

1 Continuing and discontinued operations and acquisitions

	2004			Period ended 31 December 2003 (Restated)		
	Continuing \$m	Discontinued \$m	Total \$m	Continuing \$m	Discontinued \$m	Total \$m
Turnover	1,587.5	124.4	1,711.9	1,148.6	87.2	1,235.8
Cost of sales	1,072.8	71.8	1,144.6	760.9	52.7	813.6
Net operating expenses						
Distribution costs	299.2	47.1	346.3	217.3	33.4	250.7
Administrative expenses	179.0	7.2	186.2	97.4	6.5	103.9
Other operating income (note 3)	(0.7)	–	(0.7)	(1.1)	–	(1.1)
Total	477.5	54.3	531.8	313.6	39.9	353.5
Operating profit/(loss)	37.2	(1.7)	35.5	74.1	(5.4)	68.7
Profit on sale of fixed assets	0.7	–	0.7	–	–	–

On 14 February 2005, Dorma Group Limited, the Group's Bedwear business, was sold. In accordance with FRS3, its results for the year ended 31 December 2004 have been disclosed as discontinued and the comparatives have been restated accordingly.

All acquisitions during the year have been accounted for using the acquisition method. None of these acquisitions were material for the purpose 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	
	Year ended 31 December 2004 \$m	Period ended 31 December 2003 \$m	Year ended 31 December 2004 \$m	Period ended 31 December 2003 \$m	31 December 2004 \$m	31 December 2003 \$m
Thread						
UK and Europe	606.5	425.8	4.3	18.8	174.1	233.3
North America	412.6	304.6	8.2	6.4	241.5	273.0
South America	169.1	113.2	17.1	11.5	98.4	110.2
Asia	399.3	295.1	64.5	52.2	258.7	244.2
Corporate	–	–	(7.5)	5.1	(217.8)	(224.1)
Total Thread	1,587.5	1,138.7	86.6	94.0	554.9	636.6
Reorganisation costs			(45.6)	(19.5)		
Exceptional items			(3.8)	–		
Thread operating profit			37.2	74.5		
Other businesses						
India Textiles	–	9.9	–	(0.1)	–	9.4
Bedwear	124.3	83.9	(1.2)	(4.2)	29.8	34.7
Fashion Retail	0.1	3.3	(0.3)	(1.2)	(1.8)	8.9
Total other businesses	124.4	97.1	(1.5)	(5.5)	28.0	53.0
Reorganisation costs			(0.2)	(0.3)		
Other businesses operating loss			(1.7)	(5.8)		
Total Group	1,711.9	1,235.8	35.5	68.7	582.9	689.6
Associated companies			1.5	1.1		
Profit on sale of fixed assets			0.7	–		
Profit before interest			37.7	69.8		
Net interest payable			(41.8)	(23.1)		
(Loss)/profit before tax			(4.1)	46.7		
Tax on (loss)/profit			(14.3)	(18.1)		
(Loss)/profit after tax			(18.4)	28.6		
Net debt					(401.5)	(672.8)
Other fixed and current asset investments					4.0	50.3
Net assets per consolidated balance sheet					185.4	67.1

18 Notes to the accounts (continued)

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

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

	Turnover		Operating profit		Net assets	
	Year ended 31 December 2004 \$m	Period ended 31 December 2003 (Restated) \$m	Year ended 31 December 2004 \$m	Period ended 31 December 2003 (Restated) \$m	31 December 2004 \$m	31 December 2003 (Restated) \$m
Continuing						
Total Thread	1,587.5	1,138.7	86.6	94.0	554.9	636.6
India Textiles	–	9.9	–	(0.1)	–	9.4
	1,587.5	1,148.6	86.6	93.9	554.9	646.0
Discontinued						
Bedwear	124.3	83.9	(1.2)	(4.2)	29.8	34.7
Fashion Retail	0.1	3.3	(0.3)	(1.2)	(1.8)	8.9
	124.4	87.2	(1.5)	(5.4)	28.0	43.6
Total	1,711.9	1,235.8	85.1	88.5	582.9	689.6

Turnover, operating profit and operating profit margins for the Thread business before reorganisation and exceptional costs were:

	Turnover		Operating profit		Operating margin	
	Year ended 31 December 2004 \$m	Period ended 31 December 2003 \$m	Year ended 31 December 2004 \$m	Period ended 31 December 2003 \$m	Year ended 31 December 2004 %	Period ended 31 December 2003 %
Thread						
UK and Europe	606.5	425.8	4.3	18.8	0.7	4.4
North America	412.6	304.6	8.2	6.4	2.0	2.1
South America	169.1	113.2	17.1	11.5	10.1	10.2
Asia	399.3	295.1	64.5	52.2	16.2	17.7
Corporate	–	–	(7.5)	5.1	–	–
Total Thread	1,587.5	1,138.7	86.6	94.0	5.5	8.3

