

Annual Report 2002



Global leader in thread

# Financial highlights

	2002	2001 Restated
<b>Turnover</b>		
– Thread	<b>£923m</b>	£938m
– Total	<b>£1,156m</b>	£1,247m
<b>Operating profit</b>		
– Thread	<b>£62m</b>	£46m
– Total	<b>£40m</b>	£36m
<b>Pre-tax profit</b>	<b>£45m</b>	£23m
<b>Earnings per share</b>	<b>4.2p</b>	1.4p
<b>Headline earnings per share</b>	<b>3.8p</b>	2.8p
<b>Dividends per share</b>	<b>4.00p*</b>	3.00p
<b>Net asset value per Ordinary share</b>	<b>63p</b>	71p
<b>Capital expenditure</b>	<b>£57m</b>	£55m
<b>Net debt</b>	<b>£104m</b>	£128m
<b>Net debt less current asset investments</b>	<b>£80m</b>	£104m
<b>Net gearing</b>	<b>21%</b>	22%
<b>Net cash inflow from operating activities</b>	<b>£101m</b>	£87m
<b>Net interest cover (operating profit)</b>	<b>4.4</b>	3.5
<b>Market capitalisation at 31 December</b>	<b>£347m</b>	£333m

\*Dividends per share include a special second interim dividend of 2.5p declared by the Board and payable in conjunction with the recommended offer.

## Note:

2001 comparatives have been restated following the adoption of FRS 19 – Deferred tax. The full impact is reflected in the Statement of accounting policies.

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After a year in which trading conditions in most sectors of the global economy remained more depressed than expected, I am very pleased to report that Coats' core business of Thread was able to deliver growth in profits and sales broadly in line with management's original plan. Just as importantly, the sale of Fashion Retail in January means that the transformation of Coats into a business focused on Thread is largely complete. Negotiations on the sale of the remaining non-core business – Bedwear – are well advanced.

The overall group result for 2002 was affected by higher than expected trading losses at Fashion Retail. In the circumstances, we believe the sale of the business for a nominal sum whilst retaining assets with a value of approximately £24 million represents the best available outcome for shareholders. Headline earnings per share increased by 36% to 3.8p.

The present economic and political situation clearly holds great challenges for all businesses but I am confident that the substantial investment already made in restructuring and new capacity in our global Thread business will deliver progress in underlying performance during 2003 and beyond. However, with almost all Thread profits outside the UK, published earnings in sterling will continue to be subject to exchange translation, and in particular fluctuation in the US dollar.

In February this year the Board received a bid approach from a group of shareholders led by Guinness Peat Group. After due consideration and on the basis of advice received from the Group's advisors, Cazenove and HSBC, the Board has decided to recommend an offer at 58.5p per share including the special dividend of 2.5p in lieu of a final dividend. Further details and background to the offer and the Board's recommendation are contained in the offer announcement issued on 6 March 2003.

**Sir Harry Djanogly CBE**  
Chairman

### Thread

Operating profit before reorganisation costs £77.3 million (2001 – £72.7 million).

A strong second half performance, led by significant growth in our Asian businesses, more than offset a weak first half to deliver real progress over 2001. Sales growth in our industrial business reflected share gain in key global accounts. The migration of apparel and footwear manufacture from developed markets such as the USA, the UK, France and Germany to lower labour cost countries continued apace, allowing us to leverage our strong service capability in virtually all favoured locations. The crafts business performed well, notably in the USA and Germany, as cyclical interest in handknitting activity was maintained in 2002.

Thread sales 2002	£m	Like-for-like growth on same period of previous year*		
		Full year (%)	First half (%)	Second half (%)
Apparel thread	358.3	+2	-3	+8
Speciality thread	141.8	+3	-3	+10
Zips and trim	92.1	-3	-9	+5
<b>Total industrial</b>	<b>592.2</b>	<b>+2</b>	<b>-4</b>	<b>+8</b>
Crafts	325.1	+5	+1	+9
Other	5.3	-42	-29	-79
<b>Total</b>	<b>922.6</b>	<b>+2</b>	<b>-3</b>	<b>+8</b>

\*Growth at constant exchange rates, excluding impact of acquisitions/disposals.

### North America

The demand for industrial thread within the NAFTA area was subdued throughout the year. US consumer demand for apparel was generally flat and the expected inventory build after significant de-stocking in 2001 was not as strong as expected as retailers focused on shorter supply lead times. Another sharp contraction of garment manufacturing activity in the US occurred with China and other Asian markets being the main beneficiaries. However our sales of industrial thread in the Caribbean Basin Initiative area grew strongly as we benefited from recent investments in capacity for local service in the Dominican Republic and Honduras.

Pressure on industrial margins continued due to intense competitor pressure in the face of volatile and shifting customer demand. This was compensated by significant cost reduction action taken in the latter part of 2001, bolstered by further overhead reductions in 2002. Our significant investment in a comprehensive Mexican supply capability commenced in July and is progressing on schedule, with first production planned

for mid 2003. This will greatly enhance our local service capability and long term cost competitiveness.

The US crafts business again delivered a strong performance, bolstered by increased consumer interest in leisure crafts activity, our strong position with key retailers such as Wal-Mart, and increased emphasis on product innovation.

### UK and Europe

Sales of industrial thread declined in Western Europe in the face of difficult market conditions, notably in Germany and France, and continued migration of manufacturing to the European rim and Asia. Competitive pressure also impacted margins. This was compensated by good sales growth in Eastern Europe as we strengthened our sales force and service capability in Romania, Bulgaria, Turkey and the Ukraine. The major expansion of capacity in Romania commenced in the fourth quarter and will come on-stream in mid 2003. Our business in Turkey benefited from a more stable exchange rate and strong sales growth to contractors servicing the European market.

Zip fastener sales were slightly down, reflecting a fashion change away from the zip as an aesthetic feature of the finished garment. Progress however was made in the latter part of the year in securing stronger European retailer specification for our Opti branded product.

Strong crafts sales were registered in Germany as a result of renewed consumer interest in handknittings. Crafts sales generally throughout Europe were robust, reflecting greater emphasis on product development and the leveraging of our comprehensive distribution capability, which now extends to Eastern Europe.

