Coats Viyella

Annual Report and Accounts 1999

Financial highlights

	1999	1998
Turnover		
– continuing operations	**£1,568m**	£1,727m
– total	**£1,680m**	£2,083m
Operating profit before exceptional items		
– continuing operations	**£84m**	£87m
– total	**£93m**	£116m
Operating profit	**£16m**	£89m
Pre-tax (loss)/profit		
Before FRS3 exceptional items	**(£23)m**	£53m
After exceptional items	**£64m**	£36m
Earnings/(loss) per share	**4.1p**	(3.8)p
Headline (loss) per share	**(4.3)p**	(1.4)p
Dividends per share		
1999 Interim (1998 interim paid as a FID)	**1.50p**	1.50p
1999 Final	**1.50p**	1.50p
Net asset value per ordinary share	**99p**	89p
Capital expenditure	**£56m**	£73m
Net debt	**£125m**	£321m
Net gearing	**16%**	45%
Net cash inflow from operating activities	**£118m**	£187m
Net interest cover	**3.9**	2.0
Dividend cover	**1.4**	–
Tax rate	**49%**	158%
Market Capitalisation at 31 December	**£292m**	£190m

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Chairman's statement

This year we have set out resolutely to focus the Group on its core businesses and deal with both peripheral and poor performing activities. I am glad to report that we have finished the year with much of the clean up completed and the management team able to direct their attention to improving and growing their businesses.

The disposal of the Precision Engineering Division in April provided us with the financial resources both to carry out this corporate overhaul and to support our world leading market positions and our first class brands.

The acquisition of Hicking Pentecost PLC was a first step in this development process. Its Barbour thread business has confirmed Coats as the leading supplier of thread in the USA and by adding the Barbour specialist product range to its already extensive portfolio, Coats has further strengthened its position as the world leader in thread. The initial integration of Barbour into Coats has gone well and, during the course of this year, their respective manufacturing operations will be combined to provide a more cost effective supply base.

In tough market conditions, the Viyella businesses have had to accelerate the reduction of UK manufacturing plants and decrease costs. The benefit of these actions has unfortunately been outweighed by an extremely competitive environment, but, in the long run, these actions will benefit both our brands and our private label manufacturing. I am encouraged that our many key brands, Jaeger, Viyella, Dorma and Van Heusen are showing resilience in the face of a tough trading climate and, in particular, that Jaeger is showing positive signs of progress after a couple of years of decline.

Despite the tough environment, senior management has shown outstanding determination in responding to the challenges we face. Their leadership and example has been crucial in maintaining a loyal and committed workforce and a satisfied customer base through a period of significant change. I pay tribute to our many employees worldwide who have shown great resilience and have helped us to achieve a better platform for going forward.

The current year has started encouragingly and, despite the continuing competitive pressures, we are confident of improving each of our businesses in order to increase shareholder value.

Your board is pleased to recommend a final dividend of 1.5p (1998: 1.5p), making a total of 3.0p for the year. We have taken the view that we should proceed cautiously until our improvement is firmly established.

Sir Harry Djanogly CBE

Coats operational review

Martin Flower

Coats (% of Group sales)

57.6%

Thread	**1999 £m**	1998 £m
Sales	**848**	907
Operating profit before reorganisation costs	**74**	73
Net assets	**565**	537
Return on year end net assets	**16%***	14%
Capital spend	**30**	35
Employees at year end	**29,569**	29,909

*Excludes Barbour

Principal brands: Anchor, Astra, Barbour, Coats, Epic, Koban, Opti, Patons, Red Heart, Sylko.

Other Indian Businesses	**1999 £m**	1998 £m
Sales	**56**	71
Operating profit before reorganisation costs	**(2)**	4
Net assets	**37**	40
Return on year end net assets	**(6%)**	10%
Capital spend	**1**	2
Employees at year end	**5,810**	6,144

Thread

In the second quarter of 1999, an upturn in sales, particularly in North America and Asia resulted in an improved performance over the previous year. This increased demand continued in the second half of the year and, combined with the delivery of benefits from the reorganisation in Europe, led to a significant year on year improvement for the period. Results were impacted by weak demand in the first quarter, the effects of devaluation in Brazil and prolonged industrial action in India. Brazil recovered well towards the end of the year and the industrial dispute in India was resolved in the summer. Overall sales declined from £907 million to £848 million. Operating profit increased from £72.6 million in 1998 to £74.2 million in 1999.

In order to reflect its position as a truly global business, a new management structure has been put in place to enable better global response to our customers' needs.

Industrial The migration of apparel manufacture from Europe and North America to lower cost locations continued at a fast pace. As a result of this there has been good growth in our business in the key supply locations in Asia and Mexico. Further reorganisation of manufacturing capacity in Europe and North America has been necessary to adjust to the reduction of apparel manufacturing. These trends are set to continue over the next few years and with its global manufacturing infrastructure in place, Coats is well positioned to meet the increasingly global demands of major customers wherever they choose to locate production.

Coats entered into an agreement with Fuji and Gretag-MacBeth to commercialise ColourTalk, our proprietary system for the electronic transmission of colour. This will create an exciting opportunity to make our leading colour physics technology available for wider use by our customers in the textiles industry.

Crafts Demand in the USA was buoyant, particularly in the second half although the market in Western Europe showed some decline. The exit from manufacture of handknittings was completed so as to focus on our core sewing and handicraft businesses.

Outlook The integration of the Barbour Thread business of Hicking Pentecost PLC is proceeding well. Further benefits are expected as Barbour's manufacturing is fully integrated with Coats' international manufacturing and distribution infrastructure to exploit the unique combination of specialist products, leading technology and global distribution capability.

Other Indian Businesses The Madura Textiles results were badly hit by industrial action, although sales recovered well towards the end of the year.

The Madura Garments business was sold to Indian Rayon Ltd, part of the Aditya Birla group, and this was concluded with effect from 1 January 2000.

Viyella operational review

Mike Hartley

Viyella (% of Group sales)

42.4%

Contract Clothing	**1999 £m**	1998 £m
Sales	**305**	350
Operating profit before reorganisation costs	**(1)**	2
Net assets	**95**	96
Return on year end net assets	**(1%)**	2%
Capital spend	**13**	8
Employees at year end	**9,000**	9,939

Principal operations: design, manufacture and sourcing of garments under retailer labels.

Fashion Retail and Branded Clothing	**1999 £m**	1998 £m
Sales	**202**	231
Operating profit before reorganisation costs	**7**	4
Net assets	**81**	85
Return on year end net assets	**9%**	5%
Capital spend	**4**	4
Employees at year end	**3,980**	4,029

Principal brands: Jaeger, Viyella, Berghaus, Van Heusen and Peter England.

Home Furnishings	**1999 £m**	1998 £m
Sales	**157**	168
Operating profit before reorganisation costs	**7**	5
Net assets	**55**	61
Return on year end net assets	**12%**	9%
Capital spend	**3**	2
Employees at year end	**3,570**	3,968

Principal brands: Dorma, Chortex.

Contract Clothing

Despite a year of substantial change and achievement, the end result was disappointing. However, the strategy to build competitive advantage through a combination of product quality, on-time delivery, product innovation and the achievement of lowest cost in selected market segments has continued to make good progress. A further tranche of UK manufacturing has been relocated off shore and overheads have been reduced. The product business streams have been strengthened as a result, with better competitive positioning and significant niche market advantages.

However, there was a decline in sales to Marks & Spencer with a particularly disappointing out turn in late autumn. In addition, the competitive environment reduced retail prices which severely affected margins. In the short term it was not possible to make up the combined shortfall in volume and margin through reduced costs.

Outlook The business expects benefit from increased volumes as a result of supplier rationalisation by Marks & Spencer and from cost reductions and the other strategic initiatives already implemented. However, pricing pressure is anticipated to remain.

Fashion Retail and Brands

There was a significant improvement in Jaeger, although there is far more potential to be realised. The focus during the year has been on reinvigorating retail disciplines – in pricing, service, product appeal and supply chain management – and on further reductions in the cost base including more sourced product. Margins improved and there was an accelerating positive effect on volume during the year. The enhancement of the product range had only a limited effect on the Autumn 1999 programme; it will have a more visible effect on the Spring 2000 range.

Viyella slipped back in difficult market conditions and the fashion trend away from jackets had a disproportionate effect. Branded shirts again performed well driven by increased direct to consumer activity from its growing retail portfolio. Branded coats showed a significant improvement as Western Europe performed well and the completion of withdrawal from Russia eliminated losses. Brand licensing continued to perform well.

Outlook The UK retail environment will remain difficult with negative price inflation; cost control remains a key aspect of strategy. Volume will rely on constant innovation in product ranges alongside outstanding supply chain management and in store service.

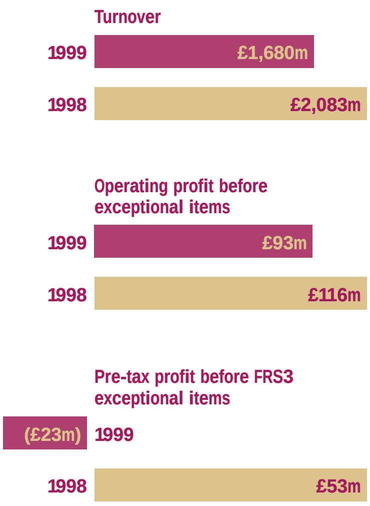
Home Furnishings

The UK bedwear business experienced a difficult first half year, with volumes and margins under pressure. The second half produced a significant improvement in demand, as the housing market recovered and the benefits of manufacturing rationalisation implemented early in the year were realised during the last quarter. Bedwear in continental Europe continued to suffer from its reliance on UK manufacturing and the strength of the pound relative to the euro.

Outlook Demand will continue to be driven by the housing market, which is currently buoyant.

Financial review

Kazia Kantor



Accounting Standards The Group's accounting policies reflect the applicable standards issued by the Accounting Standards Board.

Two standards became mandatory during 1999. FRS12 (– Provisions, Contingent Liabilities and Contingent Assets) deals primarily with the definition and recognition of provisions and FRS13 (– Derivatives and Financial Instruments: Disclosures) increases disclosure requirements in respect of derivatives and other financial assets and liabilities. Both standards have been formally adopted in this Annual Report. The principal impact of FRS12 on these accounts is an exceptional provision of £4.6 million for vacant leasehold premises. Detailed disclosures in respect of FRS13 are contained in note 19 of the Report and Accounts. The Group will be adopting FRS15 (– Tangible Fixed Assets) with effect from 1 January 2000. This standard is not expected to have a significant effect on the Group accounts.

Review of operating results The Group's results have been significantly affected by the disposal of the Precision Engineering Division, the garments business in India and the acquisition of Hicking Pentecost PLC. The turnover for the year from continuing businesses was £1,568.0 million (1998: £1,726.8 million), a decrease of 9% on prior year, and the operating profit before exceptional items was £84.3 million (£86.9 million), a decrease of 3%. The reported Group turnover was £1,679.5 million (£2,082.9 million), and operating profit before exceptional items £92.7 million (£115.8 million).

Reorganisation of the Group was accelerated leading to a charge of £67.0 million (£26.5 million) and there was an exceptional charge of £10.1 million principally arising from additional provisions on vacant leasehold premises of £4.6 million required by a new accounting standard, and a £5.6 million net loss arising from irregularities in a US subsidiary. The disposal of Precision Engineering gave rise to a profit of £114.7 million, but this was offset by the £3.2 million cost of disposing of Group investments and a loss of £30.9 million on the termination or disposal of peripheral operations.

The result of these actions was that profit before tax is £63.6 million (£35.5 million), and the profit attributable to ordinary shareholders was £28.6 million (loss £26.6 million). Earnings per share were 4.1p (loss 3.8p) and the headline loss per share, after stripping out the exceptional gains on disposals, was 4.3p (1.4p).

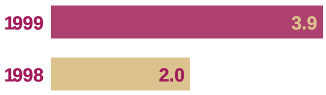
The Group proposes to maintain its dividend at 3p for this year. Coats Viyella's year end quoted share price was 41.5p (27p) which capitalises the Group at £292 million (£190 million).

On a like-for-like basis, excluding currency movements, and the effect of acquisitions and disposals, turnover of ongoing businesses was down 9% and operating profit before exceptional items decreased by 8%.

At 17% of sales, Marks & Spencer remained the Group's largest customer in 1999 with sales of £292 million (£317 million) which were predominantly in the UK.

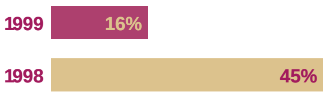
The Group's **net interest costs** of £21.7 million were reduced from 1998

Interest cover



Net cash flow from normal operating activities

Gearing



(£34.5 million) as a result of the proceeds of the sale of the Precision Engineering Division being used less the cost of acquiring Hicking Pentecost PLC.

The **tax rate** of 49% (158%) is significantly distorted by the tax effects of exceptional items. The underlying Group tax rate continues to be affected by unrelieved tax losses and reorganisation costs in certain territories, particularly the UK, which can only be relieved against future profits. Excluding exceptional items the tax rate would have been 45% (40%).

The principal **exchange rates** to sterling used in preparing the financial statements were:

		1999	1998
Average	US$	**1.62**	1.66
	Deutschmark	**2.98**	2.92
Year End	US$	**1.61**	1.66
	Deutschmark	**3.14**	2.77

The translation of 1998 overseas turnover and profits at 1999 average rates increases sales by £9 million and operating profit before exceptional items by £1 million.

No employer cash contributions were made to the **UK pension plan**. Owing to the continuing actuarial surplus of assets in the plan, a net credit of £4.5 million (£8.4 million) is included in the results for the period.

Net **cash inflow** from normal operating activities was £158.5 million (£222.9 million). Within this, continuing operations accounted for £158.3 million (£182.9 million). There was a further reduction in net working capital of £31.6 million (£49.1 million), but the cash cost of reorganisation increased to £40.1 million (£35.8 million), reflecting the faster rate of restructuring. At the year end £43 million (£24.2 million) of the restructuring provision remained to be spent.

Average **net working capital** during the year was 26.2% of sales (25.2%).

Capital expenditure in 1999 was:

£m	1999	1998
UK	**20.0**	23.3
Overseas	**35.6**	49.5
Total	**55.6**	72.8

Despite difficult trading conditions the Group spent £55.6 million on upgrading its plant and equipment. This is broadly in line with depreciation.

Reorganisation costs In 1999, reorganisation costs of £67 million were incurred or provided, compared with £26.5 million in 1998. Benefits from previous schemes are being achieved but new schemes have been accelerated in order to keep pace with the shifts in the marketplace.

Of the costs and provisions in 1999, some £44 million is attributable to Coats of which £3 million was incurred in the Barbour Threads businesses acquired with Hicking Pentecost PLC, and the remainder in Viyella. A full segmental analysis of reorganisation costs is included in note 3 on page 27 of the report and accounts.

Acquisitions and disposals Hicking Pentecost PLC, the principal business of which is Barbour Threads, a manufacturer of speciality industrial threads, was acquired at the beginning of September 1999 at a cost of £80.2 million, paid by cash and loan notes. In addition, some £30.4 million of net debt was assumed with the acquisition.

As previously reported, the Group sold its Precision Engineering Division to Petcin in April 1999 for a net consideration of £294.4 million, giving rise to a net gain on disposal of £114.7 million after accounting for £60.3 million of goodwill previously written off on acquisition.

