issue at 31 December 2002 was £60.458 million.

These bonds were convertible into ordinary shares of the Company 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 Company had the power to redeem the bonds in whole or in part at any time after 31 August 1998.

The bonds not converted were redeemed at their principal value on 9 August 2003.

In accordance with FRS4, the expenses of the issue were deducted from the gross proceeds of the issue and, together with the finance costs, were 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	
	2003 £m	2002 £m	2003 £m	2002 £m
Trade creditors	–	0.1	–	–
Loans (note 19)	0.6	3.0	–	–
Amounts owed to subsidiaries	–	–	443.0	423.0
Other creditors	1.4	1.3	–	–
Accruals and deferred income	0.8	2.0	–	–
Finance lease obligations	0.3	1.7	–	0.4
	3.1	8.1	443.0	423.4

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	0.6	0.6	0.4	0.3
Between one and two years	0.2	0.7	–	0.4
Between two and five years inclusive	0.1	0.5	–	–
Over five years	–	0.5	–	–
	0.9	2.3	0.4	0.7

19 Borrowings and financial instruments

(a) Borrowings

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Bank loans	172.7	73.4	143.1	52.3
Other loans	2.1	3.7	1.8	3.1
	174.8	77.1	144.9	55.4
Repayable within one year	(174.2)	(74.1)	(144.9)	(55.4)
Amounts falling due after more than one year	0.6	3.0	–	–
Repayable as follows:				
Between one and two years – Other loans	0.2	2.3	–	–
Between two and five years – Other loans	0.4	0.7	–	–
	0.6	3.0	–	–

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

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Net debt				
Loans	174.8	77.1	144.9	55.4
Bank overdrafts	18.2	26.8	–	26.5
Lease finance	0.9	2.3	0.4	0.7
	193.9	106.2	145.3	82.6
Convertible debt	–	60.4	–	60.4
Total borrowings	193.9	166.6	145.3	143.0
Cash and short term deposits	(62.4)	(62.2)	(8.6)	(3.1)
Net debt	131.5	104.4	136.7	139.9

	Group	
	2003 £m	2002 £m
Maturity of debt		
Total borrowings are repayable as follows:		
Within one year	193.0	161.9
Between one and two years	0.4	3.0
Between two and five years	0.5	1.2
After five years	–	0.5
	193.9	166.6
Total secured indebtedness	8.4	9.5
Total indebtedness guaranteed by Coats Ltd	20.4	30.5

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

The Group's policies as regards derivatives and other financial information are set out in the Operating and financial review on pages 2 to 5 and the Statement of accounting policies on pages 14 to 17. The Group does not trade in financial instruments.

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

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, for 2002, convertible debt; the payment profile of these liabilities is analysed in note 17 and 18.

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

Undrawn committed borrowing facilities

At 31 December 2003, all undrawn committed borrowing facilities expire within one year (see the Operating and financial review for further details). As at 31 December 2002, the Group had undrawn committed borrowing facilities which expired in more than one year of £117.8 million.

Currency analysis of net assets

The analysis of net assets by currency is as follows:

	2003 £m	2002 (Restated) £m
Currency analysis of net assets		
Sterling	90.9	138.2
US Dollar	180.4	152.3
Euro	42.9	38.3
Indian Rupee	32.8	31.1
Other	219.5	215.8
	566.5	575.7

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 2003				
Sterling	–	0.2	–	0.2
US Dollar and related	55.9	85.1	–	141.0
Euro	0.2	6.6	0.1	6.9
Other	0.3	45.5	–	45.8
Gross financial liabilities	56.4	137.4	0.1	193.9

	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 2003			
Sterling	–	–	–
US Dollar and related	4.4	6.0	–
Euro	4.0	2.6	1.8
Other	10.5	2.8	–

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

19 Borrowings and financial instruments (continued)

(b) Financial instruments (continued)

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

	Fixed rate 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	7.8	3.2	–
US Dollar and related	4.4	2.5	–
Euro	5.0	1.9	2.3
Other	12.0	3.8	–

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 2003				
Sterling	–	3.5	0.8	4.3
US Dollar and related	–	6.7	10.0	16.7
Euro	–	7.8	3.0	10.8
Other	–	19.9	10.7	30.6
Gross financial assets	–	37.9	24.5	62.4

	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

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.

In addition to the financial assets included in the tables above, which represent cash at bank and in hand, £21.7 million (2002 – £nil) of the current asset investments at 31 December 2003 represents financial assets. £18.2 million of this is hedged and therefore represents a sterling financial asset, with the balance being in Other currencies.