### Asia

Demand for industrial thread grew strongly throughout the year, as a result of exceptional growth in exports of apparel and footwear to the USA in the latter part of the year. The major beneficiaries were China and Vietnam but all our Asian businesses recorded a strong second half as US and European retailers placed their faith in the Asian contractor base as an integral part of their ongoing supply chain. This had to a large extent been anticipated and the earlier expansion of capacity in our Asian units paid dividends. We continued to gain share in key footwear accounts with a number of new specifications being received

during the year including Nike, Wolverine, Timberland, Clarks and Dr. Martens. Consumer thread sales also grew as we exploited opportunities in markets where we have a strong industrial thread presence.

Expansion of capacity continued in the high growth markets during 2002 and in 2003 we intend to invest in a new factory in Southern China capable of servicing the expected surge in demand over the next five years. This unit will also provide low cost, high quality product for our European supply chain. Full production is planned for the first half of 2004. Elsewhere in Asia, service capability was strengthened with the opening of new units in Bangladesh and Thailand. Our Madagascar service unit re-opened at the end of the year as the political situation in the country stabilised and this will allow us to fully exploit sales growth potential in this region arising from the African Growth and Opportunity Act.

Our Indian business performed strongly in both the industrial and consumer thread segments as we benefited from strong growth in apparel exports and local demand. The successful buy-out of the minority stake in Madura Coats further strengthened our position in this highly strategic market.

#### **South America**

Reported profit for the year was again negatively affected by currency translation in Brazil. However underlying activity in all segments of our Brazilian business was strong, particularly in industrial thread as apparel exports grew on the back of an extremely competitive exchange rate. The acquisition in February 2003 of an industrial thread competitor, Vicunha, further strengthens our business and we are well-positioned to benefit from economic recovery in the region.

#### **Other businesses**

Operating loss before reorganisation costs £18.0 million (2001 – £4.3 million).

Further deterioration in the performance of non-core businesses was almost entirely due to Fashion Retail where the second half proved just as disappointing as the first half. Both Jaeger and Viyella were affected by weak demand and more intense competition in their respective segments, leading to a full year operating loss before reorganisation costs of £16.3 million (2001 – £2.3 million). As noted below, the majority of the Fashion Retail businesses were sold in January

for a nominal sum but over the next one-two years we expect to realise the value of the retained assets. Based on external valuations, eventual realisation of the retained assets is expected to lead to a net cash inflow of approximately £24 million.

Bedwear performance continued to be impacted by lower own-label sales but some improvement was seen towards the end of the year as cost savings started to come through. For the full year, operating loss before reorganisation cost was £1.5 million (2001 – profit £0.7 million). Since the year end, action has been taken to further reduce capacity so as to position the business to return to profit. Negotiations on the sale of the business are well advanced.

India Textiles benefited from earlier capacity reduction and the operating loss before reorganisation costs was reduced to £0.2 million (2001 – £2.3 million). Withdrawal from the business is now almost complete.

#### **STRATEGY**

The strong second half performance in Thread shows that the benefits of the decision to focus the Group's management and financial resources on Thread are beginning to come through. Good progress was made during 2002 in downsizing Western capacity whilst expanding in low cost locations. However, as stated previously, we expect this major restructuring of our global supply chain to continue until end 2004, at which point the full benefits of our leading global position in Thread should begin to flow through. The strategic priorities for the business remain unchanged. Continued focus on four critical areas of activity will enable us to further strengthen our competitive position and build on the momentum achieved in the latter part of 2002 into 2003 and beyond.

#### **• Relationships with global retailers and brand owners**

We will continue to invest resource to exploit this still emerging opportunity, drawing on our unique global spread and our growing understanding of retailer supply chains. In the short term this is the key to increased market share and growth in industrial thread. Longer term, our position as the leading supplier to garment exporters in emerging markets will enable us to benefit from the huge potential for growth in domestic consumption as living standards improve.

- **Cost-effective supply chain**

Continued reduction of capacity in Western Europe and North America will be complemented by the commissioning of significant new investment in capacity in Romania, Mexico and China. Reduction of the cost base in Western markets is the key to further growth in operating margins. In a volatile economic climate, strategic partnerships with global suppliers also contributed greatly to raw material cost stability during 2002.

- **Service capability in low cost locations**

During 2002 we further strengthened our service network with investments in Bulgaria, Thailand and Bangladesh and the expansion of capacity in high growth locations, notably China and Vietnam. We have now virtually completed our global service coverage. The emphasis moving forward is to extract maximum value from this service capability, both in terms of securing new business through the provision of an unparalleled fast response service as well as the achievement of world class performance standards to minimise cost and inventory.

- **Capitalise on Crafts position**

Our strong performance in Crafts is based on a relatively small number of markets and the opportunity exists to roll out successful product development on a broader scale, building on our existing international network.

Despite the highly uncertain economic and political environment, the combination of our strengthened leadership position in the global thread market and the significant reduction in exposure to non-core business allows us to face the future with confidence.

**Martin Flower**

Group Chief Executive

**Accounting standards**

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

Since 2001, FRS17 – Retirement Benefits has been fully adopted in preparing the accounts, in line with best practice. Unlike companies which are applying the transitional rules permitted by this standard, operating profit reflects the Group's full pension current service cost, with the expected return on pension scheme assets offset by interest on pension liabilities included as other finance income in the Group's profit and loss account. The full effect of this standard is set out in Note 29 to the accounts.

FRS19 – Deferred Tax, which requires a full provision to be made for deferred tax in respect of almost all timing differences, has been adopted in the accounts for 2002. The comparative figures for 2001 have been restated accordingly, resulting in a £27.3 million fall in shareholders' funds as at 31 December 2001. The full effect of this standard is set out in the Statement of accounting policies.

**Post balance sheet events**

The Group completed the disposal of the majority of its loss-making Fashion Retail businesses on 23 January 2003 for a nominal consideration, and the results of the businesses sold have been included within discontinued operations. The net assets of the businesses sold amounted to approximately £36.0 million.

No goodwill arose on the original acquisition of the business and the loss arising on disposal, including expenses, is approximately £38.0 million which will be reflected in the 2003 accounts. The Group retains certain assets of these businesses, primarily including the rights to a long term lease and Jaeger's US business, which based on external valuations are expected to ultimately realise approximately £24.0 million.

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

**Review of operating results**

Operating profit after reorganisation and other exceptional costs increased by 12% to £40.2 million

(2001 – £35.9 million), on turnover of £1,155.6 million (2001 – £1,247.0 million).