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

	Turnover		Operating profit		Net assets	
	Year ended 31 December 2004 \$m	Period ended 31 December 2003 (Restated) \$m	Year ended 31 December 2004 \$m	Period ended 31 December 2003 (Restated) \$m	31 December 2004 \$m	31 December 2003 (Restated) \$m
United Kingdom	75.3	51.7	(5.4)	1.5	(191.1)	(186.2)
Rest of Europe	504.6	355.4	2.1	20.9	142.0	184.3
North America	412.6	304.6	8.2	5.8	239.9	268.4
South America	169.1	113.2	17.1	11.5	97.9	109.8
Asia, Australasia and Africa	425.9	323.7	64.6	54.2	266.2	269.7
Total continuing operations	1,587.5	1,148.6	86.6	93.9	554.9	646.0
Discontinued operations	124.4	87.2	(1.5)	(5.4)	28.0	43.6
	1,711.9	1,235.8	85.1	88.5	582.9	689.6
Reorganisation costs			(45.8)	(19.8)		
Exceptional items			(3.8)	–		
Operating profit			35.5	68.7		
Associated companies			1.5	1.1		
Profit on sale of fixed assets			0.7	–		
Profit before interest			37.7	69.8		
Net debt					(401.5)	(672.8)
Other fixed and current asset investments					4.0	50.3
Net assets per consolidated balance sheet					185.4	67.1

Note

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

Corporate net liabilities by product and United Kingdom net liabilities by location include amounts owed to parent undertaking of \$280.8 million (2003 – \$280.6 million) as set out in note 15.

3 Operating profit

	Year ended 31 December 2004 \$m	Period ended 31 December 2003 \$m
Operating profit is stated after charging:		
Depreciation – Owned assets	62.2	42.9
– Leased assets	0.1	0.2
Directors' remuneration (see note)	0.8	0.2
Amortisation of goodwill	18.2	0.2
Reorganisation costs	43.4	19.8
Impairment of fixed assets	2.4	–
Exceptional items	3.8	–
Hire of plant and machinery	9.9	6.7
Other operating lease rentals	18.1	19.2
Research and development expenditure	2.1	1.8
Auditors' remuneration – Audit fees	2.7	2.1
– Non audit related fees – UK	0.3	0.2
– Overseas	0.6	1.0
and after crediting other operating income:		
Rental income net of expenses	0.2	0.6
Royalties and licensing income	0.5	0.5
	0.7	1.1

Note

Emoluments in respect of the highest paid Director are \$353,445.

One Director (2003 – nil) is a member of a Group pension arrangement. The accrued pension entitlement at 31 December 2004 is \$7,834 per annum (2003 – \$nil).

Non audit fees include \$0.8 million (2003 – \$0.7 million) for tax services and \$0.1 million (2003 – \$0.5 million) for other services. In addition, fees of \$1.8 million (2003 – \$nil) have been incurred in respect of refinancing which are not chargeable to operating profit.

	Year ended 31 December 2004 \$m	Period ended 31 December 2003 \$m
Product category analysis of reorganisation costs and impairment of fixed assets		
Thread		
UK and Europe	28.8	5.7
North America	9.2	12.1
South America	1.5	0.7
Asia	4.6	0.1
Corporate	1.5	0.9
Total Thread	45.6	19.5
India Textiles	–	0.3
Continuing operations	45.6	19.8
Discontinued operations		
Bedwear	0.2	–
Total	45.8	19.8
Product category analysis of exceptional items		
Thread		
UK and Europe	0.1	–
Corporate	3.7	–
Total	3.8	–

For the year ended 31 December 2004, Thread exceptional items largely represent Group refinancing costs.

20 Notes to the accounts (continued)

4 Employees

	Year ended 31 December 2004 Number	Period ended 31 December 2003 Number
The average numbers employed by the Group during the year were (see note):		
Direct	18,006	12,791
Indirect	4,525	3,807
Staff	7,967	5,814
	30,498	22,412
Comprising:		
UK	1,865	1,699
Overseas	28,633	20,713
	30,498	22,412
The total numbers employed at the end of the year were:		
UK	1,700	2,056
Overseas	28,293	29,079
	29,993	31,135
	\$m	\$m
The costs incurred in respect of these employees were:		
Wages and salaries	411.0	333.1
Social security costs	52.9	40.0
Other pension costs: included in operating profit (note 25)	6.3	4.9
	470.2	378.0

Note

The average numbers employed by the Group and costs incurred in respect of these employees for the period ended 31 December 2003 reflect the fact that Coats Holdings Ltd was acquired on 7 April 2003.

5 Interest receivable and similar income

	Year ended 31 December 2004 \$m	Period ended 31 December 2003 \$m
Interest receivable	6.2	3.4
Net exchange gain on foreign currency borrowings	–	18.0
Income from other fixed and current asset investments	2.3	2.9
Total interest receivable and similar income	8.5	24.3

6 Interest payable and similar charges

	Year ended 31 December 2004 \$m	Period ended 31 December 2003 \$m
Loans	34.9	23.1
Bank overdrafts and other borrowings	6.4	15.9
Unwinding of discounts on provisions	7.0	5.1
Finance leases	0.2	0.2
Amounts payable to parent undertakings	0.6	–
	49.1	44.3
Cost of financing convertible debt	–	2.3
Share of net interest payable of associated companies	1.2	0.8
Total interest payable and similar charges	50.3	47.4

7 Tax on (loss)/profit on ordinary activities

	Year ended 31 December 2004 \$m	Period ended 31 December 2003 \$m
UK taxation based on profit for the period:		
Corporation tax at 30%	18.3	5.1
Double taxation relief	(18.3)	(5.1)
Total UK taxation	–	–
Overseas taxation:		
Current taxation	29.1	14.5
Deferred taxation	(10.9)	3.6
	18.2	18.1
Prior year adjustments – Current taxation	(2.6)	–
Deferred taxation	(1.4)	–
	(4.0)	–
Associated companies taxation	0.1	–
	14.3	18.1