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

	2003		2002	
	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	(62.4)	(62.4)	(62.2)	(62.2)
Loans	174.8	174.8	77.1	77.1
Lease finance	0.9	0.9	2.3	2.4
Convertible debt	–	–	60.4	60.3
Bank overdrafts	18.2	18.2	26.8	26.8
	193.9	193.9	166.6	166.6
Derivative financial instruments held to manage the Group's interest rate and currency profile:				
Forward foreign exchange contracts	(1.7)	(1.7)	(3.3)	(3.3)
Interest rate swaps	–	1.9	–	3.6
	(1.7)	0.2	(3.3)	0.3
Coats Ltd (formerly Coats plc) 4.9% Cumulative Preference Shares	14.6	9.9	14.6	9.9
Current asset investments which represent financial assets	(21.7)	(21.7)	–	–

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.

Hedging

The aggregate unrecognised loss at 31 December 2003, being the difference between book value and estimated fair value of the above derivative financial instruments, is £1.9 million (2002 – £3.6 million). Of this, approximately £0.8 million (2002 – approximately £1.1 million) loss will be recognised in the profit and loss account for the year ending 31 December 2004.

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 2003					
Sterling	–	1.8	0.4	0.1	2.3
US Dollar	0.1	–	(0.1)	–	–
Euro	(0.1)	(0.1)	–	–	(0.2)
Other	–	12.5	4.5	–	17.0
	–	14.2	4.8	0.1	19.1
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

() represents uncovered monetary liabilities.

20 Provisions for liabilities and charges

	Deferred taxation (Restated) £m	Closures and reorganisation £m	Pensions (Restated) £m	Leaving indemnities £m	Total (Restated) £m
Group					
At beginning of year as originally reported	22.6	28.5	–	3.2	54.3
Prior period adjustment (pensions – note 29)	2.2	–	68.2	–	70.4
At beginning of year as restated	24.8	28.5	68.2	3.2	124.7
Exchange difference	(1.0)	(0.5)	3.6	(0.7)	1.4
Provided/(released) – deferred tax	(6.6)	–	–	–	(6.6)
– reorganisations	–	17.5	–	–	17.5
– sale or termination of operations	–	43.6	–	–	43.6
– discounting interest	–	0.1	3.9	–	4.0
– other	–	1.1	0.6	2.1	3.8
Transfer to current tax	(5.6)	–	–	–	(5.6)
Transfer to pension liabilities	–	(0.1)	–	–	(0.1)
Utilised	–	(62.2)	(9.6)	(0.5)	(72.3)
At 31 December 2003	11.6	28.0	66.7	4.1	110.4

	Total £m
Company	
At beginning of year	1.2
Provided – sale or termination of operations	2.6
Utilised	(3.5)
At 31 December 2003	0.3

	2003 £m	2002 (Restated) £m
Analysis of Group deferred tax liability		
Capital allowances in excess of depreciation	24.0	26.8
Pension provisions	1.7	2.2
Other timing differences	(4.9)	2.5
Losses carried forward	(9.2)	(6.7)
	11.6	24.8

The Group has unrecognised deferred tax assets relating to unutilised tax losses of £140.0 million (2002 – £137.7 million) and unrecovered advance corporation tax of £60.6 million (2002 – £69.1 million). These 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 closures and reorganisation 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 pensions and leaving indemnities is as follows:

	Pensions		Leaving indemnities	
	2003 £m	2002 (Restated) £m	2003 £m	2002 £m
Payable in less than one year	6.7	8.5	–	–
Payable between one and two years	7.1	6.4	0.4	0.3
Payable between two and five years	15.6	17.3	0.7	0.4
Payable in more than five years	37.3	36.0	3.0	2.5
	66.7	68.2	4.1	3.2

34 Notes to the accounts (continued)

21 Goodwill

The net tangible assets acquired during the year were:

	Book value and fair value to the Group £m
Fixed assets	1.5
Current assets	1.8
Minority interest	5.4
	8.7
Fair value of cash consideration	10.7
Goodwill arising during the year	2.0
Positive	4.7
Negative	(2.7)
	2.0

No fair value adjustments were required in respect of acquisitions made during the year – primarily the purchase in February 2003 of Vicunha, a Brazilian Thread business, and the purchase in November 2003 of the outstanding minority interest in the Group's Indian Thread subsidiary.

The goodwill capitalised in the balance sheet is as follows:

	Cost £m	Amortisation and impairment £m	Net £m
Positive goodwill			
At beginning of year	58.6	10.3	48.3
Exchange	(1.1)	(0.2)	(0.9)
Acquisitions	4.7	–	4.7
Amortised in the year	–	3.2	(3.2)
Carried forward at 31 December 2003	62.2	13.3	48.9
Negative goodwill			
At beginning of year	17.8	6.6	11.2
Acquisitions	2.7	–	2.7
Amortised in the year	–	2.5	(2.5)
Carried forward at 31 December 2003	20.5	9.1	11.4

Of the negative goodwill arising during the year, £1.1 million (2002 – £3.7 million) has been identified as relating to working capital and released during the year. The balance has been capitalised in accordance with FRS10 and is being amortised over the expected useful economic life of the non-monetary assets acquired, which is considered by the Directors to be ten years.

As at 31 December 2003, the cumulative amount of goodwill on acquisitions made prior to 1 January 1998 charged to reserves is £192 million (2002 – £192 million).