This reflects a good underlying performance by the Thread business, as set out below:

**Thread operating profit**

£m	2001			2002		
	H1	H2	Total	H1	H2	Total
UK and Europe	13.0	5.1	<b>18.1</b>	7.6	5.2	<b>12.8</b>
North America	8.9	2.8	<b>11.7</b>	3.8	8.2	<b>12.0</b>
South America	6.9	5.7	<b>12.6</b>	4.7	6.8	<b>11.5</b>
Asia	15.2	14.3	<b>29.5</b>	15.1	20.6	<b>35.7</b>
Corporate	(2.5)	3.3	<b>0.8</b>	(2.4)	7.7	<b>5.3</b>
	<b>41.5</b>	<b>31.2</b>	<b>72.7</b>	<b>28.8</b>	<b>48.5</b>	<b>77.3</b>
Margin (%)	8.5	6.9	<b>7.8</b>	6.2	10.6	<b>8.4</b>
Reorganisation costs and exceptional items	(13.2)	(13.6)	<b>(26.8)</b>	(8.7)	(6.5)	<b>(15.2)</b>
<b>Total</b>	<b>28.3</b>	<b>17.6</b>	<b>45.9</b>	<b>20.1</b>	<b>42.0</b>	<b>62.1</b>
Half year split (%)	62	38		32	68	

As noted in the Chief Executive's review, in 2002 the Thread business experienced a strong recovery in the second half whilst continuing to downsize Western capacity and invest in low cost economies in Asia. Profits in Asia for the full year increased by 21% and represented almost half of total Thread profits. Operating margins strongly recovered in the second half as a result of cost reduction initiatives and improved capacity utilisation, leaving full year margins 0.6 percentage points higher than the previous year.

Corporate benefited from a £4.1 million increase in royalties from Group subsidiary companies as well as a £3.7 million (2001 – £1.9 million) benefit from the write off of negative goodwill arising on the purchase of minority interests in accordance with FRS10 – Goodwill and Intangible assets, and as set out in note 21 of the accounts.

Whereas Thread performance deteriorated during the second half of 2001, it improved throughout 2002, and 68% of 2002 profits were generated in the second half of the year, giving the Group a solid platform for 2003.

Operating losses after reorganisation costs and exceptional items from the Group's other businesses, namely India Textiles, Fashion Retail and Bedwear, totalled £21.9 million (2001 – £10.0 million). The progress made in exiting these businesses is detailed below.

### Disposals

The Group has made substantial progress in withdrawing from its non-Thread businesses. The ongoing withdrawal from India Textiles will be completed in 2003, and operating losses after reorganisation costs were reduced to £0.5 million (2001 – £2.3 million). Exit costs amounted to £7.0 million (2001 – £12.8 million) and as in 2001 are included in the loss on sale or termination of operations. The Jaeger Knitwear manufacturing business was sold in December 2002 at a loss of £3.1 million, and, as noted above, the majority of the loss-making Fashion Retail businesses were sold subsequent to the year end. Discussions are well advanced on the sale of the Group's Bedwear business.

Gains on sales of property and other assets made surplus by the reorganisation and disposal programme totalled £8.7 million (2001 – £13.6 million). In total, the net loss on sale or termination of operations and asset sales was £1.4 million (2001 – £13.2 million).

### Interest and tax

Net interest costs fell to £9.4 million (2001 – £10.5 million) reflecting a reduction in debt.

FRS17 other finance income increased to £14.3 million (2001 – £10.2 million). This includes a £3.9 million refund from the winding up of a discontinued pension scheme. The balance represents the net of the expected return on pension scheme assets offset by interest on pension liabilities, and is a non-cash item. Further details are contained in note 29 of the accounts.

Profit before tax increased significantly to £44.6 million (2001 – £23.0 million). On the IIMR basis (before goodwill and FRS3 exceptional items) profit before tax was £44.4 million (2001 – £38.0 million).

The tax charge was reduced to £9.1 million (2001 – £11.0 million). This charge is made up of tax on profits of overseas subsidiaries, while losses continued to be generated in the UK, primarily by the Fashion Retail division. The reduction in the tax charge reflects refunds of prior year tax in both the UK and the US.

Basic earnings per share increased to 4.2p (2001 – 1.4p) and headline earnings per share increased to 3.8p (2001 – 2.8p).

### Dividends

In connection with the recommended offer announced on 6 March 2003, the Board has declared a special second interim dividend of 2.5p (in lieu of a final dividend for the year just ended). The payment of this dividend is conditional on the offer being declared wholly unconditional. In the event that this offer is not successful, this special second interim dividend will not be paid. In this situation the Board will propose a final dividend.

### Pension arrangements

The Company operates a defined benefit plan in the UK. This plan was in surplus at 31 December 2002 and remains open to new members. There are similar arrangements in the US where the plan is also in surplus. Continued suspension of employer contributions has been recommended by the actuaries in both cases.

The Group's recognised pension assets at 31 December 2002 have fallen to £31.1 million (2001 – £50.7 million), of which £11.5 million (2001 – £24.4 million) represents the surplus in the UK plan net of deferred tax and the remainder represents surpluses in North America plans.

The gross surplus in the UK plan at the beginning of the year was £219.0 million, of which £34.9 million was recognised, being the present value of the long term contribution holiday. The surplus reduced significantly to £16.5 million at 31 December 2002, reflecting the fall in equity markets during the year.

There are various pension and leaving indemnity arrangements in other countries, primarily in Europe, which in general are not funded. These liabilities amounted to £60.9 million (2001 – £49.8 million) net of deferred tax at 31 December 2002.

£28.5 million (2001 – £4.4 million) of the deterioration in recognised pension assets and liabilities has arisen as the actuarial assumptions made in the valuation at 31 December 2001 were not met or have been changed. In accordance with FRS17, this has been charged to the statement of total recognised gains and losses.

### Balance sheet and cash flow

Net cash inflow from operating activities increased by £13.8 million to £100.7 million (2001 – £86.9 million), reflecting a £18.8 million improvement (2001 – £10.1 million deterioration) in working capital.



The disposal of businesses and surplus assets generated £17.7 million (2001 – £57.1 million).

Capital expenditure was £56.9 million (2001 – £54.9 million), including key projects in Mexico, China and Indonesia. After adjusting for year-end creditors, actual cash outflow was £48.6 million (2001 – £54.7 million). £11.6 million (2001 – £22.4 million) was spent on acquisitions, primarily the purchase of minority interests.