The standard rate of current tax for the period, based on the UK standard rate of corporation tax, is 30% (2003 – 30%). The current tax charge for the period is more than 30% for the reasons set out in the following reconciliation:

(Loss)/profit on ordinary activities before tax	(4.1)	46.7
Tax on (loss)/profit on ordinary activities at standard rate	(1.2)	14.0
Adjusted for the effects of:		
Expenses not deductible for tax purposes (including goodwill amortisation)	18.7	6.2
Income not liable to taxation	(2.3)	(2.3)
Losses not recognised	16.4	15.3
Utilisation of brought forward losses not previously recognised	(2.9)	(4.8)
Capital allowances for the period in excess of depreciation	(9.5)	(7.1)
Other short term timing differences	(1.2)	(2.3)
Profits on sale of fixed assets covered by reliefs	0.1	(2.0)
Intra-Group dividends not covered by double tax relief	5.8	3.1
Lower rates of tax on overseas earnings	(6.4)	(6.1)
Withholding tax on remittances	5.9	3.1
Corporation taxes not on profits	4.1	3.0
Local tax incentives	(1.4)	(1.6)
Other	3.1	(4.0)
Current tax charge for the period	29.2	14.5

8 Company's loss

	Year ended 31 December 2004 \$m	Period ended 31 December 2003 \$m
The Company's loss was	(59.5)	(4.4)

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

22 Notes to the accounts (continued)

9 Tangible assets

	Land and buildings \$m	Plant, machinery and vehicles \$m	Total \$m
Group			
Cost			
At beginning of year	331.2	1,012.0	1,343.2
On acquisition of subsidiaries (note 18)	37.2	12.2	49.4
Exchange difference	10.5	31.9	42.4
Disposal of subsidiaries	–	(2.4)	(2.4)
Additions	7.2	86.4	93.6
Disposals	(64.0)	(93.6)	(157.6)
At 31 December 2004	322.1	1,046.5	1,368.6
Depreciation			
At beginning of year	111.6	608.2	719.8
On acquisition of subsidiaries (note 18)	19.7	50.9	70.6
Exchange difference	4.3	25.7	30.0
Disposal of subsidiaries	–	(0.7)	(0.7)
Charge for the year	7.3	55.0	62.3
Impairment of fixed assets	–	2.4	2.4
Disposals	(25.8)	(75.4)	(101.2)
At 31 December 2004	117.1	666.1	783.2
Net book value			
At 31 December 2004	205.0	380.4	585.4
At beginning of year	219.6	403.8	623.4
Land and buildings			
Cost			
Freehold		293.4	307.4
Long leasehold		11.1	2.5
Short leasehold		17.6	21.3
		322.1	331.2
Accumulated depreciation			
Freehold		106.8	102.8
Long leasehold		4.4	0.2
Short leasehold		5.9	8.6
		117.1	111.6

Plant, machinery and vehicles

The net book value of capitalised finance leases included in plant, machinery and vehicles is \$0.4 million (2003 – \$1.4 million).

10 Investments

	Associated companies \$m	Other \$m	Total \$m
Group			
Cost			
At beginning of year	4.3	12.0	16.3
On acquisition of subsidiaries (note 18)	(4.2)	–	(4.2)
Exchange	0.1	0.6	0.7
Disposals	–	(4.5)	(4.5)
At 31 December 2004	0.2	8.1	8.3
Share of (losses)/profits retained			
At beginning of year	(0.4)		(0.4)
Share of profits for the year	0.2		0.2
At 31 December 2004	(0.2)		(0.2)
Provisions			
At beginning of year	–	(8.4)	(8.4)
On acquisition of subsidiaries (note 18)	–	0.5	0.5
Exchange	–	(0.6)	(0.6)
Disposals	–	0.7	0.7
At 31 December 2004	–	(7.8)	(7.8)
Net book value			
At 31 December 2004	–	0.3	0.3
At beginning of year	3.9	3.6	7.5
Including investments listed on a recognised Stock Exchange			
At 31 December 2004	–	0.1	0.1
At beginning of year	–	3.4	3.4
Company			Total \$m
Cost and net book value			
At beginning of year			720.6
On acquisition of subsidiaries			3.0
At 31 December 2004			723.6

Principal subsidiary undertakings are listed at the end of these accounts.

11 Stocks

	Group		Company	
	2004 \$m	2003 \$m	2004 \$m	2003 \$m
Raw materials and consumables	68.4	74.5	–	–
Work in progress	102.9	128.8	–	–
Finished goods and goods for resale	166.4	198.0	–	–
	337.7	401.3	–	–

24 Notes to the accounts (continued)

12 Debtors

	Group		Company	
	2004 \$m	2003 \$m	2004 \$m	2003 \$m
Debtors due within one year:				
Trade debtors	291.1	287.7	0.5	–
Amounts owed by subsidiary undertakings	–	–	0.6	–
Amounts owed by associated companies	0.2	0.4	–	–
Corporation and overseas tax recoverable	7.4	15.4	–	–
Deferred tax recoverable (see note)	4.6	–	–	–
Other debtors	41.0	43.0	–	–
Prepayments and accrued income	15.1	17.3	–	0.7
Pension fund prepayments	–	1.1	–	–
	359.4	364.9	1.1	0.7
Debtors due in more than one year:				
Trade debtors	0.3	0.7	–	–
Amounts owed by subsidiary undertakings	–	–	195.0	–
Amounts owed by associated companies	1.2	1.3	–	–
Corporation and overseas tax recoverable	4.2	–	–	–
Other debtors	15.6	18.0	–	–
Prepayments and accrued income	–	3.2	–	3.0
Pension fund prepayments	73.4	67.5	–	–
	94.7	90.7	195.0	3.0