Losses on other sales and terminations of operations principally relate to the withdrawal from handknittings manufacture (£13.3 million) and the withdrawal from the Berghaus wholesale business with the former Russian states (£13.5 million). Other small disposals generated losses of £4.1 million. The total of other losses on sale or termination was £30.9 million including £14.3 million of previously written off goodwill.

Review of financial needs and resources

Year end net debt at £125.1 million was £195.7 million lower than at last period end and gearing as result decreased to 16% (45%).

Borrowings were primarily affected by the disposal of the Precision Engineering Division with a net cash inflow of approximately £290 million and a net cash outflow from the acquisition of Hicking Pentecost PLC of approximately £110 million (including the debt acquired). The Group continued to focus on working capital with the resultant improvement in stock levels and the maintenance of strong operating cash flow.

The Group's borrowing facilities are provided by a combination of permanent debt finance and a prudent combination of committed and uncommitted bank facilities to cover working capital requirements. As a result of significant cash generation during the year the Group felt able to reduce its permanent debt finance. Details of this and other borrowings are provided in Note 19 on pages 37 to 41 of the Report and Accounts. The Group has facilities of £514 million (£726 million) of which £279 million were committed. The Group was not in breach of any of its borrowing covenants.

The Group policy on interest rates is to minimise exposures by ensuring an appropriate balance of fixed and floating rates. This exposure is managed through the use of interest rates swaps and forward rate agreements, the nominal principle of which does not exceed the underlying debt and cash positions covered.

The Group's translation exposure in the Profit and Loss account is not hedged, however, the Group's net assets are subject to hedges where it is felt that a currency revaluation could have a material impact on Shareholders' Funds. At 31 December 1999, after taking into account currency denominated liabilities approximately 20% of shareholders' funds are exposed to fluctuations in the Sterling/US dollar exchange rate, and approximately 11% to the Sterling/Euro exchange rate. Further details are provided in note 19 of the Report and Accounts.

Y2K and the euro Details of the Group's plans for addressing the Year 2000 issue were included in the 1998 Annual Report. All plans were implemented in time and no significant Y2K problems have been reported to date. Costs incurred in relation to Y2K compliance amounted to £0.7 million in revenue and £1.5 million in capital expenditure on new systems. No significant costs have been or are expected to be incurred in respect of the euro.

Directors and advisers

Executive Directors

Martin Flower (Aged 53) Chief Executive of the Coats Division. Joined the Group in 1968 after graduating from Oxford University and has held various overseas appointments in Venezuela, Peru, Indonesia, Hong Kong and Brazil. Appointed Chief Executive of the Coats Division in 1988 and to the Board of Coats Viyella Plc in 1990. Non Executive Director of Severn Trent Plc.

Kazia Kantor (Aged 50) Joined the Group as Finance Director in October 1998. Qualified at PricewaterhouseCoopers and has held senior financial positions at Inchcape and Grand Metropolitan. Finance Director of Central Television until 1994.

Mike Hartley (Aged 51) Chief Executive of the Viyella Division. Joined Tootal Group in 1985 and worked in their Clothing business. Joined the Coats Division in 1991 as Strategy Director and has held various overseas appointments in South Africa and the Far East. Appointed Chief Executive of the Clothing Division in January 1998 and appointed to the Board of Coats Viyella Plc in September 1998.

Non Executive Directors

Sir Harry Djanogly (Aged 61) Appointed a Director in 1985 and Non Executive Deputy Chairman in March 1999. He became Non Executive Chairman in July 1999. He is Non Executive Deputy Chairman of Singer & Friedlander Plc and a Non Executive Director of Carpetright Plc. Chairman of the Nomination Committee as well as a member of the Remuneration and Audit Committees.

Sir Victor Blank (Aged 57) Appointed a Director in 1989 and senior independent Non Executive Director in March 1999. Became Non Executive Deputy Chairman in July 1999. Chairman of Trinity Mirror Group, Deputy Chairman of The Great Universal Stores PLC, a Director of Williams PLC and Chairman of the charity WellBeing. Chairman of the Audit Committee and a member of the Remuneration and Nomination Committees.

Keith Merrifield (Aged 57) Appointed a Director in September 1996. Director of British Biotech Plc, Danka Business Systems PLC and Boehringer Ingelheim (UK) Ltd. Formerly Director of International Operations of Wellcome PLC. Chairman of the Remuneration Committee and a member of the Audit and Nomination Committees.

The Right Hon. the Lord Owen CH (Aged 61) Appointed a Director in 1994. Chairman of Middlesex Holdings Plc and a Director of Abbot Laboratories Inc. EU negotiator on former Yugoslavia 1992-95. Leader of the SDP 1983-90, Foreign Secretary 1977-79 and MP for Plymouth 1966-92. A member of the Audit, Remuneration and Nomination Committees.

Company Secretary: Christopher Healy

Auditors: Deloitte & Touche

Solicitors: Slaughter & May

Brokers: Cazenove & Co and Credit Suisse First Boston de Zoete & Bevan Limited

Principal Bankers: Barclays Bank Plc, Citibank NA, HSBC Bank Plc, National Westminster Bank Plc, Standard Chartered Bank Plc and Wachovia Corporation NA.

Directors' report

The Directors present their report and the financial statements for the year ended 31 December 1999.

Principal activities The principal activities of the Group during the year were the manufacture, processing and distribution of sewing thread for industrial and domestic use, homewares, fashionwares, knitwear, garments and for the period up to April 1999, precision engineering products.

Share capital There was no change in the issued ordinary share capital during the year.

Major shareholdings As at 25 February 2000, the Group was aware of the following persons who were directly or indirectly interested in 3% or more of the Group's issued ordinary share capital:

	Number of Ordinary Shares	Percentage held
UBS UK Holding Limited (held through Phillips and Drew subsidiaries)	98,016,960	13.93
RIT Capital Partners Plc*	92,585,400	13.16
Guinness Peat Group Plc	44,166,011	6.28
Brandes Investment Partners LP	25,333,518	3.60
Arlington Capital Investors Limited	21,750,000	3.09
Legal and General Investment Management Limited	21,128,574	3.00

*Includes 47,669,000 ordinary shares held by Finance and Trading Limited who act with RIT Capital Partners Plc under Section 204 of the Companies Act 1985.

Acquisitions and disposals Details of acquisitions and disposals during the year are set out in the Financial Review on pages 4 to 6.

Review of the business A review of the business during the year and of prospective future developments is contained within the Chairman's statement and the Reviews set out on pages 1 to 6 which constitute an integral part of this Report.

Property The majority of the Group's freehold and long leasehold properties were professionally valued by Healey and Baker at 30 June 1992. Group occupied properties were generally valued on the basis of open market value for existing use, although certain limited parts were valued on the basis of depreciated replacement costs. Those properties held surplus to requirements were valued on the basis of open market value. Since the completion of Healey and Baker's 1992 valuation a number of properties have been sold and, in the Directors' view, the surplus over book value, based on the 1992 valuation, has now been reduced to around £47 million.

Results and dividends The results of the Group for the year appear in detail on page 18. The preference dividends, amounting to £715,863 (1998 – £715,863) were paid on their due date.

The Directors recommend a final dividend of 1.5p per share. If approved by shareholders, dividends for the year will total 3p (1998 – 3p). Movements in reserves are set out on pages 45 and 46.

Directors Sir Harry Djanogly, Sir Victor Blank, Messrs Flower, Hartley and Merrifield, Ms Kantor and Lord Owen served as Directors throughout the year. Sir David Alliance resigned as Chairman on 21 July 1999. Mr Ost ceased to be a Director of the Group on 14 April 1999 and Dr Speirs resigned as a Director of the Group on 7 May 1999.

In accordance with the Articles of Association of Coats Viyella Plc Mr Flower, Sir Victor Blank and Lord Owen retire by rotation under Article 110 and, being eligible, offer themselves for re-election.

Directors' interests The interests of the Directors in the share capital of Coats Viyella Plc are shown on page 16.

Coats Viyella 1994 executive share option scheme
Options in respect of 4,987,800 ordinary shares were granted on 29 March 1999 to twenty-nine eligible executives at a price of 42 pence per share.

Coats Viyella sharesave scheme No options over ordinary shares were granted under the sharesave scheme during the year.

Employment practices in the UK Progress has been maintained to ensure that employment practices and policies continue to match best practice. The need to improve efficiency and performance has necessitated significant structural change leading to further factory closures and headcount reductions. Effective communications have played a major part both in explaining the changes and motivating those remaining. Management training and development activities continued during 1999.

Ethical employment The Group operates throughout the world in full compliance with ILO conventions forbidding the use of child or forced labour. The Group recognises the right of workers to form and join Trade Unions. Workers are employed on the basis of their ability to work and not on the basis of their race, individual characteristic, creed or political opinion. The Group seeks to ensure that its suppliers also act fully in conformity with this policy.

It is the Group's policy to offer equal opportunities to disabled persons applying for vacancies and provide them with the same opportunities for employment, training, career development and promotion as are available to all employees, within the limitation of their aptitude and abilities.

Supplier credit It is the Group's policy that its subsidiaries follow the CBI Code of Practice regarding the prompt payment of suppliers. A copy of the Code may be obtained from the CBI. In particular, for all trade creditors it is the Group's policy to agree the terms of payment at the start of business with that supplier, ensure that suppliers are aware of the terms of payment and pay in accordance with its contractual and other legal obligations.

As the parent company does not trade, the number of days' credit in 1999 was nil (1998 – nil).

Research and development All Divisions have continued to devote resources to research and development to improve products and processes. Contacts are being maintained and developed with outside institutions and centres of design excellence enabling the Group to maintain its leading position in technology and design.

Pension fund The Coats Viyella Pension Plan is a contributory scheme open to most UK employees of the Group and provides benefits additional to those from the State Basic Pension Scheme whilst enabling members to be contracted out of the State Earnings Related Pension Scheme. In addition to the normal retirement pension there are generous benefits payable if members die in service or retire early because of ill health. Members may also receive an early retirement pension on favourable terms from age 50 onwards.

Insurance for officers of the Group The Group maintains insurance for officers of the Group indemnifying them against certain liabilities incurred by them while acting as officers of the Group.

Charitable donations Payments of £15,000 (1998 – £117,000) were made to charities during the year.

Auditors A resolution to reappoint Deloitte & Touche as the Group's auditors and to authorise the Directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting.

Annual General Meeting Attached to this report on pages 55 and 56 is the Notice of Annual General Meeting, which sets out the resolutions for the ordinary and special business of the Annual General Meeting.

Directors' responsibilities for the financial statements
The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group as at the end of the financial year and of the profit or loss for that period. It is also the Directors' responsibility to maintain adequate accounting records, safeguard the assets of the Group and take reasonable steps in preventing and detecting fraud and other irregularities.

The Directors confirm that suitable accounting policies consistently applied and supported by reasonable and prudent judgment and estimates, have been used in the preparation of the financial statements on a going concern basis and that applicable accounting standards have been followed.

By Order of the Board

Christopher Healy
Company Secretary
7 March 2000

Corporate governance

In June 1998 the Combined Code on Corporate Governance was issued and was subsequently adopted by the London Stock Exchange. This Code contains 14 principles of good governance applicable to listed companies and the paragraphs below, together with the Remuneration Report on pages 13 to 16 disclose how these principles are applied within the Group.

Directors The Group is controlled through the Board of Directors. During 1999 there were at least three Executive Directors and, at all times, four independent Non Executive Directors. All Directors are able to take independent professional advice in furtherance of their duties if necessary. The Board has a formal schedule of matters reserved to it and has met seven times during 1999. It is responsible for overall Group strategy, acquisition and divestment policy, approval of major capital expenditure and reorganisation projects and consideration of significant financing matters. It monitors the exposure to key business risks and reviews the strategic direction of the trading divisions, their annual budgets, their progress towards achievement of those budgets and their capital expenditure programmes. The Board also considers environmental and employee issues as well as key appointments. It ensures that all Directors receive appropriate training on appointment and subsequently as appropriate. All Directors, in accordance with the Code, will submit themselves for re-election at least once every three years.

The Board has established a number of standing committees. The principal committees are the Audit Committee, the Remuneration Committee and the Nomination Committee.

Relations with shareholders The Group encourages two-way communication with its institutional and private investors and responds quickly to all queries received verbally or in writing. The preliminary and interim results are presented to analysts and meetings with shareholders are arranged as appropriate. All shareholders have at least twenty one days' notice of the Annual General Meeting at which Directors and Committee Chairmen are introduced and available for questions.

Financial reporting Reviews of the performance of each of the Divisions and the overall financial position of the Group are included in the Operational and Financial Reviews on pages 2 to 6. The Board uses this, together with the Chairman's statement and the Directors' report on pages 8 and 9 to present a balanced and understandable assessment of the Group's position and prospects.

Wider aspects of Internal Control The Board expects to have the procedures in place by 6 September 2000 to implement the guidance 'Internal Control – Guidance for Directors on the Combined Code'. This takes account of the time needed to put in place the required procedures.

Internal Financial Control The Directors are responsible for the Group's system of internal financial control and for renewing its effectiveness. The key control procedures are described under the following five headings.

Management structure As a large, geographically dispersed multinational business, the Group operates through a divisional structure. Each Division has a board of directors which accounts on a regular basis through its Chief Executive to the Chairman for its performance. Management review meetings are held quarterly for each Division at which its progress for the previous quarter is reviewed and subsequently reported to the Board at its next meeting.

Financial reporting There are comprehensive management reporting disciplines which involve the preparation of annual budgets by all operating units. The budgets are reviewed by Divisional management and are subsequently passed to the Board for approval. Monthly results are reported against the approved budget and revised forecasts are prepared at quarterly intervals.

Investment appraisals The Group has a clearly defined framework for capital expenditure including appropriate authorisation levels beyond which such expenditure requires the approval of the Board. There is a prescribed format for capital expenditure applications which places high emphasis on the commercial and strategic logic for the investment and demands a high quality of financial presentation of the business case. As a matter of routine, projects are also subject to post-investment appraisal after an appropriate period.

Functional reporting The Group has identified a number of key areas which are subject to annual reporting to the Board. These include treasury operations and corporate taxation matters. Other areas given particular emphasis are information management strategy and risk management, the latter including environmental, legal and insurance matters.

Internal Audit In January 1999 the Group outsourced its internal audit function to PricewaterhouseCoopers who report to the Finance Director. The scope of internal audit covers a wide variety of operational matters and, as a minimum, ensures compliance with the Group's specified standards. The direct reporting route to the Finance Director ensures appropriate actions are taken and can be reported back to the Audit Committee on a timely basis.

It is the view of the Board that the overall quality of internal financial control across the Group can be related directly to the controls in individual operating units. It is therefore a requirement for the managers of operating units and the Divisions to confirm in writing the quality of internal financial control in their area. The statements are required in respect of each financial year as part of the year-end accounting process and are reported to the Audit Committee.

The Board has reviewed the effectiveness of the system of internal financial control for the accounting year and the period to the date of approval of the financial statements. It has considered the major business risks and the control environment. A system of internal financial control can provide only reasonable and not absolute assurance against material misstatement or loss. As referred to in note 3 to the financial statements, the result for the year has been impacted by losses of £5.6 million (net of estimated recoveries) arising from irregularities in the North American Fashion Retail business over several years involving local senior management. Since discovery of the irregularities by internal audit, the Board immediately took corrective action including dismissing the local senior management involved. The Board believes that appropriate procedures and controls are now operating effectively and additional monitoring procedures are now in place.