Net debt fell from £128.1 million at the start of the year to £104.4 million. Shareholders' funds fell from £515.4 million to £463.7 million, reflecting the £28.5 million actuarial loss and a £25.4 million (2001 – £12.2 million) exchange loss charged to the statement of total recognised gains and losses. Gearing was 20.8% (2001 – 22.1%).

#### Treasury

At the year end, the Group had undrawn committed facilities which expire after more than one year of £117.8 million (2001 – £86.5 million). The Group's convertible bonds of £60.4 million come due for redemption at their principal value on 9 August 2003. The Group was not in breach of any of its borrowing covenants.

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

Following the restructuring of the UK businesses, the majority of the Group's profits, cash flows and assets relate to its overseas Thread operations and are denominated in a range of currencies. The principal exchange rates used in preparing the financial statements were as follows:

		2002	2001
Average	US\$	<b>1.50</b>	1.44
	Euro	<b>1.59</b>	1.61
Year end	US\$	<b>1.61</b>	1.46
	Euro	<b>1.53</b>	1.63

Borrowings are drawn or swapped into US dollars to hedge the impact of changes in the sterling/US dollar exchange rate on the translation of US dollar denominated assets. Further details are contained in Note 19 of the accounts. The Group's translation exposure in the profit and loss account is not hedged. The translation of 2001 overseas turnover and operating profit at 2002 average rates reduces sales and operating profit by £30.1 million and £2.0 million respectively.

#### Going concern basis

The financial statements have been prepared on a going concern basis.

Under the terms of the Company's £172 million committed bank facilities, in the event of a change in control, the Company must negotiate with a view to agreeing terms and conditions acceptable to the lenders for continuing to make the facilities available.

In recommending the current offer from Avenue Acquisition for the ordinary share capital of the Company, the Directors have assessed the likelihood of the facilities not continuing to be made available and, if they are not available, whether alternative facilities can be negotiated and agreed. In forming their assessment, the Directors have had regard to the considerable investment made in the share capital of the Company by the acquiror and the structure of that investment, as well as to certain representations made by Avenue Acquisition and Guinness Peat Group plc regarding their intentions either to invite the Company's existing banks to continue making the facility available with changes acceptable to the various parties or to re-finance the facility through Avenue Acquisition's own bankers. In the circumstances, the Directors have no evidence to suggest that the facilities will be withdrawn or that a re-financing would not be achievable and accordingly the Directors continue to believe that it remains appropriate to adopt the going concern basis in preparing the Company's financial statements.

After making enquiries, and based on the above the Directors have formed a judgement that at the time of approving the financial statements, there is a reasonable expectation that the Group has sufficient resources to continue in operational existence for the foreseeable future.

#### Jonathan Lea

Group Finance Director

### Executive Directors

**Martin Flower** (Aged 56) Group Chief Executive. Joined the Group in 1968 after graduating from Oxford University and held various overseas appointments in Venezuela, Peru, Indonesia, Hong Kong and Brazil. Appointed Chief Executive of the Thread business in 1988, to the Board of Coats plc in 1990 and Group Chief Executive in March 2001. He is Senior Independent Non Executive Director of Severn Trent Plc. He is a member of the Nomination Committee.

**Jonathan Lea** (Aged 44) Group Finance Director. Joined the Group from Durham University in 1979 and has held financial management positions in South America, Germany, Hong Kong and India. Appointed finance director of the Thread business in 1998 and Group Finance Director of Coats plc in April 2001. He is a Fellow of the Chartered Institute of Management Accountants.

**Bryan Anderson** (Aged 43) Chief Operating Officer, Thread. Joined the Group as a graduate trainee in 1982, and has held a series of financial and operational management positions in the Thread business, predominantly in Asia but also in Europe and South Africa. Appointed Chief Operating Officer, Thread in August 2001 and to the Board of Coats plc in January 2002.

**Company Secretary:** Christopher Healy

**Auditors:** Deloitte & Touche

**Solicitors:** Slaughter and May

**Brokers:** Cazenove & Co

### Non Executive Directors

**Sir Harry Djanogly CBE** (Aged 64) Appointed a Director in 1985 and Non Executive Chairman in July 1999. He is Non Executive Deputy Chairman of Singer & Friedlander Plc and a Non Executive Director of Carpetright Plc. He is Chairman of the Nomination Committee and a member of the Remuneration and Audit Committees.

**Sir Victor Blank** (Aged 60) Appointed a Director in 1989 and Senior Independent Non Executive Director in March 1999. Became Non Executive Deputy Chairman in July 1999. He is Chairman of Trinity Mirror PLC, Chairman of GUS plc, Senior Independent Director of Chubb PLC (formerly Williams PLC) and Chairman of the charity WellBeing. He is Chairman of the Audit Committee and a member of the Remuneration and Nomination Committees.

**Keith Merrifield** (Aged 60) Appointed a Director in September 1996. Director of British Biotech Plc, and Boehringer Ingelheim (UK) Ltd. Formerly Director of International Operations for Wellcome PLC. He is Chairman of the Remuneration Committee and a member of the Audit and Nomination Committees.

**Blake Nixon** (Aged 42) Appointed a Director in January 2001. He has a wide experience of corporate finance in both the UK and Australia. He is UK Executive Director of Guinness Peat Group plc and Chairman of Staveley Industries plc. He is a member of the Audit and Nomination Committees.

The Directors present their report and the financial statements for the year ended 31 December 2002.

**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 and fashionwares.

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

**Major shareholdings** As at 5 March 2003, the Company was aware of the following persons who were directly or indirectly interested in 3% or more of the Company's issued ordinary share capital:

	Number of Ordinary Shares	% held
Guinness Peat Group Plc <b>Note 1</b>	179,082,728	25.3
Avenue Holdings Group Limited <b>Note 2</b>	179,082,728	25.3
RIT Capital Partners Plc	50,028,270	7.1
UBS Asset Management Limited	34,595,526	4.9
LFG Holdings Pty Limited	33,117,156	4.7
Chapman International Investments Limited	26,238,154	3.7
Legal & General Investment Management Limited	23,270,098	3.3

**Note 1:** The Company has been notified that, with effect from 27 February 2003, the nature of the interest of Guinness Peat Group PLC in 179,082,728 ordinary shares (the "Shares") altered as a result of the subscription by RIT Capital Partners Plc (and certain connected parties) and Chapman International Investments Limited for shares carrying, in aggregate, 50% of the voting rights in the share capital of Avenue Holdings Group Limited. The Shares are beneficially owned by a wholly owned subsidiary of Avenue Holdings Group Limited, Avenue Acquisition plc.