22 Called up share capital

	Number of shares	2003 £m	Number of shares	2002 £m
Authorised:				
Ordinary shares of 20p each	876,952,750	175.4	876,952,750	175.4
4.9% Cumulative Preference shares of £1 each	14,609,450	14.6	14,609,450	14.6
		190.0		190.0
Allotted and fully paid:				
Ordinary shares of 20p each – equity shares	708,574,026	141.7	707,973,426	141.6
4.9% Cumulative Preference shares of £1 each – non equity shares	14,609,449	14.6	14,609,449	14.6
		156.3		156.2

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 the Company.

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 the Company 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.

At 31 December 2002 options granted for ordinary shares which had not been exercised were 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	135,320
Overseas Executive Share Option Scheme	1993 to 1994	223.41p to 256.08p	2003 to 2004	389,774
1994 Executive Share Option Scheme	1994 to 2001	33.75p to 214.50p	2003 to 2011	13,475,677
Sharesave Scheme	1995 to 1997	110.00p to 156.00p	2003	557,269
2002 Executive Share Option Plan	2002	52.50p to 54.75p	2003 to 2012	6,750,000
				21,308,040

During the year ended 31 December 2003, the ordinary share capital of the Company was acquired by Coats Holdings plc (formerly Avenue Acquisition plc) at a price of 56p per share plus a special dividend of 2.5p per share. As a consequence of the acquisition, options with an exercise price exceeding 58.5p per share lapsed, while options with an exercise price below 58.5p per share were either exercised, or else cancelled for cash consideration equal to the difference between the exercise price and 58.5p. In respect of those exercised, the Company issued 600,600 ordinary shares with a nominal value of £120,120, for proceeds of £0.3 million.

36 Notes to the accounts (continued)

23 Other reserves

	Share premium account £m	Other capital reserve £m	Pension reserve (Restated) £m	Total (Restated) £m
Group				
At beginning of year as originally reported	207.2	34.1	(29.8)	211.5
Prior period adjustment (pensions – note 29)	–	–	29.8	29.8
At beginning of year as restated	207.2	34.1	–	241.3
Shares issued during the year	0.2	–	–	0.2
At 31 December 2003	207.4	34.1	–	241.5
Company				
At beginning of year	207.2	35.6	–	242.8
Shares issued during the year	0.2	–	–	0.2
At 31 December 2003	207.4	35.6	–	243.0

24 Profit and loss account

	Group (Restated) £m	Company £m
At beginning of year as originally reported	96.0	160.5
Prior period adjustment (pensions – note 29)	(30.3)	–
At beginning of year as restated	65.7	160.5
Foreign currency translation (losses)/gains		
– overseas net assets	(21.8)	
– related hedging	7.8	
	(14.0)	–
Retained loss for the year	(20.2)	(29.2)
At 31 December 2003	31.5	131.3
Retained in Group companies (including a deficit of £7.6 million overseas)	30.0	
Retained in associated companies	1.5	
	31.5	

25 Equity minority interests

	Group 2003 £m	Group 2002 £m
Equity minority interests	33.8	37.9

26 Future capital expenditure

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Contracted but not provided for	9.7	6.8	–	–
Authorised but not contracted for	16.4	45.5	–	–
	26.1	52.3	–	–

27 Contingent liabilities

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 (Restated) £m
Loan, overdraft and finance lease guarantees in respect of certain subsidiaries (note 19)	–	–	20.4	30.5
Others including performance guarantees and documentary credits on overseas contracts	14.2	22.0	7.5	4.0

28 Operating lease rentals

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
The committed amounts payable during 2004 are:				
Leases of land and buildings expiring:				
Within one year	1.6	1.3	–	–
Within two to five years inclusive	5.7	5.1	–	–
Over five years	5.9	12.2	–	–
	13.2	18.6	–	–
Other operating leases expiring:				
Within one year	1.0	0.8	–	–
Within two to five years inclusive	3.0	3.0	–	–
	4.0	3.8	–	–

29 Pensions

(a) Retirement benefit schemes

The Group operates a number of defined benefit and defined contribution plans around the world to provide pension and other post-retirement benefits. The principal defined benefit arrangements are those in the UK and in North America and the assets of these plans are held under self-administered trust funds and hence are separated from the Group's assets.

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.

Pension costs in respect of these plans are assessed in accordance with the advice of independent, professionally qualified actuaries.

(b) Accounting and disclosures

Following the Group's acquisition by Coats Holdings plc (formerly Avenue Acquisition plc), pensions and other post-retirement benefits are now accounted for in accordance with SSAP 24 – Accounting for Pension Costs, as this is the parent company's policy, instead of under FRS17 – Retirement Benefits. Comparative figures for 2002 have been restated in accordance with SSAP 24 and details of the pension costs calculated on this basis and the effects of the restatement are set out in this note.