Audit Committee The Audit Committee, comprising of the Non Executive Directors, has specific terms of reference which deal with its authorities and duties. It meets at least three times a year with the external auditors and internal auditors attending by invitation. The Committee overviews the monitoring of the adequacy of the Group's internal financial controls, accounting policies and financial reporting and provides a forum through which the Group's external auditors and internal auditors report to the Non Executive Directors. This forum may take place without the presence of an Executive Director.

Going concern basis After making enquiries, the Directors have formed a judgment, at the time of approving the financial statements, that there is a reasonable expectation that the Group has reasonable resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements. This Statement also forms part of the Operational and Financial Reviews.

Environmental review The statements below set out the Group's environmental management policy.

Environmental management The Group's international businesses must satisfy a range of regulatory regimes and stakeholder expectations so the Group requires local management to take responsibility for environmental performance, within the framework of the Group's environmental policy, defined standards and procedures. This policy, which has recently been reviewed and updated, has been signed off by the Chief Executives of the Coats and Viyella Divisions, and is published on our web site. Further information, including progress against targets and achievements of individual businesses will be added during the year.

Environmental management communication networks and action groups are in place across the Group to assist implementation of the Group's environmental policy, monitor issues and performance, and exchange best practice. In each business, a senior executive takes overall responsibility for environmental performance, supported by site environmental management representatives for local co-ordination.

Environmental auditing and reporting system

- Units monitor their environmental matters and related costs, and prepare an annual self-assessed audit report, evaluated for reliability by our external auditors on a sample basis.
- The audit process covers environmental management systems, emissions, energy and resources management, compliance, customer issues and external interests.
- The award-winning environmental audit software, developed by the Coats Division to facilitate audit data input, analysis, benchmarking and reporting has also been adopted by the Viyella Division.
- Businesses are required to incorporate improvement targets in environmental action plans.
- A summary of the results, for the 122 units completing the 1999 self assessment, is set out on our web site, and we note that some progress has been made in achieving Group defined levels of performance in key areas of environmental management.
- The number of environmental incidents leading to action by regulatory authorities, which were reported to the Group, has reduced further to four. None of these incidents has resulted in prosecution and whilst no significant adverse environmental effects resulted, action is being taken to prevent reoccurence.

External verification This statement and a sample of self assessed audits, have been reviewed by Deloitte & Touche, Environmental Consultants. Their verification is based on an examination of relevant documentation and a series of interviews with site management and other Group executives. Their verification statements will be available on our web site.

Risk management Senior management identify the areas of significant potential business and legal risk. The identification, monitoring and, where necessary, reduction of significant risk to the Group are presented to the Board. The Board reviews and approves the parameters under which such risks are managed prior to adopting a business plan.

Compliance statement

The Listing Rules require the Board to report on compliance with the forty-five Code provisions throughout the accounting period. The Group has complied throughout the accounting period ended 31 December 1999 with the provisions set out in Section 1 of the Code.

The Group has adopted the transitional approach for internal control aspects of the Combined Code as permitted by the London Stock Exchange in their letter of 27 September 1999 to all listed companies and the Group has therefore complied with Code provision D.2.1 on internal control by reporting on internal financial control in accordance with the guidance on internal control and financial reporting issued in December 1994.

Report by the Board on Directors' Remuneration

The Remuneration Committee The Remuneration Committee is chaired by Mr Merrifield and acknowledges the principles and provisions relating to Directors' remuneration contained in the Code. He and the other members, Sir Harry Djanogly, Lord Owen and Sir Victor Blank are all independent Non Executive Directors. The Committee maintains overall responsibility for the development and effective implementation of senior management remuneration policies as well as approving the individual salaries and packages of the Board and other senior executives. The Committee has access to professional advice from within and outside the Group as well as to detailed information about the remuneration practices of companies of similar size and international spread and of industry competitors. No Director plays a part in any discussion about his or her own remuneration.

The Group has sought to build a performance led culture and, accordingly, its remuneration and benefits policies are constructed to support the principle of rewards related to achievement. The Group's success is dependent on senior management motivated by the opportunity both to pursue a varied and challenging career and to benefit from a fairly based and competitive remuneration package.

Remuneration package The Group's Executive Directors received a basic salary and are eligible to receive an annual bonus pursuant to the Senior Management Performance Plan and to participate in the Long Term Incentive Plan approved by shareholders in 1995. The level of basic salary is determined by the Remuneration Committee prior to April each year or when an individual changes position or responsibility.

Bonuses possible under the Senior Management Performance Plan consider factors including return on sales revenue, return on capital employed, improvements in productivity and working capital turnover. Details of bonuses paid to Directors for 1999 are disclosed on page 15.

The Long Term Incentive Plan introduced in 1995 for senior managers did not result in the allocation of any shares as performance targets were not achieved. During the year no shares for use under the Long Term Incentive Plan were purchased by the employee benefits trust which administers the funds allocated to the Group's subsidiaries. The Trust held 1,012,907 ordinary shares as at 31 December 1999 and the market value of these shares was £420,356 (1998 – £273,485). The Trust has waived the right to receive dividends on these shares.

Under the terms of the 1994 Executive Share Option Scheme, the Remuneration Committee may grant options to Directors and senior management at the market price prevailing at the time of grant. Options are exercisable between three and ten years after the grant. The exercise of options granted under this Scheme is dependent upon growth in the Group's earnings per share exceeding by 2% the increase in the retail price index during the three year period following grant. During the year options were granted to Directors under the Scheme as set out on page 16. It is the Group's policy ordinarily to grant options under the Scheme on a staged basis.

Both the Executive Share Option Scheme and the Long Term Incentive Plan were designed to emphasise the correlation of the interest of shareholders, Directors and senior management.

Executive Directors' pension arrangements All Executive Directors are members of the Group pension plan which is contributory and is approved by the Inland Revenue. Their dependants are eligible for dependants' pensions and the payment of a lump sum in the event of death in service. The Group's pension plan has been established for many years and normally provides for a pension on retirement at the age of sixty of up to two-thirds of final basic salary. This may be increased within Inland Revenue limits where qualifying pensionable service exceeds thirty years in which case remuneration in addition to basic salary may be taken into account.

Where a Director's benefits from the Group plan are restricted by revenue limits, as is the case in respect of Ms Kantor, the Group increases pension and death benefits to the level that would otherwise have applied through the mechanism of an unfunded unapproved retirement benefit scheme. The pension costs of unfunded unapproved arrangements are charged over their estimated service lives based upon actuarial advice.

There have been no changes in the terms of Directors' pension entitlements during the year.

Other benefits Directors other than Sir Victor Blank, Lord Owen and Mr Merrifield receive benefits including medical insurance and company car benefits in line with competitive practice. The value of such benefits are set out on page 15.

Executive Directors' contracts Executive Directors currently have contracts expiring on twelve months' notice. The Group may be obliged to pay the unexpired portion of a Director's contract, if it is terminated early. The Group's personnel policies relating to its UK-based senior management include guidelines on redundancy payments, which reflect the length of service of the redundant employee. These guidelines would also apply to any Director made redundant. Mr Flower has 32 years' service with the Group and the maximum benefit payable to him under the guidelines, inclusive of any entitlement under his service contract, would not exceed two years' basic salary. No other payments are made as compensation for loss of office. Executive Directors' contracts of service will be available for inspection at the Annual General Meeting.

External appointments Subject to Board approval and the reasonableness of demands on their time, Executive Directors may assume membership of two other boards on the basis that the Director concerned may retain any fees earned by him/her.

Non Executive Directors The remuneration of the Non Executive Directors is determined by the Board and is based upon independent surveys of fees paid to Non Executive directors of similar companies. The Non Executive Directors do not have contracts of service with the Group and are not members of the Group pension plan. Sir Harry Djanogly is entitled to other benefits including medical insurance and company car benefits. Details of Non Executive Directors' remuneration are disclosed in the table of Directors' remuneration set out on page 15.

The Remuneration Committee has determined that there are no special circumstances giving rise to a need to invite shareholders to vote on any resolution concerning remuneration at this year's Annual General Meeting.

For and on behalf of the Remuneration Committee
K J Merrifield

Directors' salaries for year ended 31 December 1999

	Salaries/fees		Taxable benefits		Performance related bonuses		Compensation for the loss of office		Total	
	£'000 1999	£'000 1998	£'000 1999	£'000 1998	£'000 1999	£'000 1998	£'000 1999	£'000 1998	£'000 1999	£'000 1998
Sir Harry Djanogly	99	76	24	26	–	–	–	–	123	102
K T Kantor	240	45	15	–	56	–	–	–	311	45
M C Flower	250	246	12	11	71	–	–	–	333	257
M G Hartley	225	75	11	4	9	8	–	–	245	87
Sir Victor Blank	20	20	–	–	–	–	–	–	20	20
Lord Owen	20	20	–	–	–	–	–	–	20	20
K Merrifield	20	20	–	–	–	–	–	–	20	20
Sir David Alliance	69	145	19	31	–	–	–	–	88	176
M S Ost	94	372	6	14	–	–	–	–	100	386
D L Speirs	54	183	2	7	157	15	–	–	213	205
Former Directors	–	266	11	17	–	–	–	53	11	336
Total	1,091	1,468	100	110	293	23	–	53	1,484	1,654

Notes

1. The figures set out above related only to the period of each Director's membership of the Board.
2. Emoluments are paid in the same financial year with the exception of bonuses, which are paid in the year following that in which they are earned.
3. (i) M S Ost ceased to be a director of the Group on 14 April 1999. He continues to receive a salary from the Group until 31 March 2000 and his salary for the remainder of 1999 was £282,000. In addition he received a bonus payment of £125,000 following the sale of the Precision Engineering Division.
   (ii) D L Speirs resigned as a director of the Group on 7 May 1999.
   (iii) Sir David Alliance resigned as a director of the Group on 21 July 1999.

Directors' pension entitlements	Increase in accrued pension entitlement during 1999 (Note 2) £'000 pa	Total accrued pension entitlement at 31 Dec 1999 £'000 pa	Transfer value of increase in accrued pension entitlements during 1999 (Note 3) £'000
K T Kantor	11,200	13,190	195,820
M C Flower	3,410	142,680	60,440
M G Hartley	9,980	81,674	171,300
M S Ost	34,810	79,240	693,350
D L Speirs	2,090	54,127	39,940

Notes to pension benefits

1. The pension entitlement shown is that which would be paid annually on retirement based on service at the end of the year.
2. The increase in accrued pension during the year excludes any increase for inflation.
3. The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Notes GN11 less Directors' contributions and includes the cost of death in service cover and salary continuance protection.
4. Members of the Plan have the option to pay Additional Voluntary Contributions. The figures in the table above do not include allowance for benefits produced by AVCs, nor has the transfer value been adjusted in respect of AVCs.

Directors' interests	Ordinary Shares 31 December 1999	31 December 1998
Sir Harry Djanogly	1,292,207	1,292,207
K T Kantor	–	–
M C Flower	34,502	34,502
M G Hartley	57,039	50,000
Sir Victor Blank	124,094	124,094
K J Merrifield	30,000	30,000
Lord Owen	1,417	1,417

Details of Directors' executive share options are as follows:

Director	Number of Options At 1 Jan 1999 or appointment	Granted in year	At 31 Dec 1999	Weighted average exercise price	Range of dates from which exercisable	Range of expiry dates
K T Kantor						
Options granted since 01/01/98	1,185,185	572,000	1,757,185	36.44p	21/10/01-29/03/02	21/10/08-29/03/09
	1,185,185	572,000	1,757,185			
M C Flower						
Options granted since 01/01/98	–	720,800	720,800	42.00p	29/03/02	29/03/09
Options granted prior to 01/01/98	376,050	–	376,050	185.41p	15/10/94-17/03/00	15/10/01-17/03/07
SAYE	11,660	–	11,660			
	387,710	720,800	1,108,510			
M G Hartley						
Options granted since 01/01/98	666,666	110,000	776,666	34.92p	21/10/01-29/03/02	21/10/08-29/03/09
Options granted prior to 01/01/98	151,543	–	151,543	185.97p	15/10/94-17/03/00	15/10/01-17/03/07
SAYE	8,863	–	8,863			
	827,072	110,000	937,072			
Totals	2,399,967	1,402,800	3,802,767			

During the year Sir David Alliance, Mr M S Ost and Dr D L Spiers resigned as Directors of the Group.
No options were granted in the period up to resignation and no options were exercised.
The market price of the Group's shares at 31 December 1999 was 41.5p (1998 – 27p) and the range during the year was 27p to 59.5p.

Auditors' report to the members of Coats Viyella Plc

We have audited the financial statements on pages 18 to 52, which have been prepared under the accounting policies set out on pages 22 and 23.

Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the Annual Report, including as described on page 9 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the corporate governance statement on pages 10-12 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if it does not. We are not required to consider whether the Board's statements on internal control covers all the risks and controls or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures. We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 1999 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants and Registered Auditors
Manchester
7 March 2000

Consolidated profit and loss account

For the year ended 31 December 1999	Notes	1999 Before exceptional items £m	1999 Exceptional items £m	1999 Total £m	1998 Before exceptional items £m	1998 Exceptional items £m	1998 Total £m
Turnover	1&2						
Continuing operations		1,534.7	–	1,534.7	1,726.8	–	1,726.8
Acquisitions		33.3	–	33.3	–	–	–
Discontinued operations		111.5	–	111.5	356.1	–	356.1
		1,679.5	–	1,679.5	2,082.9	–	2,082.9
Cost of sales	1&3	(1,119.8)	(67.0)	(1,186.8)	(1,445.4)	(28.2)	(1,473.6)
Gross profit		559.7	(67.0)	492.7	637.5	(28.2)	609.3
Distribution costs	1	(332.8)	–	(332.8)	(365.4)	–	(365.4)
Administrative expenses	1&3	(141.7)	(10.1)	(151.8)	(163.8)	(0.7)	(164.5)
Other operating income	1&3	7.5	–	7.5	7.5	–	7.5
Less: 1997 provision	1	–	–	–	1.6	–	1.6
Operating profit	1,2&3	92.7	(77.1)	15.6	117.4	(28.9)	88.5
Continuing operations		82.9	(73.9)	9.0	86.9	(27.2)	59.7
Acquisitions		1.4	(3.2)	(1.8)	–	–	–
Discontinued operations		8.4	–	8.4	30.5	(1.7)	28.8
Share of operating (losses) of associated companies		(0.4)	–	(0.4)	(0.4)	–	(0.4)
Profit on sale of fixed assets of continuing operations		–	3.1	3.1	–	2.0	2.0
Less: 1997 provision		–	–	–	–	0.7	0.7
Profit on sale of fixed assets of discontinued operations		–	–	–	–	0.5	0.5
(Losses) on sale or termination of continuing operations		–	(30.9)	(30.9)	–	(20.0)	(20.0)
Less: 1997 provision		–	–	–	–	0.6	0.6
Gains/(losses) on sale or termination of discontinued operations		–	114.7	114.7	–	(16.3)	(16.3)
Less: 1997 provision		–	–	–	–	14.4	14.4
Profit on ordinary activities before interest		92.3	9.8	102.1	117.0	(47.0)	70.0
Amounts written off investments				(16.8)			–
Interest receivable and similar income	6			12.1			15.1
Interest payable and similar charges	7			(33.8)			(49.6)
Profit on ordinary activities before taxation				63.6			35.5
Tax on profit on ordinary activities	8			(31.3)			(56.2)
Profit/(loss) on ordinary activities after taxation				32.3			(20.7)
Equity minority interests				(3.0)			(5.2)
Profit/(loss) for the financial year	9			29.3			(25.9)
Preference dividends on non-equity shares				(0.7)			(0.7)
Profit/(loss) attributable to ordinary shareholders				28.6			(26.6)
Ordinary dividends on equity shares	10			(21.1)			(20.9)
Transferred to/(from) reserves	24			7.5			(47.5)
Basic earnings/(loss) per ordinary share of 20p	11			4.1p			(3.8)p
Diluted earnings/(loss) per ordinary share of 20p	11			4.1p			(3.8)p
Headline (loss) per ordinary share of 20p	11			(4.3)p			(1.4)p

Movements in reserves appear on pages 45 and 46. The notes on pages 24 to 52 form part of these accounts.