**Note 2:** The Company has been notified that, with effect from 27 February 2003, Avenue Holdings Group Limited acquired an interest in the Shares (see also, Note 1 above).

**Acquisitions and disposals** Details of acquisitions and disposals during the year are set out in the Financial review on pages 5 to 7.

**Review of the business** A review of the business during the year and of prospective future developments is contained within the Chairman's statement, the Chief Executive's review and the Financial review set out on pages 1 to 7 which constitute an integral part of this Report.

**Property** The majority of the Group's freehold and long leasehold properties were professionally valued by Healey & Baker at 30 June 1992. Group occupied properties were generally valued on the basis of open market value for existing use, although certain limited parts were valued on the basis of depreciated replacement costs. Those properties held surplus to requirements were valued on the basis of open market value. Since the completion of Healey & Baker's 1992 valuation a number of properties have been sold and, in the Directors' view, the surplus over book value based on the 1992 valuation has now been reduced to around £33 million.

**Results and dividends** The results of the Group for the year appear in detail on page 20. The preference dividends, amounting to £715,863 (2001 – £715,863) were paid on their due date.

The Board has declared a special second interim dividend of 2.5p (in lieu of a final dividend for the year to 31 December 2002) in connection with the recommended offer for the Company announced on 6 March 2003. The payment of this dividend is conditional on the offer being declared wholly unconditional. In the event that the offer does not become unconditional in all respects the special second interim dividend will not be paid. In this situation the Board will recommend a final dividend. If the special second interim dividend is paid, dividends for the year will total 4.0p (2001 – 3.0p). Movements in reserves are set out on page 23.

**Directors** Sir Harry Djanogly, Sir Victor Blank, Martin Flower, Jonathan Lea, Bryan Anderson, Keith Merrifield and Blake Nixon served as Directors throughout the year. Eduardo Malone retired from the Board on 10 September 2002.

**Directors' interests** The interests of the Directors in the share capital of the Company are shown on pages 16 and 17.

**Share plans** Details for the Executive share plans are given in the Remuneration Report on pages 13 to 18.

**Employment practices** The Group is committed to ensuring that employment practices and policies continue to match best practice in every market where we operate. Effective employee communications play a key role in ensuring that changes within the Group are understood and wherever possible anticipated and management gatherings were held during the year to review the behavioural changes required to deliver the Group's strategy.

The Group's belief in meaningful employee consultation also resulted during 2002 in the creation of a Select Committee of Coats European Works Council, which provides employee representatives with an opportunity to be consulted in relation to key projects that may affect employment in more than one European country.

The Group continuously develops its employment practices and policies and uses the best practice that exists in its units to the benefit of its wider operations.

**Ethical employment** Coats operates worldwide in full recognition of key ILO conventions. Coats Worldwide Employment Standards Statement contains the ethical principals which are observed across its global operations. The statement refers to employee rights to a safe and healthy work environment, the right to collective representation and the Group's commitment to ensuring that no persons below the legal age of employment are employed.

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

Employment within the Group is offered on the basis of the person's ability to work and not on the basis of their race, individual characteristics, creed or political opinion. The Group seeks to ensure that its suppliers also act in full conformity with this policy.

**Health and safety** The Group is committed to effective health and safety risk management. A senior executive responsible for Health and Safety has been appointed to identify and analyse best practices both within and outside Coats in order in due course to establish a Group wide Health and Safety management system. Such a system will, in particular, allow a more systematic reporting of incidents and better monitoring of the Group's Health and Safety performance so that appropriate information can be published in future years.

**Supplier credit** It is the Group's policy that its subsidiaries follow the CBI Code of Practice regarding the prompt payment of suppliers. A copy of the Code may be obtained from the CBI. In particular, for all trade creditors it is the Group's policy to:

- agree the terms of payment at the start of business with a supplier
- ensure suppliers are aware of the terms of payment
- pay in accordance with its contractual and other legal obligations

As the parent company does not trade, the number of days' credit in 2002 was nil (2001 – nil).

**Research and development** Resources have continued to be made available for 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 a leading position in technology and design.

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

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

**Charitable donations** Payments of £13,000 (2001 – £8,000) were made to charities during the year.

**Auditors** A resolution to re-appoint 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** The 2003 Annual General Meeting will be convened in due course and a Notice of Annual General Meeting will be sent to shareholders.

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

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

By Order of the Board  
**Christopher Healy**  
Company Secretary  
7 March 2003

The Combined Code on Corporate Governance published by the Financial Services Authority contains 14 principles of good governance applicable to listed companies and the paragraphs below together with the Report on Directors' remuneration on pages 13 to 18 disclose how these principles are applied within the Group.

#### **Directors**

The Group is controlled by a Board of Directors, the majority of whose members are Non Executive. All Directors are able to take independent professional advice in furtherance of their duties as necessary. The Board has a formal schedule of matters reserved to it and met seven times during 2002. It is responsible for the overall Group strategy, acquisition and divestment policy, approval of major capital expenditure, 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 and key appointments. It ensures that all Directors receive appropriate training on appointment and then 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, Remuneration Committee, Nomination Committee and Risk Management 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 other meetings with shareholders are arranged as appropriate. All shareholders have at least twenty working days notice of the Annual General Meeting at which all Directors and Committee Chairmen are available for questions.

#### **Financial reporting**

Reviews of the performance of the Divisions and the overall financial position of the Group are included in the Chief Executive's review and Financial review on pages 2 to 7. The Board uses these, together with the Chairman's statement on page 1 and the Directors' report on pages 9 and 10, to present a balanced and understandable assessment of the Group's position and prospects.

#### **Statement of internal control and risk management**

The Directors are responsible for the Group's system of internal control and for regularly reviewing its effectiveness. It is recognised that such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide

reasonable and not absolute assurance against material misstatement or loss.

An ongoing process for identifying, evaluating and managing the significant risks faced by the Group has been established. This process has been operational for the year under review and up to the date of approval of the Annual Report and Accounts. The process is regularly reviewed by the Board and accords with the Internal Control Guidance for Directors on the Combined Code produced by the Turnbull working party.