The Group has adopted the transitional disclosure requirements of FRS17 – Retirement Benefits. It differs from SSAP 24 principally with regard to the choice of assumptions and in that differences between the market value of the assets and liabilities of the retirement benefit schemes are recognised immediately in the balance sheet whereas they are recognised on a smoothed basis through the profit and loss account under SSAP 24. The Group is not required to account for retirement benefits under FRS17, but is required to present certain transitional disclosures which are set out in section (d) below.

(c) SSAP 24 disclosures

Pension costs for the year were:

	2003 £m	2003 £m	2002 (Restated) £m	2002 (Restated) £m
Included in operating profit:				
Defined contribution schemes		2.9		3.2
Defined benefit schemes – United Kingdom (i)	0.4		1.8	
North America (ii)	(0.2)		–	
Other schemes	0.6		0.9	
		0.8		2.7
		3.7		5.9

29 Pensions (continued)**(i) United Kingdom**

Pension costs for the year were:

	2003 £m	2002 (Restated) £m
Regular pension cost	4.2	5.6
Spreading of surplus	(2.2)	(2.2)
Interest	(1.6)	(1.6)
Net charge	0.4	1.8

The last full actuarial valuation of the UK scheme was carried out as at 1 April 2000. The full triennial valuation of the scheme as at 1 April 2003 is in the process of being completed. The pension cost for the year ended 31 December 2003 and the pension asset at 31 December 2003 are based on an actuarial review as at 7 April 2003, the date on which the Group was acquired by Coats Holdings plc (formerly Avenue Acquisition plc). The estimated market value of assets in the scheme at that date was £1,284 million and the funding level was 104%. The projected unit method was used and the principal assumptions were:

Investment return pre-retirement	7.6% per annum	Increase in earnings	3.5% per annum
Investment return post-retirement	5.4% per annum	Inflation rate and increase in pensions	2.5% per annum

(ii) North America

The Group operates defined benefit schemes in the USA and Canada.

Pension costs for the year were:

	2003 £m	2002 (Restated) £m
Regular cost	1.8	2.0
Spreading of surplus	(1.2)	(0.8)
Interest	(0.8)	(1.2)
Net credit	(0.2)	–

An actuarial valuation of the main USA plan was carried out as at 31 December 2002. The pension cost for the year ended 31 December 2003 and the pension asset at 31 December 2003 are based on an actuarial review as at 7 April 2003, the date on which the Group was acquired by Coats Holdings plc (formerly Avenue Acquisition plc). The estimated market value of assets in the scheme at that date was £140 million and the funding level was 121%.

(d) FRS17 retirement benefits

The information provided below for defined benefit plans has been prepared by independent qualified actuaries based on the most recent actuarial valuations of the schemes concerned, updated to take account of the valuations of assets and liabilities as at 31 December 2003.

	UK %	North America %	Other %
Principal assumptions at 31 December 2003			
Rate of increase in salaries	4.00	5.00	3.20
Rate of increase in pensions in payment	2.50	nil	1.30
Discount rate	5.40	6.25	5.60
Inflation assumption	2.50	2.50	2.00

	UK %	North America %	Other %
Principal assumptions at 31 December 2002			
Rate of increase in salaries	3.80	5.00	3.00
Rate of increase in pensions in payment	2.30	nil	2.00
Discount rate	5.60	6.75	5.50
Inflation assumption	2.30	2.50	2.00

	UK %	North America %	Other %
Principal assumptions at 31 December 2001			
Rate of increase in salaries	4.00	6.00	3.00
Rate of increase in pensions in payment	2.50	nil	2.00
Discount rate	6.00	7.25	6.00
Inflation assumption	2.50	3.00	1.50

29 Pensions (continued)

(d) FRS17 retirement benefits (continued)

Valuation of pension scheme assets and liabilities at 31 December 2003	UK £m	North America £m	Other £m	Group £m
Equities	426.6	87.4	3.0	517.0
Corporate bonds and gilts	930.7	47.1	4.9	982.7
Other	–	1.8	0.8	2.6
Total market value of assets	1,357.3	136.3	8.7	1,502.3
Actuarial value of scheme liabilities	(1,334.6)	(100.7)	(75.8)	(1,511.1)
Gross surplus/(deficit)	22.7	35.6	(67.1)	(8.8)
Adjustment due to surplus cap	(4.0)	(19.5)	(0.3)	(23.8)
Recoverable surplus/(deficit) in the scheme	18.7	16.1	(67.4)	(32.6)
Related deferred tax (liability)/asset	(5.6)	(5.7)	4.7	(6.6)
Net pension asset/(liability)	13.1	10.4	(62.7)	(39.2)

Long term rate of return expected at 31 December 2003	UK %	North America %	Other %
Equities	6.30	8.25	8.20
Corporate bonds and gilts	5.40	5.50	7.70
Other	n/a	3.50	4.00