Balance sheets

At 31 December 1999	Notes	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
Fixed assets					
Goodwill	21	56.9	7.5	–	–
Tangible assets	12	476.9	584.6	–	–
Investments	13	6.3	34.5	1,419.8	1,488.6
		540.1	626.6	1,419.8	1,488.6
Current assets					
Stocks	14	340.5	377.3	–	–
Debtors due within one year	15	297.8	340.2	10.8	14.1
Debtors due in more than one year	15	207.3	193.1	7.2	5.4
Investments	16	1.4	1.9	–	–
Cash at bank and in hand	19	144.1	122.3	47.9	15.9
		991.1	1,034.8	65.9	35.4
Less:					
Creditors – amounts falling due within one year					
Bank overdrafts	19	23.2	28.4	11.3	43.2
Other creditors	17	393.5	533.7	46.6	134.7
		416.7	562.1	57.9	177.9
Net current assets/(liabilities)		574.4	472.7	8.0	(142.5)
Total assets less current liabilities		1,114.5	1,099.3	1,427.8	1,346.1
Creditors – amounts falling due after more than one year					
Other creditors	18	(150.5)	(204.5)	(540.5)	(553.0)
Convertible debt	18	(59.9)	(64.5)	(59.9)	(64.5)
		(210.4)	(269.0)	(600.4)	(617.5)
Provisions for liabilities and charges	20	(128.1)	(120.8)	(4.0)	–
Net assets		776.0	709.5	823.4	728.6
Capital and reserves					
Equity share capital	22	140.7	140.7	140.7	140.7
Non-equity share capital	22	14.6	14.6	14.6	14.6
Called up share capital	15	155.3	155.3	155.3	155.3
Share premium account	23	206.5	206.5	206.5	206.5
Other reserves	23	124.0	118.4	35.6	35.6
Profit and loss account	24	223.1	160.2	426.0	331.2
Shareholders' funds		708.9	640.4	823.4	728.6
Equity minority interests	26	67.1	69.1	–	–
Total capital employed		776.0	709.5	823.4	728.6

Approved by the Board on 7 March 2000 Sir Harry Djanogly, Director
K Kantor, Director

The notes on pages 24 to 52 form part of these accounts

Cash flow statement

For the year ended 31 December 1999	Notes	1999 £m	1998 £m
Net cash inflow from operating activities	32	118.4	187.1
Returns on investments and servicing of finance			
Interest received		9.0	11.5
Interest paid		(25.1)	(43.0)
Cost of financing convertible debt		(4.5)	(4.3)
Interest element of finance lease rental payments		(3.4)	(3.1)
Income from investments		0.5	0.6
Preference dividends paid		(0.7)	(0.7)
Dividends paid to minority shareholders		(4.5)	(4.5)
Net cash outflow for returns on investments and servicing of finance		(28.7)	(43.5)
Taxation		(19.6)	(25.2)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(57.4)	(77.9)
Purchase of fixed asset investments		–	(0.2)
Sale of tangible fixed assets		17.6	16.1
Sale of fixed asset investments		10.1	4.8
Sale and leaseback of plant and machinery		0.5	–
Net cash outflow for capital expenditure and financial investment		(29.2)	(57.2)
Acquisitions and disposals			
Purchase of subsidiary undertakings	32	(77.1)	(13.5)
Net cash/(overdrafts) acquired with subsidiaries		2.5	(0.8)
Sale of subsidiary undertakings	32	293.2	14.1
Net (cash) disposed with subsidiaries		(15.4)	(0.2)
Sale of businesses held for resale		2.2	–
Net cash inflow/(outflow) for acquisitions and disposals		205.4	(0.4)
Equity dividends paid		(10.6)	(17.4)
Management of liquid resources			
(Increase) in short term deposits		(16.4)	(5.5)
Purchase of current asset investments		–	(1.0)
Sale of current asset investments		–	0.4
Net cash (outflow) from management of liquid resources		(16.4)	(6.1)
Financing			
Issue of ordinary share capital		–	0.3
Issue of shares to minorities		–	0.6
(Decrease) in borrowings	32	(202.0)	(58.2)
Net cash (outflow) from financing		(202.0)	(57.3)
Increase/(decrease) in cash	32	17.3	(20.0)
Reconciliation of net cash flow to movement in net debt			
Increase/(decrease) in cash		17.3	(20.0)
Cash outflow from change in debt and lease financing		202.0	58.2
Cash outflow from change in short term deposits		16.4	5.5
Change in net debt resulting from cash flows		235.7	43.7
New finance leases		(0.8)	(0.5)
Loan notes issued in respect of acquisitions		(4.2)	–
Loans and finance leases acquired with subsidiaries		(32.7)	–
Loans and finance leases disposed with subsidiaries		11.4	0.4
Other		–	0.2
Exchange		(13.7)	(2.7)
Decrease in net debt		195.7	41.1
Net debt at 1 January		(320.8)	(361.9)
Net debt at 31 December	32	(125.1)	(320.8)

Analysis of free cash flow

For the year ended 31 December 1999	1999 £m	1998 £m
Net cash inflow from operating activities	118.4	187.1
Returns on investments and servicing of finance	(28.7)	(43.5)
Tax paid	(19.6)	(25.2)
Capital expenditure and financial investment	(29.2)	(57.2)
Free cash flow	40.9	61.2

Statement of total recognised gains and losses

For the year ended 31 December 1999	1999 £m	1998 £m
Profit/(loss) for the financial year	29.3	(25.9)
Currency translation differences on foreign currency net investments	(12.6)	(6.6)
Total recognised gains and losses relating to the year	16.7	(32.5)

Reconciliation of movements in shareholders' funds

For the year ended 31 December 1999	1999 £m	1998 £m
Profit/(loss) for the financial year	29.3	(25.9)
Dividends	(21.8)	(21.6)
	7.5	(47.5)
Other recognised gains and losses relating to the year	(12.6)	(6.6)
New share capital subscribed	–	0.3
Goodwill written – off relating to prior year acquisitions	(1.0)	(0.7)
Goodwill attributable to businesses sold or terminated	74.6	14.9
Net addition to/(reduction of) shareholders' funds	68.5	(39.6)
Opening shareholders' funds	640.4	680
Closing shareholders' funds	708.9	640.4
Equity shareholders' funds	694.3	625.8
Non-equity shareholders' funds	14.6	14.6
	708.9	640.4

Statement of accounting policies

Basis of accounting
The financial statements have been prepared on the basis of historical cost and in accordance with applicable accounting standards.

Consolidation and results
For all subsidiary undertakings the accounts include the results for those companies controlled throughout the year or to the date of disposal or from the date of acquisition as appropriate.

Where local fiscal and company legislation prevents foreign subsidiaries and associated companies from complying with the Group's accounting policies, adjustments are made on consolidation to present the Group accounts on a consistent basis.

Acquisitions and disposals
In accordance with FRS6 and 7, on the acquisition of a business, including an interest in an associated company, fair values are attributed to the Group's share of the identifiable assets and liabilities of the business existing at the date of acquisition and reflecting the conditions at that date.

Where the cost of acquisition exceeds the values attributable to such net assets, the difference is treated as purchased goodwill and, prior to 1 January 1998, was written off direct to reserves in the year of acquisition.

Following the issue of FRS10 – Goodwill and Intangible Assets, purchased goodwill arising after 1 January 1998 will be capitalised and amortised to the profit and loss account over its estimated useful life which will not exceed twenty years.

As a matter of accounting policy, goodwill written off directly to reserves prior to 1 January 1998 remains written off against reserves.

In accordance with FRS11 – Impairment of Fixed Assets and Goodwill, any impairment of capitalised goodwill will be written off to the profit and loss account in the period in which the impairment is recognised.

The profit or loss on the disposal of a previously acquired business reflects the attributable amount of purchased goodwill relating to that business.

A business is classified as a discontinued operation if it is clearly distinguishable, has a material effect on the nature and focus of the Group's activities, represents a material reduction in the Group's operating facilities and either its sale is completed or, if a termination, its former activities have ceased permanently prior to the approval of these financial statements.

Foreign currencies
Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the year end or related forward contract rates.

Trading results are translated at the average rates of exchange for the year after eliminating the effects of hyper-inflation in certain countries by using an appropriate stable currency as the functional currency for operations in these countries. Profits and losses on exchange arising in the normal course of trading and realised exchange differences arising on the conversion or repayment of foreign currency borrowings are dealt with in the profit and loss account. Unrealised exchange differences arising on the translation of overseas net assets and matched long term foreign currency borrowings or forward exchange contracts are taken direct to reserves.

Turnover
All turnover and profit figures relate to external transactions and turnover represents the value of goods and services supplied net of returns.

Exceptional items
Exceptional items are those that need to be disclosed by virtue of their size or incidence. Such items are included within operating profit unless they represent profits or losses on the sale or termination of an operation, costs of a fundamental reorganisation or restructuring having a material effect on the nature and focus of the Group, or profits and losses on the disposal of fixed assets. In these cases, separate disclosure is provided on the face of the profit and loss account after operating profit.

Grants
Revenue based grants are credited against related expenditure.

Operating lease rentals
Rentals on operating leases are charged to profit and loss account in the year to which they relate.

Research and development expenditure
Expenditure is charged to profit and loss account in the year it is incurred.

Pensions and other post retirement benefits
It is the policy of the Group to comply with legal requirements and established practice in the various countries in which there are employees or former employees.

In accordance with SSAP24; Accounting for Pension Costs, pension costs incurred in the Group's UK and USA defined benefit plans are charged to the profit and loss account over the anticipated working lives of the pension plan members currently in service.

In other overseas countries, pension and other retirement benefits are provided for in a number of ways. The Directors are satisfied that, in relation to legal requirements and established accounting practice, other overseas pension obligations are, in aggregate, adequately provided and that, in relation to material overseas pension plans, the accounting treatment complies with the requirements of SSAP24. Full provision has been made for the current actuarial liability for USA post-retirement benefits.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation and, where appropriate, provision for impairment or estimated losses on disposal. Depreciation is provided to write off the cost of the assets by equal instalments over their expected useful lives.

The rates used are:

Freehold and long leasehold land	Nil	Motor vehicles	20%
Freehold and long leasehold buildings	2%	Electronic office equipment	20% to 25%
Short leasehold property	Over period of lease	All other plant and machinery	5% to 25%

Assets held under finance leases are included in tangible fixed assets at a value equal to the original cost incurred by the lessor less depreciation, and obligations to the lessor are shown as part of creditors. The interest element is charged to profit and loss account under the reducing balance method.

Investments

Fixed asset investments are stated at cost unless, in the opinion of the Directors, there has been an impairment, in which case an appropriate adjustment is made.

Listed current asset investments are stated at the lower of cost or market value, and other current asset investments are stated at the lower of cost and estimated net realisable value.

Associated companies

Investments, excluding those classified as subsidiaries, are regarded as associated companies where the Group has a long term interest in more than 20% of the equity and exercises a significant influence over their affairs on a continuing basis. These are stated in the Consolidated Balance Sheet at the Group's share of net assets after adjustment for goodwill or discount on acquisition.

In accordance with FRS9, Associates and Joint Ventures, the Group's share of associated companies' operating profits or losses, net interest and exceptional items are shown separately in the financial statements.

Stocks

Stocks are valued on bases consistent with those used in previous years at the lower of cost and net realisable value. Cost is the invoiced value of materials plus, in the case of work in progress and finished goods, labour and factory overheads based on a normal level of production.

Provisions

In accordance with FRS12, provisions are only made for losses arising as a result of restructuring when the Group is constructively obligated to implement the restructuring.

Deferred taxation

Provision is made for taxation liabilities which, under current legislation, are expected to crystallise in the foreseeable future. Unrelieved advance corporation tax is carried forward only when it can be set against provisions for taxation or to the extent recoverable against tax liabilities in respect of the following period. No provision is made for taxation that would arise on the remittance of retained profits by overseas subsidiaries and associated companies subsequent to the balance sheet date as there is no present intention to remit these retained profits.

Capital instruments

Capital instruments are accounted for in accordance with the principles of FRS4 and are classified as equity share capital, non-equity share capital, minority interest or debt as appropriate. Convertible debt is separately disclosed and is regarded as debt unless conversion actually occurs. Provision is made for any accrued premium payable on redemption of redeemable debt or non-equity interests.

Capital instruments are initially carried at the amount of the net proceeds. The finance costs and issue expenses are allocated to the profit and loss account over the life of the debt at a constant rate on the carrying amount.

Reporting the substance of transactions

In accordance with FRS5, transactions entered into by the Group are recorded in the financial statements taking into account their full commercial substance.

Liquid resources

The Group defines liquid resources as short term deposits and current asset investments maturing or capable of being realised within one year.

Notes to the accounts

1 Continuing and discontinued operations and acquisitions	1999 Continuing £m	1999 Discontinued £m	1999 Total £m	1998 Continuing £m	1998 Discontinued £m	1998 Total £m
Turnover	1,568.0	111.5	1,679.5	1,726.8	356.1	2,082.9
Cost of sales	1,103.0	83.8	1,186.8	1,193.7	279.9	1,473.6
Net operating expenses						
Distribution costs	319.7	13.1	332.8	341.0	24.4	365.4
Administrative expenses	145.6	6.2	151.8	139.9	24.6	164.5
Other operating income (Note 3)	(7.5)	–	(7.5)	(7.5)	–	(7.5)
Less: 1997 provision	–	–	–	–	(1.6)	(1.6)
Total	457.8	19.3	477.1	473.4	47.4	520.8
Operating profit	7.2	8.4	15.6	59.7	28.8	88.5
Profit on sale of fixed assets	3.1	–	3.1	2.0	0.5	2.5
Provision for losses on sale of fixed assets	–	–	–	0.7	–	0.7
	3.1	–	3.1	2.7	0.5	3.2
Sale or termination of operations:						
Losses	(30.9)	–	(30.9)	(21.0)	(16.3)	(37.3)
Gains	–	114.7	114.7	1.0	–	1.0
	(30.9)	114.7	83.8	(20.0)	(16.3)	(36.3)
Provision for loss on sale or termination of operations	–	–	–	0.6	14.4	15.0

On 15 April 1999, the Group completed the sale of its Precision Engineering Division to Petcin Limited. The net proceeds of sale after adjusting for debt and finance leases taken over by the purchaser, expenses of sale and other completion accounts adjustments were £294.4 million giving rise to a net gain on disposal of £114.7 million after accounting for £60.3 million of goodwill previously written off on the acquisition of the businesses comprising that Division.

In accordance with FRS3, the results of the Precision Engineering Division for the first quarter of 1999 have been shown as a discontinued operation and the prior year results have also been restated on this basis.