As part of the establishment of a formal risk management infrastructure to suit the geographically dispersed nature of the Group, key individuals within each of the businesses have been identified to act as risk co-ordinators. At the end of every quarter each Risk Co-ordinator completes a self-assessment questionnaire on aspects of operational, legal and asset risk. These quarterly returns are endorsed by the Managing Director of the business, with an assertion of the effectiveness of the system of internal control. These in turn are reviewed centrally and a summary report is prepared for the Risk Management Committee together with an evaluation of the significant risks which affect the business achieving its strategic objectives. The Finance Director reports quarterly to the Risk Management Committee on financial risks affecting the Group, including the work of internal audit.

The Risk Management Committee comprises the Executive Directors and the Managing Director of Bedwear and, until that division was sold, the Chief Executive of Fashion Retail. The Committee meets quarterly to discuss all risk matters affecting the Group. Other key senior executives are invited to attend the Risk Management Committee, as required. The Risk Management Committee is responsible for the co-ordination of Group wide risk management, including the regular review of the quarterly risk reports and reviews the effectiveness of the system of internal control. The Risk Management Committee reports on a quarterly basis to the Board.

#### **Internal financial control**

The Directors are responsible for the Group's system of internal financial control and for reviewing 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 or a management committee which accounts for its performance on a monthly basis through its Divisional Head to the Group Chief Executive. Management review meetings are held regularly for each Division at which the Division's progress is reviewed and subsequently reported to the Group 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 successively reviewed by executive management and passed to the Board for approval. Monthly results are reported against the approved budget and revised forecasts are prepared at regular 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 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

The internal audit function is carried out by PricewaterhouseCoopers, who report to the Finance Director and have access to the Audit Committee on a regular basis. 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 that 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 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.

### Audit Committee

The Audit Committee, comprising of the Non Executive Directors, has specific terms of reference which set out its authorities and duties. It meets formally at least three times a year with the external and internal auditors. 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 and internal auditors report to Non Executive

Directors. This forum may take place in private without the presence of an Executive Director.

### Environmental Management

The Group requires local management in its international businesses to take responsibility for environmental performance, within the framework of the Coats Worldwide Environmental Policy. This Policy is published on the Company's website, together with further details of the Group's approach to environmental management and achievements of individual businesses.

Units prepare an annual self-assessed report, covering Environmental Management Systems (EMS), emissions, energy and resources management, compliance, targeted action planning, customer issues and external interests. These are evaluated for reliability by the Group's external auditors on a sample basis. In addition to the self-assessment process, site visits are undertaken by the Group, supporting risk management and enabling the sharing of good practice.

The results, for the 85 units completing the 2002 self assessment are summarised on the Company's website. The year saw continued strengthening in Environmental Management practices amongst the business units, with particular progress in newer sites and continued integration of acquisitions into the Coats EMS. Four environmental incidents leading to intervention by the regulatory authorities were reported to the Group. These did not result in prosecution and action has been taken to prevent re-occurrence.

This statement and a representative sample of self assessed reports, have been reviewed by Deloitte & Touche. Their verification statement is available on the Company's website.

### Compliance statement

Throughout the year ended 31 December 2002 the Group has been in compliance with the Code provisions set out in Section 1 of the Combined Code on Corporate Governance published by the Financial Services Authority.

#### The Remuneration Committee

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. The remuneration policy is to provide market competitive rewards for delivering target performance with the opportunity to earn additional rewards for exceptional performance against short and medium term objectives through annual bonus and share incentives.

The Remuneration Committee is chaired by Keith Merrifield and acknowledges the principles and provisions relating to Directors' remuneration contained in the Combined Code. During 2002, he, Sir Harry Djanogly and Sir Victor Blank were members of the Remuneration Committee. All the members of the Committee are independent. In the opinion of the Board this includes Sir Harry Djanogly and Sir Victor Blank, notwithstanding that they are in their eighteenth and fourteenth years of service respectively. 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. No Director plays a part in any discussion about his own remuneration. The Committee has access to professional advice from inside 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. The Committee is assisted by the Group HR department in determining the appropriate structure and quantum of Directors' reward packages and takes advice from Mrs Carol Arrowsmith formerly of Andersen who subsequently joined Deloitte & Touche.

#### Remuneration package

During the year the Group's Executive Directors received a basic salary and were eligible to receive an annual bonus pursuant to the Senior Management Performance Plan.

The level of basic salary is determined by the Remuneration Committee prior to April each year or when an individual changes role or responsibility.

Bonuses payable under the Senior Management Performance Plan reflect factors including achieving targets for operating profit, sales and net working capital. In addition, the Remuneration Committee retains the flexibility to award additional bonuses based on their evaluation of performance and the prevailing circumstances. The maximum bonus that can be awarded is 100% of salary. Details of bonuses paid to Directors for 2002 are disclosed on page 15. In determining the balance between those elements of the package which are, and those which are not, subject to performance, the Remuneration Committee takes into consideration both the remuneration policy of the Company and market practice.

During 2002 the Remuneration Committee concluded its review of the Group's executive incentive plans and resolved that it would be appropriate to introduce new plans which were consistent with current best practice and which support the strategic goals of the Group. At the Annual General Meeting in 2002 the shareholders approved the Performance Share Plan and the 2002 Approved and Unapproved Share Option Plans, which replaced the 1995 Long Term Incentive Plan and the 1994 Executive Share Option Scheme respectively.

#### Performance Share Plan

The Performance Share Plan is designed to reward the delivery of exceptional shareholder value and focuses on those individuals who have overall responsibility for strategic direction, driving overall business performance and leading transformational change. Awards under the plan may be in the form of either shares or nil-priced options, or an equivalent cash amount. During the year, awards were made to a number of senior executives including the Executive Directors.

All Awards made in 2002 are subject to demanding performance conditions which require the Company's EPS over the three year period to grow by a minimum of RPI + 10%. In selecting stretching EPS growth as the performance measure for these awards the Committee gave consideration to the priorities it sees for achieving increased shareholder value in the period ahead. The amount that vests for growth of RPI + 10% per annum over the performance period will be 20% of the Award and increases on a sliding scale depending on EPS growth. For exceptional earnings growth, where the Company's EPS has grown by RPI + 35% per annum over the performance period, the maximum of 150% of the Award will vest.

## 14 Report on Directors' remuneration (continued)

The following table sets out the vesting schedule on a simplified annual basis for the Awards made in 2002.