Note

	2004 \$m	2003 \$m
Analysis of Group deferred tax asset/(liability)		
Capital allowances in excess of depreciation	(32.0)	(43.0)
Pension assets	(10.8)	(10.7)
Pension provisions	2.9	7.7
Other timing differences	9.1	8.5
Losses carried forward	35.4	16.4
	4.6	(21.1)

The Group has unrecognised deferred tax assets relating to unutilised tax losses of \$316.4 million (2003 – \$255.4 million) and unrecovered advance corporation tax of \$110.9 million (2003 – \$108.5 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.

13 Current asset investments

	Group		Company	
	2004 \$m	2003 \$m	2004 \$m	2003 \$m
Listed investments	1.7	40.8	–	–
Unlisted investments	2.0	2.0	–	–
	3.7	42.8	–	–
Market value of listed investments	1.7	40.8	–	–

14 Other creditors (amounts falling due within one year)

	Group		Company	
	2004 \$m	2003 \$m	2004 \$m	2003 \$m
Trade creditors	172.4	171.5	–	–
Loans (see note)	45.2	748.8	14.3	436.9
Amounts owed to subsidiaries	–	–	–	3.0
Amounts owed to associated companies	1.3	0.5	–	–
Bills of exchange	20.9	9.7	–	–
Corporation tax and overseas taxation	37.1	41.0	–	–
Other taxation and social security	21.3	17.9	–	–
Payments in advance	3.0	0.2	–	–
Other creditors	37.8	65.5	–	0.2
Accruals and deferred income	62.2	46.7	4.1	8.7
Finance lease obligations	0.1	1.1	–	–
Leaving indemnities	5.2	7.5	–	–
	406.5	1,110.4	18.4	448.8

Note

On 30 March 2004, the Group refinanced its principal financing facilities through a \$137.8 million capital injection by Coats Group Limited and a new secured banking facility. As at 31 December 2004, this facility totalled \$635.8 million, of which \$17.8 million expires within one year, \$44.6 million expires between one and two years, \$435.6 million expires between two and five years and \$137.8 million expires after five years.

15 Amounts owed to parent undertaking (amounts falling due after more than one year)

As at 31 December 2003 the amounts owed to the parent undertaking had no specified dates of repayment but were repayable on receipt of 12 months' notice. They were subordinated to the Group's other borrowings. A formal agreement was entered into with Coats Group Limited on 30 March 2004 in respect of the amount owing to it. This loan is now non-interest bearing, repayable in 2011, subordinated to the Group's bank debt and convertible into equity at par at the option of Coats Group Limited at any time up to 2011.

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

	Group		Company	
	2004 \$m	2003 \$m	2004 \$m	2003 \$m
Loans	474.4	1.0	472.1	–
Amounts due to fellow subsidiary undertakings	0.1	–	0.1	–
Amounts due to subsidiary undertakings	–	–	77.7	–
Other creditors	2.7	2.5	–	–
Accruals and deferred income	–	1.4	–	–
Finance lease obligations	0.2	0.5	–	–
	477.4	5.4	549.9	–
Loans are repayable as follows:				
Between one and two years	41.7	0.4	–	–
Between two and five years inclusive	294.9	0.6	–	–
After five years	137.8	–	–	–
	474.4	1.0	–	–
Finance lease obligations are repayable as follows:				
Within one year	0.1	1.1	–	–
Between one and two years	0.1	0.3	–	–
Between two and five years inclusive	0.1	0.2	–	–
	0.3	1.6	–	–

Loans repayable after five years include loans for \$91.0 million and \$46.0 million payable in 2010 and 2011 respectively. Interest is based on LIBOR plus a margin of 2.5% and 6.0% respectively.

26 Notes to the accounts (continued)

17 Provisions for liabilities and charges

	Group		Company	
	2004 \$m	2003 \$m	2004 \$m	2003 \$m
Provisions for liabilities and charges	363.0	208.5	–	–

As set out in the Operating and financial review on pages 3 to 5, provisions have been made in respect of the European Commission investigation. In accordance with paragraph 97 of FRS12 – Provisions, Contingent Liabilities and Assets, the disclosures usually required by FRS12 are not given as the Directors consider that their disclosure could seriously prejudice the outcome of that investigation.

18 Goodwill and acquisitions

	Cost \$m	Amortisation and impairment \$m	Net \$m
Positive goodwill			
At beginning of year	67.7	2.3	65.4
Acquisitions	169.1	–	169.1
Amortised in the year	–	18.6	(18.6)
Carried forward at 31 December 2004	236.8	20.9	215.9
Negative goodwill			
At beginning of year	4.8	2.0	2.8
Amortised in the year	–	0.4	(0.4)
Carried forward at 31 December 2004	4.8	2.4	2.4

The positive goodwill arising in the year relates to the finalisation of the fair value adjustments in respect of the acquisition in the year ended 31 December 2003 of Coats Holdings Ltd (formerly Coats Ltd). This goodwill is being written off over 20 years, which in the opinion of the Directors is its useful economic life.