Turnover of the Precision Engineering Division for the first quarter was £75.9 million (1998 – £315.2 million), operating profit was £5.4 million (1998 – £25.6 million) and net assets at 31 December 1999 were nil (1998 – £100.4 million).

Since the year end, the Group's Indian subsidiary, Madura Coats Limited, has sold its Garments division for approximately £33 million, which will realise a gain on disposal of approximately £27 million. While the gain has not been recognised in these accounts, in accordance with FRS3, the results of Madura Garments have been shown as discontinued operations and prior year figures have been restated accordingly. Turnover for 1999 was £35.4 million (1998 – £31.9 million), operating profit was £3 million (1998 – £3.2 million) and net assets at 31 December 1999 were £5.2 million (1998 – £2.7 million).

Other discontinued operations included above relate to the non-Marks and Spencer clothing business (Counterpart) which was disposed of during 1998.

Losses on sale or termination of continuing operations include the costs of withdrawal from the manufacture of handknittings and from the Berghaus wholesale business with the former Russian states. The Group has also sold during the year its Asia Pacific branded clothing businesses. The net loss arising as a result of these sales and terminations amounted to £30.9 million including £14.3 million of goodwill previously written off on acquisition.

Losses arising on sale or termination of operations in 1998 related to a number of separate disposals and details were set out in last year's annual report.

Acquisitions

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

Hicking Pentecost PLC, principally a manufacturer of speciality sewing threads, was acquired with effect from 1 September 1999 at a cost of £80.2 million. For the year ended 31 March 1999, this group made a profit after taxation of £3.7 million. For the period 1 April to 31 August 1999, the group made a loss after taxation of £0.1 million.

2 Analysis of turnover, operating profit and net assets	Turnover 1999 £m	Turnover 1998 £m	Operating profit 1999 £m	Operating profit 1998 £m	Net assets 1999 £m	Net assets 1998 £m
Product category:						
Industrial	535.8	556.8	43.2	40.3	441.8	373.4
Crafts	312.1	350.2	31.0	32.3	122.7	164.0
Thread	847.9	907.0	74.2	72.6	564.5	537.4
India – Other Textiles	55.8	71.4	(2.4)	4.0	37.3	39.8
Coats Divisions	903.7	978.4	71.8	76.6	601.8	577.2
Contract Clothing	305.4	350.1	(0.7)	1.9	94.7	96.4
Fashion Retail and Branded Clothing	202.0	230.5	7.1	3.9	81.1	85.4
Home Furnishings	156.9	167.8	6.5	5.3	55.2	60.7
Viyella Divisions	664.3	748.4	12.9	11.1	231.0	242.5
Corporate	–	–	(0.4)	(0.8)	55.5	71.1
Continuing operations	1,568.0	1,726.8	84.3	86.9	888.3	890.8
Precision Engineering	75.9	315.2	5.4	27.3	–	100.4
India Garments	35.4	31.9	3.0	3.2	5.2	2.7
Counterpart	0.2	9.0	–	(1.6)	(0.1)	–
Less: 1997 provision	–	–	–	1.6	–	–
Discontinued operations	111.5	356.1	8.4	30.5	5.1	103.1
	1,679.5	2,082.9	92.7	117.4	893.4	993.9
Reorganisation costs and impairment of fixed assets			(67.0)	(26.5)		
Other exceptional items			(10.1)	(2.4)		
Operating profit			15.6	88.5		
Other items			86.9	(18.1)		
Profit before interest and associated companies			102.5	70.4		
Acquisitions in the year have been included in the following segments:						
Industrial Thread	27.4		1.1		47.3	
Contract Clothing	2.9		0.4		3.6	
Fashion Retail and Branded Clothing	3.0		0.1		3.3	
Corporate	–		(0.2)		(3.3)	
	33.3		1.4		50.9	

2 Analysis of turnover, operating profit and net assets (continued)	Turnover 1999 £m	Turnover 1998 £m	Operating profit 1999 £m	Operating profit 1998 £m	Net assets 1999 £m	Net assets 1998 £m
Geographical analysis by location:						
United Kingdom	636.2	711.5	2.8	5.1	351.5	339.7
Rest of Europe	303.7	351.6	14.9	13.9	103.1	132.7
North America	308.1	312.5	40.6	39.4	199.3	164.0
South America	90.4	116.2	7.5	4.6	69.9	83.3
Africa, Asia, Australasia	229.6	235.0	18.5	23.9	164.5	171.1
Continuing operations	1,568.0	1,726.8	84.3	86.9	888.3	890.8
Discontinued operations	111.5	356.1	8.4	28.9	5.1	103.1
Less: 1997 provision	–	–	–	1.6	–	–
Associated companies	–	–	–	–	3.1	2.8
	1,679.5	2,082.9	92.7	117.4	896.5	996.7
Reorganisation costs and impairment of fixed assets			(67.0)	(26.5)		
Other exceptional items			(10.1)	(2.4)		
Operating profit			15.6	88.5		
Other items			86.9	(18.1)		
Profit before interest and associated companies			102.5	70.4		
Net debt					(125.1)	(320.8)
Other fixed and current asset investments					4.6	33.6
Net assets per consolidated balance sheet					776.0	709.5
Acquisitions in the year have been included in the following segments:						
United Kingdom	9.4		–		14.2	
Rest of Europe	3.0		–		4.5	
North America	16.9		1.0		28.9	
Africa, Asia, Australasia	4.0		0.4		3.3	
	33.3		1.4		50.9	
The geographical analysis of discontinued operations by location was:						
United Kingdom	7.6	37.5	0.5	0.5	(0.1)	11.8
Rest of Europe	12.0	50.6	1.6	8.0	–	16.2
North America	52.5	211.4	3.5	18.9	–	59.3
South America	1.1	7.4	(0.6)	(1.7)	–	6.7
Africa, Asia, Australasia	38.3	49.2	3.4	4.8	5.2	9.1
	111.5	356.1	8.4	30.5	5.1	103.1

Note

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

3 Operating profit	1999 £m	1998 £m
Operating profit is stated after charging:		
Depreciation – Owned assets	55.4	62.0
– Leased assets	4.7	6.2
Amortisation of goodwill	1.2	–
Reorganisation costs	46.9	22.2
Impairment of fixed assets	20.1	4.3
Hire of plant and machinery	8.5	11.3
Other operating lease rentals	21.2	23.9
Research and development expenditure	3.7	4.2
Directors' remuneration (note 4)	1.5	1.7
Auditors' remuneration – Audit fees	2.0	2.0
– Non audit related fees – UK	0.4	2.0
– Overseas	0.1	0.2
and after crediting other operating income:		
Rental income net of expenses	1.2	1.2
Royalties and licensing income	4.6	4.6
Credit card income	1.7	1.7
	7.5	7.5
Product category analysis of reorganisation costs and impairment of fixed assets		
Industrial	28.6	6.6
Crafts	12.6	8.1
Thread	41.2	14.7
Other Indian Businesses	2.9	0.9
Coats Divisions	44.1	15.6
Contract Clothing	12.8	3.8
Fashion Retail and Branded Clothing	0.8	4.8
Home Furnishings	7.5	0.6
Viyella Divisions	21.1	9.2
Corporate	1.8	–
Continuing operations	67.0	24.8
Discontinued operations	–	1.7
Total	67.0	26.5
Analysis of other exceptional items		
Loss net of estimated recoveries arising from irregularities in a USA subsidiary	5.6	–
Provision for onerous leaseholds (FRS12)	4.6	–
Restructuring of Berghaus Russian wholesale business	–	1.2
Abortive demerger and acquisition costs	(0.2)	5.7
Impairment of goodwill	–	0.8
Impairment of fixed asset investment	–	0.4
Pension refund from discontinued scheme	0.1	(5.7)
Total	10.1	2.4

4 Directors' emoluments

	1999 £'000	1998* £'000
Aggregate emoluments	1,484	1,601
Gains made on exercise of share options	–	–
	1,484	1,601
Compensation for loss of office	–	53
Total	1,484	1,654

Disclosures required by the Companies Act 1985 on Directors' remuneration, including salaries, performance-related bonuses, share options, pension contributions and pension entitlements, and those specified for audit by the London Stock Exchange, are on pages 13 to 16 within the Report by the Board on Directors' Remuneration and form part of these financial statements.
The 1998 comparative has been increased by £17,000 to reflect amendments to taxable benefits.

5 Employees

	1999 Number	1998 Number
The average numbers employed by the Group during the year were:		
Direct	32,103	37,790
Indirect	7,359	7,987
Staff	15,640	17,166
	55,102	62,943
Comprising:		
UK	16,328	18,826
Overseas	38,774	44,117
	55,102	62,943
The total numbers employed at the end of the year were:		
UK	15,307	17,327
Overseas	36,833	42,540
	52,140	59,867

The costs incurred in respect of these employees were:	£m	£m
Wages and salaries	438.5	547.2
Social security costs	47.0	63.6
Pension credits (note 30)	(11.1)	(12.2)
Other pension costs (note 30)	10.0	12.9
	484.4	611.5

6 Interest receivable and similar income

	1999 £m	1998 £m
Interest receivable	10.5	13.9
Termination of interest rate swaps	1.5	1.2
Gain on redemption of convertible bonds	0.2	0.5
Income from other fixed and current asset investments	0.6	0.6
(Loss) on sale of other fixed and current asset investments	–	(0.3)
Gross interest receivable and similar income	12.8	15.9
Less: credit card interest transferred to other operating income	(0.7)	(0.8)
	12.1	15.1

7 Interest payable and similar charges

	1999 £m	1998 £m
Debentures	0.1	0.2
Loans	16.1	31.5
Bank overdrafts and other borrowings	8.9	10.1
Discounting interest re onerous leasehold provisions	0.2	–
Finance leases	3.4	3.1
	28.7	44.9
Cost of financing convertible debt (note 18)	4.6	4.5
Share of net interest payable of associated companies	0.5	0.2
Total interest payable and similar charges	33.8	49.6
The above interest includes interest on borrowings not repayable in full within five years of:	4.8	10.2

8 Tax on profit on ordinary activities

		1999 £m		1998 £m
UK taxation based on profit for the year:				
Corporation tax at 30.25% (1999 – 31.00%)		20.7		11.2
Double taxation relief		(14.6)		(10.0)
Deferred taxation		0.5		0.4
Tax on franked investment income		–		–
Advance corporation tax		(6.1)		(1.2)
Advance corporation tax written off as a result of change in legislation		–		26.0
Prior year adjustments – Corporation tax	0.1		(0.1)	
Deferred taxation	(1.6)		2.3	
Advance corporation tax	(0.6)		(2.3)	
		(2.1)		(0.1)
		(1.6)		26.3
Overseas taxation:				
Current taxation		30.3		28.5
Deferred taxation		2.5		1.3
		31.2		56.1
Associated companies taxation		0.1		0.1
		31.3		56.2

	1999 £m	1998 £m
Excluding advance corporation tax movement, the UK charge for the year has been increased/(decreased) by:		
Losses forward and capital allowances not dealt with in the deferred tax provision	11.9	6.5
Profit on sale of fixed assets and shares in subsidiary companies covered by reliefs	(0.3)	(1.1)
Transitional relief for foreign exchange gains/losses	(0.7)	(0.7)
Other factors resulting in a tax charge disproportionate to the UK tax rate of 30.25% (1998 – 31.00%) are:		
Gain on disposal of shares in subsidiary companies covered by reliefs	(24.7)	–
Loss on disposal of shares in subsidiary companies not eligible for relief	9.4	–
Effect of higher tax rates overseas	7.6	0.2
Tax arising on remittance of overseas profits (net of ACT)	2.6	2.0
Unrelieved overseas losses	3.2	3.0
Tax attributable to the profits on sale of fixed assets amounts to:	0.1	0.2
Tax (relief) attributable to the profit/(loss) on sale or termination of operations amounts to:	9.5	(0.4)

9 Profit for the year

	1999 £m	1998 £m
The Company's profit for the financial year was	116.0	7.3

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

10 Ordinary dividends

	1999	1998	1999 £m	1998 £m
Ordinary shares (equity shares)				
Interim (1998 – FID)	1.50p	1.50p	10.5	10.5
Final	1.50p	1.50p	10.6	10.6
Prior year dividend refunded by ESOP	–	–	–	(0.2)
	3.00p	3.00p	21.1	20.9

The interim dividend of 1.5p net per share was paid on 4 January 2000.
The final dividend of 1.5p per share will be paid on 3 July 2000 to shareholders on the register on 26 May 2000.

11 (Loss)/earnings per share

	1999	1998	1999 £m	1998 £m
Earnings/(loss) per share are based on profit/(loss) available for ordinary shareholders of:			28.6	(26.6)
and on average number of shares of:	702.6m	702.6m		
resulting in basic and diluted earnings/(loss) per share of:	4.1p	(3.8)p		
Less: operating loss charged to provisions	–	(0.2)p	–	(1.6)
amortisation of goodwill	0.2p	–	1.2	–
profit on sale of fixed assets	(0.4)p	(0.5)p	(3.1)	(3.2)
(gains)/losses on sale or termination of operations	(11.9)p	3.0p	(83.8)	21.3
impairment of goodwill	–	0.1p	–	0.8
amounts written off investments	2.4p	–	16.8	–
taxation relating to these items	1.3p	–	9.6	(0.2)
minority interests relating to these items	–	–	–	(0.3)
Headline (loss) per share	(4.3)p	(1.4)p	(30.7)	(9.8)

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.
Exercise of outstanding share options and conversion of all the £60.471 million 6.25% Senior Convertible Bonds of Coats Viyella Plc would not result in any dilution of earnings per share.

12 Tangible assets

	Land and buildings £m	Plant machinery and vehicles £m	Total £m
Group			
Cost			
At beginning of year	246.4	973.9	1,220.3
Exchange difference	(2.1)	(2.0)	(4.1)
Subsidiaries acquired	16.3	34.8	51.1
Subsidiaries disposed	(19.2)	(163.7)	(182.9)
Additions	3.1	52.5	55.6
Disposals	(8.2)	(51.3)	(59.5)
At 31 December 1999	236.3	844.2	1,080.5
Depreciation			
At beginning of year	81.2	554.5	635.7
Exchange difference	(0.7)	(4.0)	(4.7)
Subsidiaries acquired	0.8	16.4	17.2
Subsidiaries disposed	(6.6)	(71.4)	(78.0)
Charge for the year	6.3	53.8	60.1
Impairment of fixed assets	1.9	18.2	20.1
Disposals	(5.3)	(41.5)	(46.8)
At 31 December 1999	77.6	526.0	603.6
Net book value			
At 31 December 1999	158.7	318.2	476.9
At beginning of year	165.2	419.4	584.6

Land and buildings	1999 £m	1998 £m
Cost		
Freehold	193.8	197.8
Long leasehold	17.4	18.6
Short leasehold	25.1	30.1
	236.3	246.5
Accumulated depreciation		
Freehold	62.6	64.2
Long leasehold	3.7	3.8
Short leasehold	11.3	13.2
	77.6	81.2

The cost of long leasehold land and buildings includes capitalised interest of £1.4 million (1998 – £1.4 million)

Plant, machinery and vehicles

The net book value of capitalised finance leases included in plant, machinery and vehicles is £18.5 million (1998 – £26.1 million).