EPS growth per annum	Percentage of Award that vests
Less than RPI + 10%	0%
RPI + 10%	20%
RPI + 10-15%	20-30% (additional 2% vests for each 1% increase in average annual real EPS growth)
RPI + 15-20%	30-40% (additional 2% vests for each 1% increase in average annual real EPS growth)
RPI + 20-25%	40-60% (additional 4% vests for each 1% increase in average annual real EPS growth)
RPI + 25-30%	60-100% (additional 8% vests for each 1% increase in average annual real EPS growth)
RPI + 30-35%	100-150% (additional 10% vests for each 1% increase in average annual real EPS growth)
Above RPI + 35%	150%

No Awards made have exceeded 100% of a participant's salary.

On a change of control the conditional awards vest subject to the performance criteria.

The existing Employee Benefits Trust (the "Trust") will be used to purchase shares awarded under the Performance Share Plan. The Trust held 552,569 ordinary shares as at 31 December 2002 (2001 – 552,569) and the market value of these shares was £270,759 (2001 – £261,089).

### 2002 Approved and Unapproved Share Option Plans

The new option plans were designed in accordance with the principles set out in UK corporate governance guidelines. The plans incorporate a number of new features compared with the 1994 Scheme including a maximum annual grant value, a fixed performance measurement period and a three-year EPS performance measure that is more demanding for larger option grants. No Executive Director has been granted options under these Plans.

### 1994 Executive Share Option Scheme

The final grant of options, which included all the current Executive Directors, under the terms of the 1994 Executive Share Option Scheme was made in 2001. Options are exercisable not less than three and not more than 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 any three year period following grant.

### Executive Directors' pension arrangements

All Executive Directors are members of the Coats Pension Plan on a contributory basis. Their dependants are eligible for dependants' pensions and the payment of a lump sum in the event of death in service. The Coats Pension Plan provides a pension on a defined benefit basis. Final pensionable earnings, excluding bonuses, are used to determine the Director's pension entitlement and life assurance cover is provided at four times gross earnings, again excluding bonuses. The pension entitlements earned by the Directors during the year calculated in accordance with the requirements of the UK Listing Authority listing rules and the Companies Act 1985 are set out in the table on page 16.

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

### Other benefits

Executive Directors receive benefits including medical insurance and company car benefits in line with competitive practice. Jonathan Lea and Bryan Anderson also receive a mortgage benefit payment. The value of such benefits is set out on page 15.



### Executive Directors' contracts

In normal circumstances it is the policy of the Group for Executive Directors contracts to expire on no more than twelve months' notice although a longer initial period may be agreed if recruiting an Executive Director from outside the Group. All the current Executive Directors have service contracts expiring on 12 months' notice. The effective date of Martin Flower's, Jonathan Lea's and Bryan Anderson's service contracts as Directors are 23 March 1990, 2 April 2001 and 1 January 2002 respectively. 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. Martin Flower has 35 years' service with the Group, his initial employee service contract commencing on 7 October 1968, 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. Jonathan Lea has 23 years service with the Group, his initial employee service contract commencing on 17 September 1979, 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. Bryan Anderson has 20 years' service with the Group, his initial employee service contract commencing on 20 September 1982 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. 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 up to one other board, on the basis that the Director concerned may retain any fees earned by him.

### 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 service contracts with the Company and are not members of the Pension Plan. Sir Harry Djanogly is entitled to benefits including medical insurance and company car benefits. Details of Non Executive Directors' remuneration are disclosed in the table of Directors' remuneration set out below.

An advisory resolution for the approval of this report on Directors' Remuneration will be put to the vote at this year's Annual General Meeting. The Chairman of the Committee will be available to answer questions on any aspect of the remuneration policy at the Annual General Meeting.

For and on behalf of the Board

**K J Merrifield**

The information below and continuing to page 17, which forms part of the Report on Directors' Remuneration, is audited by Deloitte & Touche.

### Directors' remuneration for year ended 31 December 2002

	Salaries/fees		Taxable benefits		Performance related bonuses		Compensation for the loss of office		Total	
	£'000 2002	£'000 2001	£'000 2002	£'000 2001	£'000 2002	£'000 2001	£'000 2002	£'000 2001	£'000 2002	
Sir Harry Djanogly	125	125	23	18	–	–	–	–	148	143
M C Flower	356	332	18	15	197	–	–	–	571	347
J D Lea	201	139	21	10	113	–	–	–	335	149
B G F Anderson	219	–	19	–	121	–	–	–	359	–
Sir Victor Blank	30	28	–	–	–	–	–	–	30	28
K J Merrifield	30	48	–	–	–	–	–	–	30	48
B A Nixon	25	24	–	–	–	–	–	–	25	24
N Goutard	–	24	–	–	–	–	–	–	–	24
M G Hartley	–	81	–	16	–	–	–	260	–	357
K T Kantor	–	97	–	6	–	45	–	753	–	901
E A Malone	17	24	–	–	–	–	–	–	17	24
Lord Owen	–	8	–	–	–	–	–	–	–	8
<b>Total</b>	<b>1,003</b>	<b>930</b>	<b>81</b>	<b>65</b>	<b>431</b>	<b>45</b>	<b>–</b>	<b>1,013</b>	<b>1,515</b>	<b>2,053</b>

### Notes

- The figures set out above relate only to the period of each Director's membership of the Board.
- 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.
- Ms Kantor's compensation payment made in 2001 includes one year's salary in accordance with her contract of employment, a payment of £472,800 in lieu of her entitlement under her unfunded unapproved pension arrangements and a payment for outplacement services.
- Mr Hartley's compensation payment made in 2001 includes one year's salary in accordance with his contract of employment and a payment for outplacement services.