(a) Acquisition of Coats Holdings Ltd and its subsidiaries

	Revaluations \$m	Other \$m	Fair value adjustments \$m
Tangible fixed assets	(21.3)	–	(21.3)
Fixed asset investments and associates	(3.7)	–	(3.7)
Stocks	–	(8.6)	(8.6)
Debtors	–	(1.2)	(1.2)
Cash and deposits	–	0.8	0.8
Creditors	–	17.1	17.1
Provisions for liabilities and charges	–	(147.1)	(147.1)
Minority interests	–	(2.1)	(2.1)
Net liabilities acquired	(25.0)	(141.1)	(166.1)
Goodwill			169.1
Consideration			3.0
Satisfied by:			
Cash			3.0

Other adjustments

Adjustments have been made to stocks, debtors and creditors so that they are accounted for at net realisable value, calculated in accordance with Coats plc's accounting policies.

The reasons for the fair value adjustments to provisions for liabilities and charges have not been disclosed, as the Directors consider their disclosure could seriously prejudice the outcome of the European Commission investigation, which is referred to in the Operating and financial review on pages 3 to 5.

18 Goodwill and acquisitions (continued)**(b) Other acquisitions**

	Book value and fair value to the Group 2004 \$m
Tangible fixed assets	0.1
Stocks	0.3
Debtors	0.1
Minority interests	(0.1)
Net assets acquired	0.4
Consideration	0.4
Satisfied by:	
Cash	1.6
Deferred consideration	(1.2)
	0.4

19 Called up share capital

	Number of shares	2004 \$m	Number of shares	2003 \$m
Authorised:				
Ordinary shares of £1 each	75,050,000	137.9	50,000	0.1
A Growth shares of £1 each	70	–	–	–
B Growth shares of £1 each	30	–	–	–
Allotted and fully paid:				
Ordinary shares of £1 each	75,050,000	137.9	50,000	0.1
B Growth shares of £1 each	30	–	–	–

The Growth shares represent non-equity shares. The Growth shares confer on the holders the right to one vote on a show of hands and, on a poll, one vote for each Growth share held at a general meeting. On a winding up or repayment of capital, the Growth shares confer the right to a return of the capital paid up, but do not entitle the holders to any further or other participation in the assets of the Company. The holders of the Growth shares are not entitled to receive any income in respect of their holding. The Growth shares are not redeemable.

During the year the Company issued 75,000,000 (2003 – 50,000) Ordinary shares of £1 each at par to provide operating capital.

20 Profit and loss account

	Group \$m	Company \$m
At beginning of year	(17.7)	(4.8)
Retained loss for the year	(24.0)	(59.5)
Foreign currency translation gains	11.5	–
At 31 December 2004	(30.2)	(64.3)
Retained in Group companies	(30.2)	
Retained in associated companies	–	
	(30.2)	

21 Non-equity minority interests

Non-equity minority interests represent the preference share capital of Coats Holdings Ltd.

22 Future capital expenditure

	Group		Company	
	2004 \$m	2003 \$m	2004 \$m	2003 \$m
Contracted but not provided for	6.5	17.4	–	–

28 Notes to the accounts (continued)

23 Contingent liabilities

	Group		Company	
	2004 \$m	2003 \$m	2004 \$m	2003 \$m
Performance guarantees and documentary credits on overseas contracts	4.1	25.4	–	–

24 Operating lease rentals

	Group		Company	
	2004 \$m	2003 \$m	2004 \$m	2003 \$m
The committed amounts payable during 2005 are:				
Leases of land and buildings expiring:				
Within one year	1.9	2.9	–	–
Within two to five years inclusive	7.1	10.2	–	–
Over five years	9.3	10.6	–	–
	18.3	23.7	–	–
Other operating leases expiring:				
Within one year	1.3	1.8	–	–
Within two to five years inclusive	5.5	5.4	–	–
	6.8	7.2	–	–

25 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

The Group accounts for retirement benefits in accordance with SSAP 24 – Accounting for Pension Costs and the related disclosures are set out in section (c) below.

The Group has adopted the transitional disclosure requirements of FRS17 – Retirement Benefits. FRS17 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 as full implementation has been deferred, but is required to present certain transitional disclosures which are set out in section (d) below.

25 Pensions (continued)

(c) SSAP 24 disclosures

Pension costs for the period were:

	Year ended 31 December 2004		Period ended 31 December 2003	
	\$m	\$m	\$m	\$m
Included in operating profit:				
Defined contribution schemes		5.4		3.6
Defined benefit schemes – United Kingdom (i)	(0.4)		–	
North America (ii)	(0.5)		(0.2)	
Other schemes	1.8		1.5	
		0.9		1.3
		6.3		4.9

(i) United Kingdom

Pension costs for the period were:

	\$m	\$m
Regular pension cost	6.5	4.8
Spreading of surplus	(3.8)	(2.8)
Interest	(3.1)	(2.0)
Net charge	(0.4)	–

The last full actuarial valuation of the UK scheme was carried out as at 1 April 2003. The pension cost for the year ended 31 December 2004 and the pension asset at 31 December 2004 are based on an actuarial review as at 7 April 2003, being the date the Company acquired Coats Holdings Ltd (formerly Coats Ltd). The estimated market value of assets in the scheme at that date was \$2,004 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 period were:

	2004 \$m	2003 \$m
Regular cost	2.7	2.3
Spreading of surplus	(1.2)	(1.5)
Interest	(2.0)	(1.0)
Net credit	(0.5)	(0.2)

The pension cost for the year ended 31 December 2004 and the pension asset at 31 December 2004 are based on an actuarial review as at 7 April 2003. The estimated market value of assets in the scheme at that date was \$221 million and the funding level was 121%.