13 Investments

	Associated companies £m	Other £m	Total £m
Group			
Cost			
At beginning of year	2.4	33.3	35.7
Exchange	0.1	0.4	0.5
Companies acquired	–	1.6	1.6
Disposals	(1.6)	(13.3)	(14.9)
At 31 December 1999	0.9	22.0	22.9
Provisions			
At beginning of year	–	(1.6)	(1.6)
Companies acquired	–	(0.4)	(0.4)
Amounts written off investments	–	(16.8)	(16.8)
At 31 December 1999	–	(18.8)	(18.8)
Share of profits/(losses) retained			
At beginning of year	0.4		0.4
Retained (losses) for the year	(1.0)		(1.0)
Disposals	2.8		2.8
At 31 December 1999	2.2		2.2
Net book value			
At 31 December 1999	3.1	3.2	6.3
At beginning of year	2.8	31.7	34.5
Including investments listed on a recognised Stock Exchange			
At 31 December 1999	–	0.4	0.4
At beginning of year	–	0.5	0.5

Other fixed asset investments include: a) An investment of £0.4 million (1998 – £0.3 million) in the Company's own shares as part of the Long Term Incentive Plan referred to on page 13 of the Report by the Board on Directors' Remuneration; b) An investment by the Company in the share capital of Vermilion plc, a company incorporated in Great Britain and registered in England and Wales. The investment comprises 4,000,000 cumulative redeemable B preference shares (non-voting), representing 100% of that class of share. Full provision was made against the carrying value of this investment during the year.

The Company's investment in IPT Group Limited was disposed of during the year at a net loss of £3.2 million.

Other fixed asset investments acquired last year included £12.8 million in respect of a 20% interest in a Mexican accessories company, GICISA, received in exchange for the sale of the Group's USA zips business, Talon Inc. The Group does not exercise a significant influence over the affairs of this company as its financial and operating policies are dictated by its parent company in which the Group has no interest or representation, and it is therefore not treated as an associated company. As a result of the financial performance of this company and the difficulties the Group has experienced with the majority shareholder, full provision has been made against this investment during the year.

13 Investments (continued)	Subsidiaries Shares £m	Subsidiaries Loans £m	Other fixed asset Investments £m	Total £m
Company				
Cost				
At beginning of year	1,000.7	471.2	19.6	1,491.5
Additions	80.2	7.9	–	88.1
Group transfers	31.0	–	(0.1)	30.9
Disposals	(31.0)	–	(12.8)	(43.8)
Repaid	–	(140.1)	–	(140.1)
At 31 December 1999	1,080.9	339.0	6.7	1,426.6
Provisions				
At beginning of year	(1.3)	–	(1.6)	(2.9)
Group transfers	–	–	0.1	0.1
Provided in the year	–	–	(4.0)	(4.0)
At 31 December 1999	(1.3)	–	(5.5)	(6.8)
Net book value				
At 31 December 1999	1,079.6	339.0	1.2	1,419.8
At beginning of year	999.4	471.2	18.0	1,488.6

Principal subsidiary undertakings are listed on page 52.

Loans to subsidiaries include £19.0 million in respect of back-to-back finance leases. The maturity profile of these leases is shown in note 18.

14 Stocks	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
Raw materials and consumables	72.9	82.7	–	–
Work in progress	86.6	91.6	–	–
Finished goods and goods for resale	181.0	203.0	–	–
	340.5	377.3	–	–

	Group		Company	
15 Debtors	1999 £m	1998 £m	1999 £m	1998 £m
Debtors due within one year:				
Trade debtors	229.0	270.9	–	–
Amounts owed by subsidiaries	–	–	7.0	6.2
Amounts owed by associated companies	0.7	1.7	–	–
Corporation and overseas tax recoverable	16.5	18.0	3.1	7.5
Other debtors	34.1	30.1	0.2	–
Prepayments and accrued income	17.5	19.5	0.5	0.4
	297.8	340.2	10.8	14.1
Debtors due in more than one year:				
Trade debtors	1.6	0.8	–	–
Amounts owed by associated companies	–	1.5	–	–
Other debtors	15.0	19.1	7.2	5.4
Prepayments and accrued income	23.5	20.0	–	–
Pension fund prepayments – UK (note 30)	128.5	120.4	–	–
– other	38.7	31.3	–	–
	207.3	193.1	7.2	5.4

16 Current asset investments				
Listed investments	0.3	1.4	–	–
Unlisted investments	1.1	0.5	–	–
	1.4	1.9	–	–
Market value of listed investments	0.3	1.5	–	–

17 Creditors (amounts falling due within one year)				
Trade creditors	140.5	180.1	0.3	1.2
Debentures, loans and loan stock (note 19)	52.6	161.7	4.3	109.9
Amounts owed to subsidiaries	–	–	3.5	2.7
Amounts owed to associated companies	0.2	0.9	–	–
Payments in advance	0.5	0.1	–	–
Bills of exchange	10.4	11.6	–	–
Corporation tax and overseas taxation	28.4	19.7	10.0	2.6
Other taxation and social security	28.6	33.1	–	–
Other creditors	43.7	38.2	2.1	1.3
Accruals and deferred income	54.8	64.5	3.4	4.9
Proposed dividends	21.1	10.6	21.1	10.6
Finance lease obligations (note 18)	5.1	4.6	1.9	1.5
Leaving indemnities (note 20)	7.6	8.6	–	–
	393.5	533.7	46.6	134.7

18 Creditors (amounts falling due after more than one year)	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
Other creditors				
Trade creditors	0.5	0.5	–	–
Debentures, loans and loan stock (note 19)	98.2	146.1	61.8	83.5
Amounts owed to subsidiaries	–	–	459.3	446.3
Other creditors	6.1	6.5	–	–
Accruals and deferred income	15.5	13.6	2.3	2.8
Finance lease obligations	30.2	37.8	17.1	20.4
	150.5	204.5	540.5	553.0

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

Finance lease obligations are repayable as follows:	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
Within one year	5.1	4.6	1.9	1.5
Between one and two years	6.3	5.1	3.4	2.1
Between two and five years inclusive	16.8	16.5	10.2	9.3
Over five years	7.1	16.2	3.5	9.0
	35.3	42.4	19.0	21.9
Convertible debt				
Coats Viyella Plc – £60.471 million 6.25% senior convertible bonds due 2003 (see note)	59.9	64.5	59.9	64.5

Note

On 9 August 1993, Coats Viyella Plc issued £75.625 million 6.25% senior convertible bonds. During the year £4.8 million bonds were purchased in the market for £4.6 million and cancelled. As a result of this and redemptions in 1995 and 1998, the value of bonds currently in issue is £60.471 million. These bonds are convertible into ordinary shares of Coats Viyella Plc at a price of 270p per share at any time up to 2 August 2003. The conversion price was adjusted in accordance with the Trust Deed with effect from 17 May 1994 as a result of the dilution effect of the enhanced share dividend. The bonds then outstanding will be redeemed at their principal value on 9 August 2003. The Company has the power to redeem the bonds in whole or in part at any time after 31 August 1998.

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

19 Borrowings and financial instruments

(a) Debentures, loans and loan stock

	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
Debentures	0.4	0.7	–	–
Loans	141.2	297.9	66.1	193.4
Loan stock	9.2	9.2	–	–
	150.8	307.8	66.1	193.4
Repayable within one year	(52.6)	(161.7)	(4.3)	(109.9)
Amounts falling due after more than one year	98.2	146.1	61.8	83.5
Repayable as follows:				
Between one and two years	12.6	20.1	–	7.8
Between two and five years	11.6	53.9	6.1	15.7
After five years	74.0	72.1	55.7	60.0
	98.2	146.1	61.8	83.5
Debentures				
Madura Coats Limited				
Indian Rupee 75m 17.5% debenture stock 1998/2000	0.4	0.7	–	–

The debenture is secured by a fixed and floating charge over certain of the assets of Madura Coats Limited.

	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
Loans				
Repayable within five years:				
Bank loans	57.6	189.3	–	133.2
Other loans	5.0	44.1	4.1	0.2
Not wholly repayable within five years:				
Bank loans	16.5	1.7	–	–
Other loans	62.1	62.8	62.0	60.0
	141.2	297.9	66.1	193.4
Amounts repayable by instalments which in part fall due after more than five years	77.7	63.2	62.0	60.0
Instalments falling due after more than five years	63.8	61.5	55.7	60.0
Loans repayable after one year:				
Coats Viyella Plc:				
US$50m 6.88% senior notes due 2004/2008	31.0	30.0	31.0	30.0
US$50m 7.15% senior notes due 2006/2015	31.0	30.0	31.0	30.0
CAD$ 80m 9.06% guaranteed term loan due 1999/2002	–	23.5	–	23.5
Hicking Pentecost PLC:				
US$10m floating rate loan due 1998/2005	4.8	–	–	–
US$7.5m floating rate loan due 2001	4.6	–	–	–
US$8.2m floating rate loan due 2001	5.1	–	–	–
US$10m floating rate loan due 1998/2007	5.0	–	–	–
US$6.4m 6.95% loan due 2004/2009	4.0	–	–	–
Coats and Clark Inc.:				
US$50m 8.74% guaranteed notes due 2001	–	30.1	–	–
US$7m 8.83% guaranteed notes due 2003	–	4.2	–	–
Madura Coats Limited:				
US$11m floating rate term loan due 2000	–	6.8	–	–
Other (all below £3.0 million equivalent)	3.5	11.9	–	–
	89.0	136.5	62.0	83.5

The rates of interest paid on the above loans conform to the terms ruling in each country and the repayment dates extend to 2015.

19 (a) Debentures, loans and loan stock (continued)	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
Loan stock				
Not wholly repayable within five years:				
Coats Patons Ltd 6.75% unsecured stock 2007	6.5	6.5	–	–
Coats Patons Ltd 4.5% unsecured stock 2007	2.7	2.7	–	–
	9.2	9.2	–	–
Net debt				
Debentures, loans and loan stocks	150.8	307.8	66.1	193.4
Bank overdrafts	23.2	28.4	11.3	43.2
Lease finance	35.3	42.4	19.0	21.9
	209.3	378.6	96.4	258.5
Convertible debt	59.9	64.5	59.9	64.5
Total borrowings	269.2	443.1	156.3	323.0
Cash and short term deposits	(144.1)	(122.3)	(47.9)	(15.9)
Net debt	125.1	320.8	108.4	307.1

Maturity of debt	Group 1999 £m	Group 1998 £m
Total borrowings are repayable as follows:		
Within one year	80.9	194.7
Between one and two years	18.9	25.2
Between two and five years	88.3	70.4
After five years	81.1	152.8
	269.2	443.1
Total secured indebtedness	37.9	20.1
Total indebtedness guaranteed by parent company	26.8	74.8

(b) Financial instruments

Group

The Group's policies as regards derivatives and other financial instruments are set out in the Financial review on pages 4 to 6 and the Statement of accounting policies on pages 22 and 23. The Group does not trade in financial instruments.

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

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

Maturity profile of financial liabilities

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

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

At 31 December 1999 the Group had undrawn committed borrowing facilities of £60.0 million expiring in more than two years.

19 (b) Financial instruments (continued)

	1999 £m	1998 £m
Currency analysis of net assets		
Sterling	351.3	350.8
US dollar and dollar related	370.1	398.4
Euro	64.5	109.4
Indian rupee	67.4	73.3
Other	40.1	62.0
	893.4	993.9

Interest rate 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
Sterling cross currency swaps	(120.9)	(75.2)	–	(196.1)
Sterling	77.9	38.5	–	116.4
US dollar	109.0	157.9	–	266.9
Euro	3.3	59.6	0.2	63.1
Other	–	18.7	0.2	18.9
Gross financial liabilities	69.3	199.5	0.4	269.2

	Fixed rate		Non-interest bearing
	Weighted average interest rate %	Weighted average period for which the rate is fixed Years	Weighted average period until maturity Years
Sterling cross currency swaps	(7.4)	(1.9)	–
Sterling	6.7	4.0	–
US Dollar	7.7	6.5	–
Euro	5.3	4.9	7.5
Other	–	–	2.5

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

19 (b) Financial instruments (continued)

Financial assets	Fixed rate £m	Floating rate £m	Non-interest bearing £m	Total £m
Sterling	–	29.4	0.4	29.8
US dollar	–	28.3	2.9	31.2
Euro	–	61.4	0.3	61.7
Other	–	18.4	3.0	21.4
Gross financial assets	–	137.5	6.6	144.1

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

Fair values of financial assets and liabilities

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

	Book value £m	Estimated fair value £m
Primary financial instruments held or issued to finance the Group’s operations:		
Cash and short term deposits	(144.1)	(144.1)
Debentures, loans and loan stocks	150.8	143.4
Lease finance	35.3	35.2
Convertible debt	59.9	59.0
Bank overdrafts	23.2	23.2
	269.2	260.8
Derivative financial instruments held to manage the Group’s interest rate and currency profile:		
Forward foreign exchange contracts	(23.1)	(20.9)
Interest rate and cross currency swaps	3.7	8.5
	(19.4)	(12.4)
Coats Viyella Plc 4.9% Cumulative preference shares	14.6	12.5

Market values have been used to determine the estimated fair values of forward foreign 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 1999, being the difference between book value and estimated fair value of the above derivative financial instruments, is £7.0 million. Of this approximately £3.0 million will be recognised in the profit and loss account in the year ending 31 December 2000.

19 (b) Financial instruments (continued)

Currency profile

The main functional currencies of the Group are sterling, US dollar and the various European currencies now participating in 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 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
Sterling	–	7.5	1.7	0.4	9.6
US dollar	0.8	–	0.6	–	1.4
Euro	0.8	(1.4)	–	1.1	0.5
Other	1.7	4.0	1.9	(0.4)	7.2
	3.3	10.1	4.2	1.1	18.7

Figures in brackets represent uncovered monetary liabilities.

20 Provisions for liabilities and charges

	Group 1999 £m	Group 1998 £m	Company 1999 £m
Deferred taxation	47.1	48.5	–
Other provisions	81.0	72.3	4.0
	128.1	120.8	4.0
Deferred taxation			
At beginning of year	48.5	46.0	
Subsidiaries acquired	0.8	–	
Subsidiaries disposed	(3.6)	(1.6)	
Movement in period – Exchange difference	0.2	(0.1)	
– Foreign companies	2.5	1.3	
– UK companies	(1.1)	2.7	
– Transfer to current tax	(0.2)	0.2	
At 31 December 1999	47.1	48.5	
Deferred taxation, representing a full provision calculated at 30% (1998 30%) for UK companies, is as follows:			
United Kingdom			
Capital allowances	5.6	9.9	
Other timing differences less losses forward	(5.3)	(5.4)	
Pension fund prepayment	38.5	36.1	
	38.8	40.6	
Overseas	8.3	7.9	
	47.1	48.5	
In addition there are:			
Tax on unutilised losses forward	19.2	12.9	
Unrecovered advance corporation tax	72.8	82.9	

No provision is required in the Company for deferred tax.

20 Provisions for liabilities and charges (continued)

Other provisions	Group Closures and reorganisation £m	Group Leaving indemnities £m	Group 1999 Total £m	Group 1998 Total £m	Company 1999 Total £m
At beginning of year	24.2	48.1	72.3	92.4	–
Exchange difference	(0.6)	(5.3)	(5.9)	2.9	–
Subsidiaries acquired	4.8	1.4	6.2	1.1	–
Subsidiaries disposed	(0.7)	(1.5)	(2.2)	–	
Provided – reorganisations	46.9	–	46.9	22.2	–
– sale or termination of operations	16.6	–	16.6	6.4	4.0
– discounting interest	0.2	–	0.2	–	–
– other	5.7	4.6	10.3	10.3	–
Utilised	(54.1)	(9.3)	(63.4)	(63.0)	–
At 31 December 1999	43.0	38.0	81.0	72.3	4.0

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

Leaving indemnities

In many countries including Italy, 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' along with unfunded pension provisions in certain countries, mainly Germany. The amount payable within one year is included in creditors (note 17).