Valuation of pension scheme assets and liabilities at 31 December 2002	UK £m	North America £m	Other £m	Group £m
Equities	406.2	83.1	2.2	491.5
Corporate bonds and gilts	883.4	54.0	4.1	941.5
Other	–	4.8	0.6	5.4
Total market value of assets	1,289.6	141.9	6.9	1,438.4
Actuarial value of scheme liabilities	(1,273.1)	(110.2)	(72.5)	(1,455.8)
Gross surplus/(deficit)	16.5	31.7	(65.6)	(17.4)
Adjustment due to surplus cap	–	(0.5)	–	(0.5)
Recoverable surplus/(deficit) in the scheme	16.5	31.2	(65.6)	(17.9)
Related deferred tax (liability)/asset	(5.0)	(11.6)	4.7	(11.9)
Net pension asset/(liability)	11.5	19.6	(60.9)	(29.8)

Long term rate of return expected at 31 December 2002	UK %	North America %	Other %
Equities	6.00	8.00	7.90
Corporate bonds and gilts	5.00	5.50	7.20
Other	n/a	3.50	4.10

Valuation of pension scheme assets at 31 December 2001	UK £m	North America £m	Other £m	Group £m
Equities	719.3	114.4	2.4	836.1
Corporate bonds and gilts	719.2	60.5	2.3	782.0
Other	–	6.4	0.7	7.1
Total market value of assets	1,438.5	181.3	5.4	1,625.2
Actuarial value of scheme liabilities	(1,219.5)	(117.7)	(60.6)	(1,397.8)
Gross surplus/(deficit)	219.0	63.6	(55.2)	227.4
Adjustment due to surplus cap	(184.1)	(21.5)	–	(205.6)
Recoverable surplus/(deficit) in the scheme	34.9	42.1	(55.2)	21.8
Related deferred tax (liability)/asset	(10.5)	(15.8)	5.4	(20.9)
Net pension asset/(liability)	24.4	26.3	(49.8)	0.9

Long term rate of return expected at 31 December 2001	UK %	North America %	Other %
Equities	6.50	9.25	9.10
Corporate bonds and gilts	5.40	6.50	8.10
Other	n/a	5.75	3.70

29 Pensions (continued)**(d) FRS17 retirement benefits (continued)**

The movements in net defined benefit assets during the year ended 31 December 2003 were:

	Gross surplus			Recoverable surplus		
	UK £m	North America £m	Group £m	UK £m	North America £m	Group £m
Assets of the schemes at the beginning of the year	16.5	31.7	48.2	16.5	31.2	47.7
Movement in year:						
Current service cost	(4.8)	(2.0)	(6.8)	(4.8)	(2.0)	(6.8)
Past service cost	(0.3)	–	(0.3)	(0.3)	–	(0.3)
Contributions	0.1	–	0.1	0.1	–	0.1
Other finance (expense)/income	(2.3)	2.0	(0.3)	(2.3)	2.0	(0.3)
Actuarial gain/(loss)	13.5	5.8	19.3	9.5	(13.2)	(3.7)
Exchange difference	–	(1.9)	(1.9)	–	(1.9)	(1.9)
Assets of the schemes at the end of the year	22.7	35.6	58.3	18.7	16.1	34.8

The movements in net defined benefit assets during the year ended 31 December 2002 were:

	Gross surplus			Recoverable surplus		
	UK £m	North America £m	Group £m	UK £m	North America £m	Group £m
Assets of the schemes at the beginning of the year	219.0	63.6	282.6	34.9	42.1	77.0
Movement in year:						
Current service cost	(6.4)	(2.0)	(8.4)	(6.4)	(2.0)	(8.4)
Cost of benefit improvements	–	(3.1)	(3.1)	–	–	–
Other finance income	12.0	2.1	14.1	12.0	2.1	14.1
Actuarial loss	(208.1)	(26.6)	(234.7)	(24.0)	(9.4)	(33.4)
Transfer to pension liabilities	–	1.9	1.9	–	1.9	1.9
Exchange difference	–	(4.2)	(4.2)	–	(3.5)	(3.5)
Assets of the schemes at the end of the year	16.5	31.7	48.2	16.5	31.2	47.7

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

	2003 £m	2002 £m
Liabilities of the schemes at the beginning of the year	(65.6)	(55.2)
Movement in year:		
Current service cost	(1.5)	(4.0)
Past service credit	0.1	0.1
Settlements and curtailments	0.2	0.7
Contributions	10.4	14.6
Other finance expense	(3.6)	(3.7)
Actuarial loss	(4.0)	(7.4)
Companies acquired	–	(1.4)
Transfer from creditors	–	(4.2)
Transfer from reorganisation provisions	–	(1.2)
Transfer to pension assets	–	(1.9)
Exchange difference	(3.4)	(2.0)
Liabilities of the schemes at the end of the year	(67.4)	(65.6)

29 Pensions (continued)

(d) FRS17 retirement benefits (continued)

The experience gains and losses for the year ended 31 December 2003 were:

	UK £m	North America £m	Other £m
Difference between the expected and actual return on pension scheme assets	72.4	16.2	1.4
Percentage of scheme assets	5%	12%	20%
Experience gains and losses on scheme liabilities	37.6	(3.8)	(3.2)
Percentage of scheme liabilities	3%	(4)%	(5)%
Total actuarial gain or loss	9.5	(13.2)	(4.0)
Percentage of scheme liabilities	1%	(13)%	(6)%

The experience gains and losses for the year ended 31 December 2002 were:

	UK £m	North America £m	Other £m
Difference between the expected and actual return on pension scheme assets	(160.1)	(22.1)	(1.0)
Percentage of scheme assets	(12)%	(16)%	(14)%
Experience gains and losses on scheme liabilities	(10.0)	2.2	(3.5)
Percentage of scheme liabilities	(1)%	2%	(5)%
Total actuarial gain or loss	(24.0)	(9.4)	(7.4)
Percentage of scheme liabilities	(2)%	(9)%	(10)%

Amounts that would be charged to operating profit under FRS17

For the year ended 31 December 2003	UK £m	North America £m	Other £m	Group £m
Current service cost	4.8	2.0	1.5	8.3
Past service cost/(credit)	0.3	–	(0.1)	0.2
Settlements and curtailments	–	–	(0.2)	(0.2)
Total operating charge	5.1	2.0	1.2	8.3

For the year ended 31 December 2002	UK £m	North America £m	Other £m	Group £m
Current service cost	6.4	2.0	4.0	12.4
Past service cost/(credit)	–	3.1	(0.1)	3.0
Covered by unrecognised surplus	–	(3.1)	–	(3.1)
Settlements and curtailments	–	–	(0.7)	(0.7)
Total operating charge	6.4	2.0	3.2	11.6

Amounts that would be (charged)/credited to other finance income under FRS17

For the year ended 31 December 2003	UK £m	North America £m	Other £m	Group £m
Expected return on pension scheme assets	67.1	8.9	0.5	76.5
Interest on pension scheme liabilities	(69.4)	(6.9)	(4.1)	(80.4)
Net (cost)/return	(2.3)	2.0	(3.6)	(3.9)

For the year ended 31 December 2002	UK £m	North America £m	Other £m	Group £m
Expected return on pension scheme assets	83.0	10.1	0.5	93.6
Interest on pension scheme liabilities	(71.0)	(8.0)	(4.2)	(83.2)
Net return/(cost)	12.0	2.1	(3.7)	10.4

29 Pensions (continued)

(d) FRS17 retirement benefits (continued)

Amounts that would be recognised in the statement of total recognised gains and losses under FRS17

For the year ended 31 December 2003	UK £m	North America £m	Other £m	Group £m
Difference between the actual return less expected return on pension scheme assets	72.4	16.2	1.4	90.0
Experience gains and losses arising	37.6	(3.8)	(3.2)	30.6
Changes in assumptions	(96.5)	(4.8)	(1.9)	(103.2)
Adjustment due to surplus cap	(4.0)	(20.8)	(0.3)	(25.1)
Total actuarial gain/(loss)	9.5	(13.2)	(4.0)	(7.7)
Related deferred tax movement	(2.9)	4.9	1.3	3.3
Actuarial gain/(loss) to recognise in the statement of total recognised gains and losses	6.6	(8.3)	(2.7)	(4.4)

For the year ended 31 December 2002	UK £m	North America £m	Other £m	Group £m
Difference between the actual return less expected return on pension scheme assets	(160.1)	(22.1)	(1.0)	(183.2)
Experience gains and losses arising	(10.0)	2.2	(3.5)	(11.3)
Changes in assumptions	(38.0)	(6.7)	(3.4)	(48.1)
Adjustment due to surplus cap	184.1	17.2	0.5	201.8
Total actuarial loss	(24.0)	(9.4)	(7.4)	(40.8)
Related deferred tax movement	7.2	3.6	1.5	12.3
Actuarial loss to recognise in the statement of total recognised gains and losses	(16.8)	(5.8)	(5.9)	(28.5)

Financial impact of FRS17

If retirement benefits had been accounted for under FRS17 in these financial statements, the Group's net assets would have been as follows:

	2003 £m	2002 £m
As reported under current accounting policies	463.1	501.1
Adjust for amounts stated under current accounting policies:		
Pension fund prepayments (note 15)	(38.3)	(40.1)
Pension provision (note 20)	66.7	68.2
Related deferred tax liability	1.7	2.2
	493.2	531.4
Adjust for amounts calculated in accordance with FRS17:		
Recoverable surplus less deficits in the schemes	(32.6)	(17.9)
Related deferred tax	(6.6)	(11.9)
As stated in accordance with FRS17	454.0	501.6

The £9.1 million reduction (2002 – £0.5 million increase) in the Group's net assets would have been reflected in the Group's reserves. The Group's profit and loss account would have been in surplus to £61.6 million (2002 – £96.0 million), instead of £31.5 million (2002 – £65.7 million), and there would have been a deficit on a pension reserve of £39.2 million (2002 – £29.8 million).