25 Pensions (continued)**(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 2004. All pension arrangements relate to Coats Holdings Ltd and its subsidiaries and therefore were transferred into the Group at 7 April 2003.

Principal assumptions at 31 December 2004	UK %	America %	Other %
Rate of increase in salaries	3.75	5.00	3.20
Rate of increase in pensions in payment	2.75	nil	1.50
Discount rate	5.25	5.75	4.95
Inflation assumption	2.75	2.50	2.20

Valuation of pension scheme assets and liabilities at 31 December 2004	UK \$m	North America \$m	Other \$m	Group \$m
Equities	804.5	134.4	4.9	943.8
Corporate bonds and gilts	1,874.1	100.5	9.7	1,984.3
Other	–	12.0	1.4	13.4
Total market value of assets	2,678.6	246.9	16.0	2,941.5
Actuarial value of scheme liabilities	(2,753.3)	(187.6)	(146.2)	(3,087.1)
Gross surplus/(deficit)	(74.7)	59.3	(130.2)	(145.6)
Adjustment due to surplus cap	–	(30.8)	–	(30.8)
Recoverable surplus/(deficit) in the scheme	(74.7)	28.5	(130.2)	(176.4)
Related deferred tax (liability)/asset	–	(10.6)	4.3	(6.3)
Net pension asset/(liability)	(74.7)	17.9	(125.9)	(182.7)

Long term rate of return expected at 31 December 2004	UK %	North America %	Other %
Equities	8.00	8.50	8.15
Corporate bonds and gilts	4.75	5.50	7.25
Other	n/a	3.50	3.65

Principal assumptions at 31 December 2003	UK %	North America %	Other %
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

Valuation of pension scheme assets and liabilities at 31 December 2003	UK \$m	North America \$m	Other \$m	Group \$m
Equities	763.6	156.4	5.4	925.4
Corporate bonds and gilts	1,665.9	84.3	8.8	1,759.0
Other	–	3.3	1.4	4.7
Total market value of assets	2,429.5	244.0	15.6	2,689.1
Actuarial value of scheme liabilities	(2,388.9)	(180.3)	(135.7)	(2,704.9)
Gross surplus/(deficit)	40.6	63.7	(120.1)	(15.8)
Adjustment due to surplus cap	(7.2)	(34.9)	(0.5)	(42.6)
Recoverable surplus/(deficit) in the scheme	33.4	28.8	(120.6)	(58.4)
Related deferred tax (liability)/asset	(10.0)	(10.2)	8.4	(11.8)
Net pension asset/(liability)	23.4	18.6	(112.2)	(70.2)

25 Pensions (continued)

(d) FRS17 retirement benefits (continued)

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

The movements in the UK and North America schemes during the year ended 31 December 2004 were:

	Gross (deficit)/surplus			Recoverable (deficit)/surplus		
	UK \$m	North America \$m	Group \$m	UK \$m	North America \$m	Group \$m
Assets of the schemes at 1 January 2004	40.6	63.7	104.3	33.4	28.8	62.2
Movement in year:						
Current service cost	(7.9)	(3.5)	(11.4)	(7.9)	(3.5)	(11.4)
Past service cost	(0.7)	–	(0.7)	(0.7)	–	(0.7)
Curtailments	0.9	–	0.9	0.9	–	0.9
Contributions	0.7	–	0.7	0.7	–	0.7
Other income	5.9	3.5	9.4	5.9	3.5	9.4
Actuarial loss	(111.6)	(4.3)	(115.9)	(104.3)	(0.4)	(104.7)
Exchange difference	(2.6)	(0.1)	(2.7)	(2.7)	0.1	(2.6)
(Liabilities)/assets of the schemes at the end of the year	(74.7)	59.3	(15.4)	(74.7)	28.5	(46.2)

The movements in the UK and North America schemes during the period from 7 April 2003 to 31 December 2003 were:

	Gross (deficit)/surplus			Recoverable (deficit)/surplus		
	UK \$m	North America \$m	Group \$m	UK \$m	North America \$m	Group \$m
Net (liabilities)/assets of the schemes at 7 April 2003	(75.8)	50.9	(24.9)	(75.8)	50.1	(25.7)
Movement in year:						
Current service cost	(6.4)	(2.5)	(8.9)	(6.4)	(2.5)	(8.9)
Contributions	0.2	–	0.2	0.2	–	0.2
Other finance (expense)/income	(4.4)	2.5	(1.9)	(4.4)	2.5	(1.9)
Actuarial gain/(loss)	127.6	12.3	139.9	121.0	(21.7)	99.3
Exchange difference	(0.6)	0.5	(0.1)	(1.2)	0.4	(0.8)
Assets of the schemes at the end of the period	40.6	63.7	104.3	33.4	28.8	62.2