	1999 £m	1998 £m
The maturity profile of provisions for leaving indemnities is as follows:		
Payable between one and two years	4.4	7.4
Payable between two and five years	9.1	11.3
Payable in more than five years	24.5	29.4
	38.0	48.1

21 Goodwill	Book value £m	Alignment of accounting policies £m	Fair value adjustments £m	Fair value to the Group £m
The fair values attributed to the net tangible assets acquired on acquisitions of Hicking Pentecost PLC were:				
Tangible fixed assets	35.1	(0.2)	(1.0)	33.9
Fixed asset investments	1.7	–	(0.5)	1.2
Current assets	49.2	(1.4)	(0.6)	47.2
Businesses held for resale	4.1	–	(1.7)	2.4
Pension prepayment	1.6	–	(1.6)	–
Creditors and provisions	(16.5)	–	(6.5)	(23.0)
Current and deferred taxation	(2.4)	–	1.2	(1.2)
Bank loans	(32.9)	–	–	(32.9)
Net cash	2.5	–	–	2.5
	42.4	(1.6)	(10.7)	30.1
Fair value of consideration: cash				75.5
loan notes				4.2
provision for acquisition costs				0.5
				80.2
Goodwill arising during the year in respect of Hicking Pentecost PLC				50.1

The principal fair value adjustments relate to the results of an independent property valuation (£2.7 million), provision for losses on disposal of businesses held for resale (£1.7 million), the results of an actuarial review of the Hicking Pentecost pension fund (£4.7 million) and provisions for legal and environmental issues and USA employee benefits (£2.9 million).

Other goodwill arising during the year relates to adjustments in respect of minority interests and adjustments relating to acquisitions in previous years.

The net movement in minority interest in respect of these adjustments was:	(0.4)
The net cash investment by the Group was:	0.9
Goodwill arising was:	1.3
Amount capitalised	0.3
Amount written – off to reserves in respect of prior year acquisitions	1.0
	1.3

21 Goodwill (continued)	Cost £m	Amortisation and impairment £m	Net £m
The goodwill capitalised in the balance sheet is as follows:			
At beginning of year	8.3	0.8	7.5
Exchange	0.2	–	0.2
Acquisitions	50.4	–	50.4
Amortised in the year	–	1.2	(1.2)
Disposals	(0.8)	(0.8)	–
Carried forward at 31 December 1999	58.1	1.2	56.9

Goodwill arising during the year primarily relates to the acquisition of the Hicking Pentecost PLC (£50.1 million) and the buy-out of a minority shareholder's option to acquire an interest in the Thread company in Bangladesh (£0.3 million). These amounts have been capitalised in accordance with FRS10 and will be amortised over twenty years.

Purchased goodwill attributable to businesses sold or terminated during the year amounted to £74.6 million (1998 – £14.9 million). The cumulative amount of goodwill charged to reserves is £210 million net of amounts attributable to companies sold (1998 – £284 million).

22 Called up share capital	Number of shares	1999 £m	Number of shares	1998 £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	703,623,098	140.7	703,623,098	140.7
4.9% Cumulative preference shares of £1 each – non-equity shares	14,609,449	14.6	14,609,449	14.6
		155.3		155.3

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

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 arrear, and so that for this purpose such dividend shall be deemed to be payable half-yearly on the 31st day of March and the 30th day of September in every year; or

(ii) the business of the meeting includes the consideration of a resolution for winding up or reducing the capital of Coats Viyella 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 their proxy to one vote only for every Preference Share held.

The conversion rights attaching to the £60.471 million 6.25% Senior Convertible Bonds issued by Coats Viyella Plc are detailed in note 18.

22 Called up share capital (continued)

Options granted for ordinary shares not exercised are as follows:

	Options granted	Price per share	Period of option	Number of shares
1984 Executive Share Option Scheme	1990 to 1994	103.57p to 256.08p	2000 to 2004	2,169,541
Overseas Executive Share Option Scheme	1990 to 1994	103.57p to 256.08p	2000 to 2004	2,239,402
1994 Executive Share Option Scheme	1994 to 1999	33.75p to 214.5p	2000 to 2009	17,639,539
Savings Related Share Option Scheme	1992 to 1993	168.18p to 190.86p	2000	312,306
Sharesave Scheme	1994 to 1997	110p to 183p	2000 to 2002	5,310,475
Total Group Executive Share Option Scheme	1990	150.91p	2000	116,181
				27,787,444

No share options were exercised during the year.

23 Other reserves

	Share premium account £m	Other capital reserve £m	Pension reserve £m	Total £m
Group				
At beginning of year	206.5	34.1	84.3	324.9
Transfer from profit and loss account	–	–	5.6	5.6
At 31 December 1999	206.5	34.1	89.9	330.5
Company				
At beginning of year and 31 December 1999	206.5	35.6	–	242.1

24 Profit and loss account

		Group £m	Company £m
At beginning of year		160.2	331.2
Foreign currency translation (losses)/gains			
– overseas net assets*	(12.7)		
– related hedging	0.1		
		(12.6)	0.6
Retained profit for the year		7.5	94.2
Goodwill written off relating to prior year acquisitions (note 21)		(1.0)	–
Goodwill attributable to businesses sold or terminated (note 21)		74.6	–
Transfer to pension reserve		(5.6)	–
At 31 December 1999		223.1	426.0
Retained in Group companies (including £99.5 million overseas)		220.9	
Retained in associated companies		2.2	
		223.1	

*Including £7.5 million of net exchange losses arising on foreign currency borrowings less deposits.

	Group		Company	
	1999 £m	1998 £m	1999 £m	1998 £m
25 Total reserves				
Available for distribution	223.1	160.2	426.0	331.2
Not available for distribution	330.5	324.9	242.1	242.1
	553.6	485.1	668.1	573.3
26 Minority interests				
Equity minority interests	67.1	69.1		
27 Future capital expenditure				
Contracted but not provided for	5.5	7.6	–	–
Authorised but not contracted for	5.1	8.0	–	–
	10.6	15.6	–	–
28 Contingent liabilities				
Loan, overdraft and finance lease guarantees in respect of certain subsidiaries (see note 19)	–	–	26.8	74.8
Others including performance guarantees and documentary credits on overseas contracts	49.3	92.8	17.5	19.7
Company undertaking relating to deferred tax liabilities of UK subsidiaries (note 20)	–	–	38.8	40.6
29 Operating lease rentals				
The committed amounts payable during 2000 are:				
Leases of land and buildings expiring:				
Within one year	1.2	2.7	–	–
Within two to five years inclusive	4.7	7.5	–	–
Over five years	13.5	15.2	–	–
	19.4	25.4	–	–
Other operating leases expiring:				
Within one year	1.0	2.7	–	–
Within two to five years inclusive	3.7	4.7	–	–
Over five years	–	0.1	–	–
	4.7	7.5	–	–

30 Pensions

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

Pension costs for the year were:	1999 £m	1998 £m
UK		
Coats Viyella Pension Plan:		
Regular pension cost	15.7	18.0
Spreading of surplus	(11.8)	(18.6)
Interest	(8.4)	(7.8)
Net (credit)	(4.5)	(8.4)

Of the unrecognised surplus that existed at 1 April 1998 as reduced by the benefit improvements approved during 1999, the actuaries calculated that some £3.6 million related to the Precision Engineering business sold during the year. In accordance with the requirements of FRS3 and SSAP24, this amount has been credited in arriving at the gain on sale.

The movements on the UK pension prepayment during the year were as follows:		
At the beginning of year	120.4	111.0
Net pension credit above	4.5	8.4
Credit arising as a result of Precision Engineering disposal	3.6	–
Closures and reorganisations	–	1.0
At 31 December 1999	128.5	120.4

Overseas		
North America defined benefit plans:		
Regular cost	3.0	4.3
Spreading of surplus	(9.6)	(8.1)
Net credit	(6.6)	(3.8)
Other plans	10.0	12.9
Total overseas	3.4	9.1
Net (credit)/charge	(1.1)	0.7

The principal UK defined benefit arrangement is the Coats Viyella Pension Plan ('the Plan') which is open to all employees of participating Group companies provided employees are permanent and over age 16. An actuarial valuation of the plan was carried out at 1 April 1998 which resulted in an actuarially calculated surplus of £284 million. The results of this valuation are set out below. The actuaries have recommended that the suspension of contributions into the Plan by the Group should be continued until the next full actuarial valuation at 1 April 2001.

Method used	Projected unit	Average remaining service life	10 years
Investment rate of return	7% per annum	Market value of Plan assets	£1,244m
Increase in earnings	4.75% per annum	*Level of funding	131%
Increase in pensions	3% per annum	Actuarially calculated surplus	£284m

*The market value of assets as a percentage of the accrued service liabilities.

In North America, the results of the most recent actuarial valuations at 1 January 1999 showed:

Market value of investments	£169.6m
Level of funding	180%

Amounts included in debtors and creditors, representing the differences between pension costs charged in the accounts and amounts funded to date, are, where material, disclosed in notes 15 and 17 respectively.
Post-retirement medical benefits, principally in the USA, are fully provided for in accordance with the USA accounting standard FAS106. There are no other significant post-retirement benefits. Amounts included in creditors (amounts falling due after more than one year) in respect of these benefits are:

Accruals and deferred income	14.0	13.7

31 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.

Group	Associated companies £m	Related parties included in Other Fixed Asset Investments £m	Other related parties £m	Total £m
Sales to	0.5	0.1	0.2(ii)	0.8
Purchases from	(1.1)	(4.5)(i)	–	(5.6)
Other income	0.2	0.4(iii)	–	0.6
Debtors	0.7	0.2	–	0.9
Creditors	(0.2)	(0.7)(i)	–	(0.9)

Associated companies and related parties included in Other Fixed Asset Investments are those in which the Group has a participating interest and is able to influence financial and operating policies.

Included in the above table are the following principal related party transactions:

(i) CV Clothing Ltd (Contract Clothing), purchases from IPT Group Limited of £3.1 million and creditor of £0.5 million.
CV Home Furnishings Ltd (Home Furnishings), purchases from IPT Group Limited of £1.0 million and creditor of £0.1 million.
Barbour Threads Ltd (Industrial Thread), purchases from Barbour Vardhman Threads Ltd of £0.4 million and creditor of £0.1 million.

(ii) CV Home Furnishings, sales to N Brown Group plc of £0.2 million.
The Chairman until 21 July 1999, Sir David Alliance, is the Chairman and major shareholder of N Brown Group plc.

(iii) The Company received £0.4 million in interest and guarantee fees from IPT Group Limited. Details of the Company's interest in IPT Group Limited are included in note 13.

In addition, during the year the Company purchased at market value a car from the Group Finance Director, KT Kantor, for £65,000.

Company

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

Directors

Further details of transactions with Directors are given in the Report by the Board on Directors' Remuneration on pages 13 to 16.

32 Notes to the cash flow statement

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

	1999 £m	1998 £m
Operating profit	15.6	88.5
Less: release of 1997 provision	–	(1.6)
Depreciation	60.1	68.2
Amortisation of goodwill	1.2	–
Reorganisation costs	46.9	22.2
Impairment of fixed assets	20.1	4.3
Other exceptional items	10.1	2.4
Decrease in stocks	31.8	40.9
Decrease in debtors	4.9	42.8
(Decrease) in creditors	(5.1)	(34.6)
Loss arising from accounting irregularities in a USA subsidiary	(10.6)	–
Pension refund from discontinued scheme	(0.1)	5.7
Abortive demerger and acquisition costs	0.2	(5.7)
Movement in pension fund prepayment	(4.5)	(8.4)
Other non-cash movements	(12.1)	(1.8)
Net cash inflow from normal operating activities	158.5	222.9
Continuing operations	158.3	182.9
Discontinued operations	0.2	40.0
	158.5	222.9
Net cash outflow in respect of reorganisation costs:		
Utilisation of provisions – closures and reorganisation	(44.1)	(40.0)
– other	(0.2)	(0.2)
– non-cash asset write downs	4.2	4.4
	(40.1)	(35.8)
Net cash inflow from operating activities	118.4	187.1

b Analysis of financing cash flows

	1999 £m	1998 £m
Issue of ordinary share capital	–	0.3
Issue of shares to minorities	–	0.6
	–	0.9
(Decrease)/increase in borrowings: – new long term loans	0.2	0.4
– new short term loans	19.7	161.5
– repayment of amounts borrowed	(212.7)	(212.7)
– redemption of convertible debt	(4.5)	(2.5)
– capital element of finance lease rental payments	(4.7)	(4.9)
	(202.0)	(58.2)
Net cash (outflow) from financing	(202.0)	(57.3)

32 Notes to the cash flow statement (continued)

c Analysis of net debt

	At 1 January 1999	Cash flow	Acquisitions/ disposals (excl. cash/ overdrafts)	Other non-cash changes	Exchange	At 31 December 1999
Cash at bank and in hand	92.0					98.8
Bank overdrafts	(28.4)					(23.2)
Net cash	63.6	17.3			(5.3)	75.6
Short term deposits	30.3	16.4			(1.4)	45.3
Debentures, loans and loan stock	(307.8)	192.8	(28.6)	(0.1)	(7.1)	(150.8)
Convertible debt	(64.5)	4.5		0.1		(59.9)
Lease finance	(42.4)	4.7	3.1	(0.8)	0.1	(35.3)
		202.0				
Total	(320.8)	235.7	(25.5)	(0.8)	(13.7)	(125.1)

d Purchase of subsidiary undertakings

	1999 £m	1998 £m
Tangible fixed assets	33.9	0.9
Fixed asset investments	1.2	–
Stocks	28.0	0.1
Debtors	19.2	0.1
Businesses acquired for resale	2.4	–
Cash at bank and in hand	2.5	–
Bank overdrafts	–	(0.8)
Loans	(32.9)	(0.3)
Creditors	(16.8)	(0.2)
Current and deferred taxation	(1.2)	–
Provisions	(6.2)	(0.6)
Minority shareholders' interests	(0.4)	4.4
	29.7	3.6
Goodwill	51.4	9.0
Total	81.1	12.6
Satisfied by:		
Cash	77.1	13.5
Loan notes issued	4.2	–
Transfer from deferred consideration	(0.7)	(0.9)
Transfer to deferred consideration	0.5	–
	81.1	12.6

32 Notes to the cash flow statement (continued)

e Sale of subsidiary undertakings	1999 £m	1998 £m
Tangible fixed assets	104.9	13.3
Associated companies	(1.2)	–
Stock	26.4	28.1
Debtors	56.7	18.0
Current asset investments	1.0	–
Cash at bank and in hand	15.4	0.2
Loans and finance lease obligations	(11.4)	(0.4)
Creditors	(54.5)	(10.0)
Provisions	(2.2)	(6.5)
Current and deferred taxation	(5.3)	(1.6)
Minority shareholders' interests	(1.1)	(0.7)
	128.7	40.4
Profit/(loss) on disposal	83.8	(21.3)
Write-back of purchased goodwill	74.6	14.9
	287.1	34.0
Satisfied by:		
Cash	293.2	14.1
Pension credit	3.6	–
Investment in associated company	–	0.6
Fixed asset investment	–	12.4
Deferred consideration	(9.0)	7.1
Transfer from deferred consideration	(0.7)	(0.2)
	287.1	34.0

f Cash flow relating to exceptional items		
Profit on sale of fixed assets	6.3	2.5
Book value of fixed assets sold	5.0	7.4
Proceeds of sale of fixed assets	11.3	9.9
Proceeds of sale or termination of operations (note e)	293.2	14.1