29 Pensions (continued)

(e) Restatement of comparative figures and prior period adjustment

Since 2001, FRS17 – Retirement Benefits had been fully adopted in preparing the Group's accounts and, as a result of the adoption of SSAP 24, comparative figures for 2002 and 2001 have been restated as follows:

	2002 as reported £m	Effect of SSAP 24 £m	2002 as restated £m	2001 as reported £m	Effect of SSAP 24 £m	2001 as restated £m
Consolidated balance sheet						
Pension fund prepayments						
Due in less than one year (note 15)	–	1.9	1.9	–	2.5	2.5
Due in more than one year (note 15)	–	38.2	38.2	–	41.2	41.2
Provision for pension costs (note 20)	–	(68.2)	(68.2)	–	(67.3)	(67.3)
Provision for closures and reorganisations	(28.5)	–	(28.5)	(35.6)	1.1	(34.5)
Deferred tax provision (note 20)	(22.6)	(2.2)	(24.8)	(28.1)	(2.0)	(30.1)
Pension assets	31.1	(31.1)	–	50.7	(50.7)	–
Pension liabilities	(60.9)	60.9	–	(49.8)	49.8	–
Prior period adjustment		(0.5)			(25.4)	
Pension reserve (note 23)	(29.8)	29.8	–	0.9	(0.9)	–
Profit and loss account (note 24)	96.0	(30.3)	65.7	118.0	(24.5)	93.5
Prior period adjustment		(0.5)			(25.4)	
Consolidated profit and loss account						
UK and Europe	12.8	2.0	14.8	18.1	2.1	20.2
North America	12.0	2.0	14.0	11.7	2.0	13.7
South America	11.5	–	11.5	12.6	–	12.6
Asia	35.7	(0.1)	35.6	29.5	–	29.5
Corporate	5.3	1.1	6.4	0.8	1.6	2.4
Total Thread	77.3	5.0	82.3	72.7	5.7	78.4
India Textiles	(0.2)	–	(0.2)	(2.3)	–	(2.3)
Bedwear	(1.5)	0.4	(1.1)	0.7	0.9	1.6
Total continuing operations	75.6	5.4	81.0	71.1	6.6	77.7
Discontinued operations	(16.3)	0.3	(16.0)	(2.7)	0.6	(2.1)
Operating profit before reorganisation costs, impairment of fixed assets and exceptional items	59.3	5.7	65.0	68.4	7.2	75.6
Reorganisation costs, impairment of fixed assets and exceptional items	(19.1)	–	(19.1)	(32.5)	–	(32.5)
Operating profit	40.2	5.7	45.9	35.9	7.2	43.1
Loss on sale or termination of operations	(10.1)	3.9	(6.2)	(26.8)	–	(26.8)
Net interest payable	(9.4)	(3.6)	(13.0)	(10.5)	(4.0)	(14.5)
Other finance income	14.3	(14.3)	–	10.2	(10.2)	–
Other income and expenses	9.6	–	9.6	14.2	–	14.2
Profit before taxation	44.6	(8.3)	36.3	23.0	(7.0)	16.0
Taxation	(9.1)	4.0	(5.1)	(11.0)	1.4	(9.6)
Equity minority interests	(5.2)	–	(5.2)	(1.1)	–	(1.1)
Profit for the financial year	30.3	(4.3)	26.0	10.9	(5.6)	5.3
Turnover	1,155.6	–	1,155.6	1,247.0	–	1,247.0
Operating costs excluding reorganisation, impairment of fixed assets and exceptional items	(1,096.3)	5.7	(1,090.6)	(1,178.6)	7.2	(1,171.4)
Reorganisation costs, impairment of fixed assets and exceptional items	(19.1)	–	(19.1)	(32.5)	–	(32.5)
Operating profit	40.2	5.7	45.9	35.9	7.2	43.1
Total assets	1,016.3	40.1	1,056.4	1,116.4	43.7	1,160.1
Net assets	501.6	(0.5)	501.1	580.7	(25.4)	555.3

29 Pensions (continued)**(f) Effect on results for the current year**

The effect of the adoption of SSAP 24 on the results for the current year was as follows:

Consolidated profit and loss account	SSAP 24 basis £m	FRS17 basis £m	Effect of SSAP 24 £m
Operating profit	28.5	21.0	7.5
Net interest payable	(15.9)	(12.0)	(3.9)
Other finance expenses	–	(3.9)	3.9
Other income and expenses	(21.7)	(21.7)	–
Loss before taxation	(9.1)	(16.6)	7.5
Taxation	(3.8)	(2.1)	(1.7)
Equity minority interests	(6.6)	(6.6)	–
Loss for the financial year	(19.5)	(25.3)	5.8

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 2003 £m	Associated companies 2002 £m
Group		
Sales to	0.4	1.0
Purchases from	3.0	3.3
Other income	1.2	1.4
Debtors	0.9	1.2
Creditors	0.3	0.7

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

Details of Directors' emoluments and interests in shares of Group companies are included in Note 4 and the Directors' report on pages 7 and 8 respectively.