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

	2004 \$m	2003 \$m
Liabilities of the schemes at beginning of the period	(120.6)	(103.0)
Movement in year:		
Current service cost	(2.2)	(1.3)
Past service cost	(0.2)	(0.2)
Settlements and curtailments	(1.3)	(0.5)
Contributions	14.5	11.3
Other finance expense	(6.2)	(4.4)
Actuarial loss	(2.2)	(6.2)
Transfer from creditors and provisions	(2.8)	–
Exchange difference	(9.2)	(16.3)
Liabilities of the schemes at the end of the year	(130.2)	(120.6)

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

The experience gains and losses for the year ended 31 December 2004 were:

	UK \$m	North America \$m	Other \$m
Difference between the expected and actual return on pension scheme assets	73.2	10.7	0.1
Percentage of scheme assets	3%	4%	1%
Experience gains and losses on scheme liabilities	(15.7)	2.0	5.9
Percentage of scheme liabilities	(1)%	1%	4%
Total actuarial gain or loss	(104.3)	(0.4)	(2.2)
Percentage of scheme liabilities	(4)%	–	(2)%

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

	UK \$m	North America \$m	Other \$m
Difference between the expected and actual return on pension scheme assets	122.0	13.0	2.3
Percentage of scheme assets	5%	5%	15%
Experience gains and losses on scheme liabilities	6.1	(6.1)	(5.2)
Percentage of scheme liabilities	–	(3)%	(4)%
Total actuarial gain or loss	121.0	(21.7)	(6.2)
Percentage of scheme liabilities	5%	(12)%	(5)%

Amounts that would be charged to operating profit under FRS17

	UK \$m	North America \$m	Other \$m	Group \$m
For the year ended 31 December 2004				
Current service cost	7.9	3.5	2.2	13.6
Past service cost	0.7	–	0.2	0.9
Settlements and curtailments	(0.9)	–	1.3	0.4
Total operating charge	7.7	3.5	3.7	14.9

	UK \$m	North America \$m	Other \$m	Group \$m
For the period ended 31 December 2003				
Current service cost	6.4	2.5	1.3	10.2
Past service cost	–	–	0.2	0.2
Settlements and curtailments	–	–	0.5	0.5
Total operating charge	6.4	2.5	2.0	10.9

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

	UK \$m	North America \$m	Other \$m	Group \$m
For the year ended 31 December 2004				
Expected return on pension scheme assets	134.2	14.2	1.1	149.5
Interest on pension scheme liabilities	(128.3)	(10.7)	(7.3)	(146.3)
Net return	5.9	3.5	(6.2)	3.2

	UK \$m	North America \$m	Other \$m	Group \$m
For the period ended 31 December 2003				
Expected return on pension scheme assets	82.5	10.8	0.7	94.0
Interest on pension scheme liabilities	(86.9)	(8.3)	(5.1)	(100.3)
Net return	(4.4)	2.5	(4.4)	(6.3)

25 Pensions (continued)

(d) FRS17 retirement benefits (continued)

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

	UK \$m	North America \$m	Other \$m	Group \$m
For the year ended 31 December 2004				
Difference between the actual return less expected return on pension scheme assets	73.2	10.7	0.1	84.0
Experience gains and losses arising	(15.7)	2.0	5.9	(7.8)
Changes in assumptions	(169.1)	(17.5)	(8.8)	(195.4)
Adjustment due to surplus cap	7.3	4.4	0.6	12.3
Total actuarial loss	(104.3)	(0.4)	(2.2)	(106.9)
Related deferred tax movement	–	0.1	–	0.1
Actuarial loss to recognise in the statement of total recognised gains and losses	(104.3)	(0.3)	(2.2)	(106.8)
For the period ended 31 December 2003				
Difference between the actual return less expected return on pension scheme assets	122.0	13.0	2.3	137.3
Experience gains and losses arising	6.1	(6.1)	(5.2)	(5.2)
Changes in assumptions	–	(7.9)	(2.8)	(10.7)
Adjustment due to surplus cap	(7.1)	(20.7)	(0.5)	(28.3)
Total actuarial gain/(loss)	121.0	(21.7)	(6.2)	93.1
Related deferred tax movement	(36.2)	8.0	2.1	(26.1)
Actuarial gain/(loss) to recognise in the statement of total recognised gains and losses	84.8	(13.7)	(4.1)	67.0

Financial impact of FRS17

If retirement benefits had been accounted for under FRS17 in these financial statements, the Group's net assets at 31 December 2004 would have been as follows:

	2004 \$m	2003 \$m
As reported under current accounting policies	185.4	67.1
Adjust for amounts stated under current accounting policies:		
Pension fund prepayments (note 12)	(73.4)	(68.6)
Pension provision	125.0	119.4
Related deferred tax liability	8.0	3.0
	245.0	120.9
Adjust for amounts calculated in accordance with FRS17:		
Recoverable surplus less deficits in the schemes	(176.4)	(58.4)
Related deferred tax	(6.3)	(11.8)
As stated in accordance with FRS17	62.3	50.7

The \$123.1 million (2003 – \$16.4 million) reduction 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 \$29.4 million (2003 – \$36.1 million), instead of in deficit to \$30.2 million (2003 – \$17.7 million), and there would have been a deficit on a pension reserve of \$182.7 million (2003 – \$70.2 million).

26 Related party transactions**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.

Associated companies

The table below shows transactions with associated companies.