Principal subsidiary undertakings

		Country of incorporation or registration and principal country of operation
Holding and Finance Companies		
Coats Finance Co Ltd		England
*Hicking Pentecost PLC		England
Jaeger Holdings Limited		England
Tootal Group Limited		England
Tootal Thread Limited		England
Viyella Holdings Limited		England
*Vantona Viyella Limited		England
Coats Deutschland GmbH		Germany
Barbour Campbell Textiles Limited		Scotland
*Coats Patons Limited		Scotland
J & P Coats Limited		Scotland
Coats North America Holdings Inc		USA
Thread		
Coats Limited		England
Coats Cadena SA		Argentina
Coats Australian Pty Ltd		Australia
Coats Bangladesh Ltd	80%	Bangladesh
Coats Corrente Ltda		Brazil
Coats Canada Inc		Canada
Coats Cadena SA	60%	Chile
Coats Guangzhou	90%	China
Guangying Spinning Company Limited		China
US$5.4m Ordinary Capital	50%	
Jinying Spinning Company Limited		China
US$8.8m Ordinary Capital	50%	
Coats Sartel SA		France
Coats GmbH		Germany
Schachenmayr, Mann and Cie GmbH		Germany
China Thread Development Company Limited		Hong Kong
Coats Hong Kong Limited		Hong Kong
Coats Hungary Limited		Hungary
PT Tootal Thread Indonesia	70%	Indonesia
Coats Cucirini SpA	72.9%	Italy

		Country of incorporation or registration and principal country of operation
Thread continued		
Coats Tootal Malaysia	51%	Malaysia
Grupo Coats Timon, S.A. De C.V.		Mexico
Cia de Linha Coats and Clark Lda		Portugal
Barbour Threads Limited		Scotland
Coats South Africa (Pty) Ltd		South Africa
Coats Fabra SA	99.5%	Spain
Coats Thread Lanka (Pvt) Ltd	87%	Sri Lanka
Molnlycke Sytrad AB		Sweden
Coats (Turkiye) Iplik Sanayii AS	76.1%	Turkey
Barbour Threads Inc		USA
Coats American Inc		USA
Coats and Clark Inc		USA
Coats Tootal Fung Phu Ltd	75%	Vietnam
Contract Clothing		
Coats Viyella Clothing Limited		England
Hicking Pentecost Textiles Limited		England
Fashion Retail & Branded Clothing		
The Jaeger Company Limited		England
The Jaeger Company's Shops Limited		England
The British Van Heusen Company Limited		England
William Hollins & Company Limited		England
Pasolds Limited		England
Berghaus BV		Holland
Jaeger Sportswear Inc		USA
Home Furnishings		
CV Home Furnishings Limited		England
Dorma France SA		France
Other		
Madura Coats Limited		India
Ordinary Shares	51.5%	
(Other Indian Businesses)		

All the above companies carry on businesses, the consolidated results of which, in the opinion of the Directors, principally affect the amount of the profit or the amount of the assets of the Group. All companies are wholly owned unless otherwise stated; percentage holdings shown represent the ultimate interest of Coats Viyella Plc.
A complete list of subsidiary undertakings and companies in which Coats Viyella Plc holds more than 10% of the equity share capital will be filed with the next annual return.
Companies marked with an asterisk are direct subsidiaries of Coats Viyella Plc.

Shareholder information

Financial Calendar The date, time and venue of the Annual General Meeting are set out on pages 55 and 56.

Final Ordinary Dividend	1.5p per share paid on 3 July 2000
Interim Results to 30 June 2000	Announced in September 2000
Interim Ordinary Dividend	Payable in January 2001
Preference Dividends	Payable on 31 March and 30 September in each year

Company Information Registered Office: 2 Foubert's Place, London W1V 1HH
Registered in England No 104998
Registrars: IRG plc, Balfour House, 390/398 High Road, Ilford, Essex IG1 1NQ Telephone: 020 8639 2000

Low Cost Dealing The Company has arranged for its stockbroker, Cazenove and Co, to provide shareholders with a simple low cost method of buying and selling its shares. Details are available from the Company Secretary. Please note there is a minimum commission of £10 on each purchase transaction.

Dividend Mandates If you wish dividends to be sent directly into a bank or building society account, you should contact the Registrars for a dividend mandate form.

Capital Gains Tax For the purpose of Capital Gains Tax the market value of ordinary shares on 31 March 1982 was 62.75p after adjustment for the 1 for 1 capitalisation issue in 1987. The market value of ordinary shares on 18 May 1993, 5 November 1993 and 18 May 1994, the dates of the issue of shares following the offer of enhanced share dividends, were respectively 229.685p, 267.25p and 227.25p.

Market Values of Securities The market value and balance sheet carrying values of the Company's traded securities at 31 December 1999 are available at the Registered Office.

Analysis by Category	Numbers of Shareholders	Number of Ordinary 20p shares (m)
Banks and nominee companies	2,220	611
Insurance companies	39	12
Pension funds	6	2
Investment trusts and unit trusts	40	1
Other institutions	287	15
Individuals	29,613	62
	32,205	703

Analysis by Shareholding		
Under 1,000	18,173	7
1,000 – 5,000	11,058	25
5,001 – 50,000	2,440	31
50,001 – 100,000	133	10
100,001 – 500,000	233	56
Over 500,000	168	574
	32,205	703

Unsolicited Mail The Company is obliged to make its share register available to members of the public and organisations upon payment of a prescribed fee. This may result in shareholders receiving unsolicited mail. If you wish to limit the receipt of unsolicited mail you should write to The Mailing Preference Service, FREEPOST 22, London W1E 7ER.

ShareGift Shareholders with small numbers of shares may like to consider donating their shares to charity under ShareGift, administered by The Orr Mackintosh Foundation. Details are available from ShareGift. Telephone: 020 7761 4501. Website: http://www.sharegift.org

Five year statistics

	1999 £m	1998 £m	1997 £m	1996 £m	1995 £m
Turnover	1,679.5	2,082.9	2,358.5	2,455.1	2,459.6
Operating profit before exceptional items	92.7	115.8	135.6	174.3	187.4
Exceptional items	(77.1)	(28.9)	(47.9)	(54.9)	(10.3)
Less: prior year provision	–	1.6	–	–	(0.9)
Operating profit	15.6	88.5	87.7	119.4	176.2
Other exceptional items	86.9	(18.1)	(19.6)	11.1	20.8
Profit before interest and associated companies	102.5	70.4	68.1	130.5	197.0
Share of profits of associated companies	(0.4)	(0.4)	(0.5)	0.2	0.2
Amounts written off investments	(16.8)	–	–	–	–
Net interest	(21.7)	(34.5)	(34.3)	(36.3)	(34.7)
Profit before taxation	63.6	35.5	33.3	94.4	162.5
Taxation	(31.3)	(56.2)	(23.6)	(34.1)	(46.9)
Profit/(loss) after taxation	32.3	(20.7)	9.7	60.3	115.6
Preference dividends and minority interests	(3.7)	(5.9)	(9.7)	(4.5)	(5.9)
Profit/(loss) attributable to ordinary shareholders	28.6	(26.6)	0.0	55.8	109.7
Ordinary dividends	(21.1)	(20.9)	(33.1)	(68.4)	(68.1)
Profit/(loss) retained	7.5	(47.5)	(33.1)	(12.6)	41.6
Basic earnings/(loss) per ordinary share	4.1p	(3.8)p	nil	8.0p	15.7p
Diluted earnings/(loss) per ordinary share	4.1p	(3.8)p	nil	7.9p	15.7p
Headline (loss)/earnings per share	(4.3)p	(1.4)p	2.8p	6.7p	13.4p
Dividends per ordinary share (conventional equivalent)	3.0p	3.0p	4.7p	8.8p	8.8p
Goodwill, fixed assets and investments	540.1	626.6	637.5	637.1	677.1
Net current assets	574.4	472.7	527.0	638.2	679.6
Total assets less current liabilities	1,114.5	1,099.3	1,164.5	1,275.3	1,356.7
Creditors due after more than one year	(210.4)	(269.0)	(294.7)	(361.4)	(407.1)
Provisions for liabilities and charges	(128.1)	(120.8)	(114.0)	(112.9)	(96.0)
Net assets	776.0	709.5	755.8	801.0	853.6
Net debt	125.1	320.8	361.9	294.5	293.8
Net asset value per ordinary share	99.0p	88.9p	94.6p	103.1p	110.2p
Net gearing including convertible debt	16.1%	45.2%	47.9%	36.8%	34.4%
Cash inflow from normal operating activities	158.5	222.9	210.3	240.2	219.0
Net cash inflow from operating activities	118.4	187.1	177.3	205.6	198.5
Decrease/(increase) in net debt	195.7	41.1	(67.4)	(0.7)	(15.6)
Free cash flow	40.9	61.2	(8.8)	41.2	50.1

Notice of Annual General Meeting

To the holders of ordinary shares

Notice is hereby given that the ninetieth Annual General Meeting of Coats Viyella Plc will be held at Trinity House, Trinity Square, Tower Hill, London EC3N 4DH at 11.00am on Monday, 17 April 2000 for the following purposes:

Ordinary business

1 the accounts for the year ended 31 December 1999 and the report of the Directors and Auditors thereon be received
2 the final dividend of 1.5p per ordinary share for the year ended 31 December 1999 be and is hereby declared
3 to re-elect Mr MC Flower as a Director
4 to re-elect Sir Victor Blank as a Director
5 to re-elect Lord Owen as a Director
6 to reappoint Deloitte and Touche as Auditors of the Company and to authorise the Directors to fix their remuneration

Special business

7 SPECIAL RESOLUTION **(Authority for the Company to purchase its own shares)**
THAT the Company be and is hereby authorised to purchase for cancellation its own fully paid ordinary shares by way of market purchase upon and subject to the following conditions:

(i) the maximum number of shares which may be purchased is 100,000,000 ordinary shares of 20p each;
(ii) the maximum price at which shares may be purchased is an amount equal to 105% of the average of the middle market quotations derived from the Daily Official List of the London Stock Exchange for the five business days immediately preceding the day on which the shares are contracted to be purchased and the minimum price at which shares may be purchased is 20p per share, in both cases exclusive of expenses; and
(iii) the authority to purchase conferred by this resolution shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2001 and in any event no later than 16 October 2001 provided that any contract for the purchase of any ordinary share as aforesaid which has been concluded before the expiry of the said authority may be executed wholly or partly after the said authority expires.

8 ORDINARY RESOLUTION **(Authority for Directors to allot relevant securities)**
THAT the Directors be and are hereby generally and unconditionally authorised pursuant to Section 80 of the Companies Act 1985 to exercise all powers of the Company to allot relevant securities (within the meaning of Section 80 of the said Act) up to an aggregate nominal value of £30,000,000 (representing approximately 21% of the issued share capital of the Company) provided that this authority shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or 17 July 2001 whichever is the sooner save that the Company may before the expiry of such period make offers or agreements which would or might require relevant securities to be allotted after the expiry of such period and the Directors may allot relevant securities in pursuance of any such offer or agreement as if the authority hereby conferred had not expired.

9 SPECIAL RESOLUTION **(Disapplication of pre-emption rights)**
THAT the Directors be and are hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of the said Act) for cash pursuant to the Authority conferred on them in that behalf by Resolution 8 above (as varied from time to time by the Company in General Meeting) as if sub-section (1) of Section 89 of the said Act did not apply to any such allotment provided that (without prejudice to the authority conferred by Resolution 8 above) the power conferred by this Resolution shall be limited:

(i) to the allotment of equity securities in connection with a rights issue in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all such shareholders are proportionate (or as nearly as may be) to the respective numbers of ordinary shares held by them subject only to such exclusion or other arrangements as the Directors may consider appropriate to deal with fractional entitlements, and in connection therewith to sell, for the benefit of those shareholders who are citizens of or resident in any overseas territory where in the opinion of the Directors it would at the time of the offer be illegal (by a relevant law) or unduly costly or burdensome for the Company to make or for those shareholders to accept an offer of equity securities of the Company, the equity securities to which they would otherwise be entitled, save that proceeds (net of expenses) of £2 or less due to any such shareholder may be retained for the benefit of the Company;

(ii) to the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities having in the case of relevant shares (as defined for the purposes of Section 89 of the said Act) a nominal amount or in the case of other equity securities giving the right to subscribe for or convert into relevant shares having a nominal amount not exceeding in aggregate £7,700,000 (representing approximately 5% of the issued share capital of the Company); and

(iii) to the allotment of equity securities pursuant to an election by any holders of ordinary shares to take shares instead of a cash dividend in connection with any share dividend or distribution reinvestment plan implemented by the Directors under Article 138A,

and such authority shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this Resolution, unless renewed or extended prior to or at such meeting except that the Company may before the expiry of any power contained in this Resolution make offers or agreements which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities pursuant to any such offer or agreement as if the power conferred hereby had not expired.

Notes

1 Only ordinary shareholders are entitled to attend and vote at the Annual General Meeting and such members will receive a form of proxy with this notice.

2 A member entitled to attend and vote may appoint one or more proxies to attend and on a poll to vote instead of him or her. A proxy need not also be a member. A proxy or representative attending on behalf of a corporation is entitled to vote on a show of hands but a member (other than a corporation) present by proxy shall not be entitled to vote on a show of hands.

3 To be valid, proxy forms must arrive at the office of the Registrars not less than 48 hours before the time the meeting is to be held. The appointment of a proxy does not prevent a member who so wishes from attending the meeting and voting in person.

4 The register of Directors' share interests together with copies of any service contracts between each Director and the Company are available for inspection at the Registered Office during normal business hours from the date of this notice until the date of the meeting and at the place of meeting from 15 minutes prior to the meeting until its conclusion.

Annual General Meeting – Explanatory Notes

Items 7, 8 and 9 of the Notice of Annual General Meeting contain resolutions which in the case of resolutions 8 and 9 renew existing authorities for a further year. The Directors believe that the increased authority contained in Resolution 7 is necessary, as are the renewals of authority in resolutions 8 and 9, in order for the Company to be able to take advantage of business opportunities as they arise and recommend you to vote in favour.

1 RESOLUTION 7 This resolution authorises the Company to purchase 100,000,000 of its own shares. No purchases were made pursuant to last year's authority which was at the lower level of 10,000,000.

2 RESOLUTION 8 This resolution grants the Directors general authority to allot shares up to an aggregate nominal value of £30 million representing almost all of the unissued ordinary share capital of the Company.

3 RESOLUTION 9 The principal effect of this resolution is to give the Directors authority to allot equity securities for cash other than to existing shareholders up to a limited aggregate amount of £7,700,000 representing approximately 5% of the issued share capital of the Company, although it also permits the Directors to make rights issues and to effect a script dividend option for shareholders. None of these powers were exercised in 1999.

By Order of the Board
Christopher Healy
Company Secretary
7 March 2000

Registered Office:
2 Foubert's Place
London W1V 1HH
Registered in England No 104887

Designed and produced by Merchant with Carrow Design. Printed by Hyway on environmentally friendly paper.

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