In 1992, the Company, through a subsidiary, acquired a joint interest in a property with Martin Flower on his taking permanent residence in England. The subsidiary's investment was £180,000. Under the Agreement Martin Flower had the option to purchase the Group's interest at market value. The Group's investment was reduced to £75,000 in January 1994 following partial exercise of Martin Flower's option. In 1999, the Company, through a subsidiary, acquired a joint interest in properties with both Jonathan Lea and Bryan Anderson. The subsidiary's investment in both cases was £75,000 and Jonathan Lea and Bryan Anderson had an option to purchase the Group's interest at market value. During the year ended 31 December 2003, all three options were exercised.

31 Notes to the cash flow statement

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

	2003 £m	2002 (Restated) £m
Operating profit	28.5	45.9
Depreciation	36.3	42.0
Amortisation of goodwill	0.7	(1.6)
Reorganisation costs	16.3	17.1
Impairment of fixed assets	4.4	1.9
Exceptional items	8.5	0.1
(Increase)/decrease in stocks	(2.4)	22.4
Decrease/(increase) in debtors	5.8	(9.4)
(Decrease)/increase in creditors	(13.7)	5.8
Non-cash movement in pension fund prepayment	0.2	1.8
Other provision movements	(9.7)	(11.5)
Other non-cash movements	(0.1)	1.1
Net cash inflow from normal operating activities	74.8	115.6
Continuing operations	76.8	125.4
Discontinued operations	(2.0)	(9.8)
	74.8	115.6

Net cash outflow in respect of reorganisation costs and exceptional items:

Utilisation of provisions – closures and reorganisation	(16.0)	(19.2)
– operating exceptional items	(8.5)	–
– non-cash asset write downs	–	0.4
	(24.5)	(18.8)
Net cash inflow from operating activities	50.3	96.8

(b) Analysis of financing cash flows

Issue of ordinary share capital	0.3	1.0
Issue of shares to minorities	0.2	0.6
	0.5	1.6
Increase/(decrease) in borrowings – new short term loans	139.6	19.5
– repayment of amounts borrowed	(94.8)	(61.9)
– capital element of finance lease rental payments	(1.5)	(2.0)
	43.3	(44.4)
Net cash inflow/(outflow) from financing	43.8	(42.8)

(c) Analysis of net debt

	At 1 January 2003	Cash flow	Acquisitions/ disposals (excl. cash/ overdrafts)	Other non-cash changes	Exchange	At 31 December 2003
Cash at bank and in hand	49.4					46.6
Bank overdrafts	(26.8)					(18.2)
Net cash	22.6	(8.1)			13.9	28.4
Short term deposits	12.8	3.3			(0.3)	15.8
Loans	(77.1)	(105.3)			7.6	(174.8)
Convertible debt	(60.4)	60.5		(0.1)		–
Lease finance	(2.3)	1.5		(0.2)	0.1	(0.9)
		(43.3)				
Total	(104.4)	(48.1)	–	(0.3)	21.3	(131.5)

31 Notes to the cash flow statement (continued)**(d) Purchase of subsidiary undertakings**

	2003 £m	2002 (Restated) £m
Tangible fixed assets	1.5	0.2
Stocks	1.2	0.9
Debtors	0.6	1.0
Current asset investment	–	0.4
Cash at bank and in hand	–	0.4
Creditors	–	(1.3)
Pension liabilities	–	(1.4)
Minority shareholders interests	5.4	22.3
	8.7	22.5
Goodwill	2.0	(10.9)
Total	10.7	11.6
Satisfied by:		
Cash	9.4	11.6
Deferred consideration	1.3	–
Transfer from deferred consideration	–	(0.1)
Transfer from fixed asset investments	–	0.1
	10.7	11.6

(e) Sale of subsidiary undertakings

Tangible fixed assets	12.8	3.4
Stock	22.1	3.4
Debtors	18.8	1.2
Creditors	(16.4)	(1.3)
Provisions	1.4	(1.7)
	38.7	5.0
Loss on disposal	(43.6)	(6.2)
	(4.9)	(1.2)
Satisfied by:		
Cash	(4.0)	4.9
Transfer from deferred consideration	(0.9)	(6.1)
	(4.9)	(1.2)

(f) Cash flow relating to exceptional items

Profit on sale of fixed assets	21.0	8.7
Book value of fixed assets sold	11.2	4.6
Proceeds of sale of fixed assets	32.2	13.3
(Payments)/proceeds of sale or termination of operations (note e)	(4.0)	4.9

32 Immediate and ultimate parent company

From 7 April 2003, the immediate parent company is Coats Holdings plc (formerly Avenue Acquisition plc). The ultimate parent company, and controlling party, is Coats Group Limited, a company incorporated in the British Virgin Islands.

Coats Holdings plc prepares consolidated financial statements, which can be obtained from the Company Secretary at First Floor, Times Place, 45 Pall Mall, London SW1Y 5GP.