	Associated companies 2004 \$m	Associated companies 2003 \$m
Sales to	0.9	0.5
Purchases from	7.4	3.6
Other income	0.4	1.5
Debtors	1.4	1.6
Creditors	1.3	0.5

Other

Until 31 March 2004, the parent company was accounted for as a joint venture by Guinness Peat Group plc. As at that date, the Company owed \$25.0 million to Guinness Peat Group plc. Interest of \$0.2 million was charged in the three months to 31 March 2004. As at 31 December 2003, the Company owed \$12.4 million to Guinness Peat Group plc. Interest of \$0.7 million was charged during the period ended 31 December 2003.

\$1.5 million was lent on 13 January 2004 to the Chairman on that date of Coats Holdings Ltd, M Flower, by a subsidiary. \$1.4 million of this loan plus interest was repaid on 24 June 2004, with the balance being repaid on 28 October 2004.

27 Notes to the cash flow statement**(a) Reconciliation of operating profit to net cash inflow from operating activities**

	Year ended 31 December 2004 \$m	Period ended 31 December 2003 \$m
Operating profit	35.5	68.7
Depreciation	62.3	43.1
Amortisation of goodwill	18.2	0.2
Reorganisation costs	43.4	19.8
Exceptional items	3.8	–
Decrease in stocks	54.7	14.9
Decrease in debtors	10.9	6.9
Increase in creditors	27.9	17.5
Other non-cash movements	(18.6)	(6.6)
Net cash inflow from normal operating activities	238.1	164.5
Net cash outflow in respect of reorganisation costs:		
Utilisation of provisions – closures and reorganisation	(36.2)	(29.7)
– operating exceptional items	(3.8)	–
– non-cash asset write downs	2.1	–
Net cash inflow from operating activities	200.2	134.8
Continuing operations	195.8	129.2
Discontinued operations	4.4	5.6
	200.2	134.8
(b) Analysis of financing cash flows		
Issue of ordinary share capital	137.8	0.1
Increase in borrowings: – new long term loans	520.4	–
– new short term loans	24.2	533.6
– repayment of amounts borrowed	(795.7)	(154.9)
– capital element of finance lease rental payments	(0.9)	(0.7)
	(252.0)	378.0
Net cash (outflow)/inflow from financing	(114.2)	378.1

27 Notes to the cash flow statement (continued)

(c) Analysis of net debt

	At 31 December 2003 \$m	Cash flow \$m	Acquisitions /disposals (excluding cash/ overdrafts) \$m	Other non-cash changes \$m	Exchange \$m	At 31 December 2004 \$m
Cash at bank and in hand	83.0					128.3
Bank overdrafts	(32.5)					(23.0)
Net cash	50.5	36.5	–	–	18.3	105.3
Short term deposits	28.3	(17.4)	–	–	2.2	13.1
Loans	(750.0)	251.1	1.3	(3.4)	(18.6)	(519.6)
Lease finance	(1.6)	0.9	0.4	–	–	(0.3)
	–	252.0	1.7			
Total	(672.8)	271.1	1.7	(3.4)	1.9	(401.5)

Net debt is before amounts owed to parent undertaking of \$280.8 million (2003 – \$280.6 million) as set out in note 15.

\$498.2 million (2003 – \$15.0 million) of bank overdrafts, loans and lease finance at 31 December 2004 is secured on assets of the Group. Security comprises both fixed and floating charges.

(d) Purchase of subsidiary undertakings

	Year ended 31 December 2004 \$m	Period ended 31 December 2003 \$m
Net (liabilities)/assets acquired	(165.7)	622.2
Goodwill	169.1	46.1
Total	3.4	668.3
Satisfied by:		
Cash	4.6	412.8
Convertible loan stock (see note)	–	257.0
Deferred consideration	(1.2)	2.1
Other	–	(3.6)
	3.4	668.3

Note

The loan stock converted into shares in Coats Group Limited on 6 June 2003 and was replaced by an amount owed to Coats Group Limited.

27 Notes to the cash flow statement (continued)**(e) Sale of subsidiary undertakings**

	Year ended 31 December 2004 \$m	Period ended 31 December 2003 \$m
Tangible fixed assets	1.7	–
Stocks	9.6	1.5
Debtors	4.8	0.3
Cash at bank and in hand	0.5	–
Creditors	(6.3)	(2.4)
Provisions	(3.0)	(0.2)
Loans and finance lease obligations	(1.7)	–
Minority shareholders interests	(4.2)	–
	1.4	(0.8)
Loss on disposal	–	–
	1.4	(0.8)
Satisfied by:		
Cash	2.9	(0.8)
Deferred consideration	(1.5)	–
	1.4	(0.8)

(f) Cash flow relating to exceptional items

Profit on sale of fixed assets	0.7	–
Book value of fixed assets sold	41.9	50.9
Proceeds of sale of fixed assets	42.6	50.9
Proceeds of sale or termination of operations (note e)	1.4	(0.8)

28 Immediate and ultimate parent company

At the beginning of the year the ultimate parent company was Coats Group Limited, a company incorporated in the British Virgin Islands. Coats Group Limited does not prepare consolidated financial statements.

At 1 April 2004, Guinness Peat Group plc, a company incorporated in England and Wales, acquired a controlling interest in Coats Group Limited and became both the controlling party and the ultimate parent company of the Group.

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

29 Post balance sheet event

The Group's Bedwear business was sold on 14 February 2005. Including related property sold separately, proceeds (net of expenses) from the disposal of Bedwear totalled approximately \$19.0 million, resulting in an overall loss on disposal of approximately \$15.0 million, which is recognised in 2005 under UK accounting standards.