## 16 Report on Directors' remuneration (continued)

### Directors' pension entitlement

	Increase in accrued pension during year net of inflation £p.a.	Total accrued pension entitlement at 31 Dec 2002 £p.a.	Transfer value of net increase over period (net of member contributions) £	Value of accrued pension at 31 Dec 2001 £	Value of accrued pension at 31 Dec 2002 £	Total change in value during period (net of member contributions) £
M C Flower	23,540	262,960	453,180	4,652,070	5,259,060	589,380
J D Lea	13,300	85,200	167,860	822,480	1,133,460	301,900
B G F Anderson	19,030	82,610	232,550	686,530	1,053,370	365,740

### Notes

- The increase in accrued pension during the year excludes any increase for inflation.
- The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11. The figures showing the Transfer Value of Net Increase over the Period include an allowance for the costs of providing death in service benefits.
- The change in the amount of the transfer value over the year is made up of the following elements –
  - transfer value of the increase in accrued pension;
  - increase in the transfer value of accrued pension at the start of the year due to ageing; and
  - the impact of any change in the economic or mortality assumptions underlying the transfer value basis.
- Directors pay contributions as required by the Coats Pension Plan and these amounts are offset in calculating the values shown in the columns headed Transfer Value of Net Increase over Period and Total Change in Value.
- The Transfer values disclosed above do not represent a sum paid or payable to the individual Director. Instead they represent a potential liability of the Pension scheme.

### Directors' interests

	Ordinary Shares	
	31 December 2002	31 December 2001 or date of appointment if later
Sir Harry Djanogly	1,292,207	1,292,207
M C Flower	84,502	84,502
J D Lea	23,079	23,079
B G F Anderson*	9,000	9,000
Sir Victor Blank	124,094	124,094
B A Nixon	–	–
K J Merrifield	30,000	30,000

\*Appointed as a Director on 1 January 2002.

Martin Flower, Jonathan Lea and Bryan Anderson are also deemed to be interested in the 552,569 ordinary shares held by the Trustee of the Employee Share Option Plan, solely by virtue of the fact that they are potential beneficiaries.

In 1992, the Company, through a subsidiary, acquired a joint interest in a property with Martin Flower on his taking permanent residence in England. The subsidiary's investment was £180,000. Under the Agreement Martin Flower has the option to purchase the Group's interest at market value. The Group's investment was reduced to £75,000 in January 1994 following partial exercise of Martin Flower's option. In 1999, the Company, through a subsidiary, acquired a joint interest in properties with Jonathan Lea and Bryan Anderson, respectively. The subsidiary's investment in both cases was £75,000 and Jonathan Lea and Bryan Anderson have an option to purchase the Group's interest at market value.

None of the Directors has or had any interest in the preference share capital of the Company or of the shares of any of its subsidiaries.

**Number of options**

<b>Director</b>	At 1 January 2002	Granted in year	Exercised	Lapsed	At 31 December 2002	Weighted average exercise price	Range of dates from which exercisable	Range of expiry dates
<b>M C Flower</b>								
Options granted since 01/01/1998	1,320,800	–	–	–	1,320,800	46.20p	29.03.02 to 17.09.04	29.03.09 to 17.09.11
Options granted prior to 01/01/1998	335,499	–	–	73,499	262,000	184.86p	13.09.97 to 17.03.00	13.09.04 to 17.03.07
SAYE	7,237	–	–	7,237	–	–	–	–
	<u>1,663,536</u>	<u>–</u>	<u>–</u>	<u>80,736</u>	<u>1,582,800</u>			
<b>J D Lea</b>								
Options granted since 01/01/1998	670,000	–	–	–	670,000	48.90p	29.03.02 to 17.09.04	29.03.09 to 17.09.11
Options granted prior to 01/01/1998	65,275	–	–	20,275	45,000	138.38p	13.09.97 to 17.09.00	13.09.04 to 17.09.07
SAYE	–	–	–	–	–	–	–	–
	<u>735,275</u>	<u>–</u>	<u>–</u>	<u>20,275</u>	<u>715,000</u>			
<b>B G F Anderson</b>								
Options granted since 01/01/1998	670,000	–	–	–	670,000	48.90p	29.03.02 to 17.09.04	29.03.09 to 17.09.11
Options granted prior to 01/01/1998	50,275	–	–	20,275	30,000	167.83p	13.09.97 to 17.09.00	13.09.04 to 17.09.07
SAYE	15,681	–	–	–	15,681	110.00p	01.07.02	01.01.03
	<u>735,956</u>	<u>–</u>	<u>–</u>	<u>20,275</u>	<u>715,681</u>			
<b>Totals</b>	<b>3,134,767</b>	<b>–</b>	<b>–</b>	<b>121,286</b>	<b>3,013,481</b>			

Bryan Anderson's SAYE option over 15,681 ordinary shares lapsed on 1 January 2003.

**Conditional awards under the Performance Share Plan**

<b>Director</b>	At 1 January 2002	Awarded	At 31 December 2002	Maximum possible vesting
M C Flower	–	681,904	681,904	1,022,856
J D Lea	–	390,476	390,476	585,714
B G F Anderson	–	419,047	419,047	628,570

Details of the conditions attaching to the share options and Performance Share Plan are shown on pages 13 and 14.

The closing middle market share price at 31 December 2002 was 49.0p (2001 – 47.25p) and the range during the year was 40.5p to 58.25p.

## 18 Report on Directors' remuneration (continued)

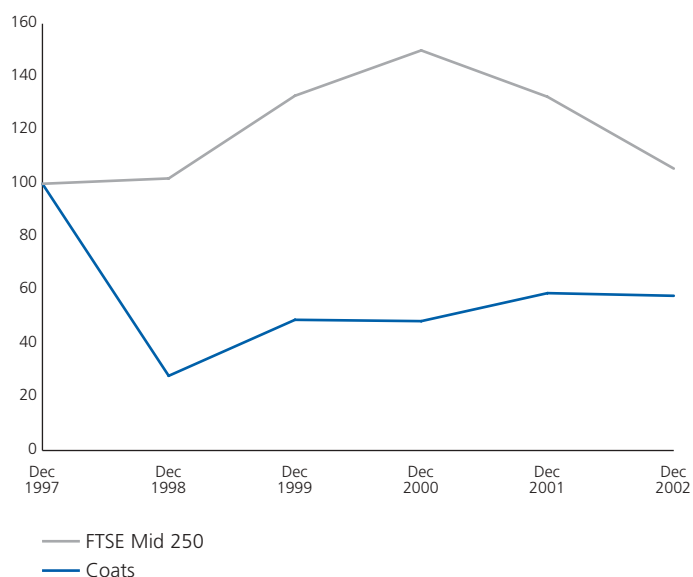
As required by the Directors Remuneration Report Regulations, set out below is a graph comparing the Total Shareholder Return ("TSR") of a holder of Ordinary shares in the share capital of Coats plc with a hypothetical holding of all the shares in the FTSE Mid 250 index (of which Coats plc is a member) of equal value on the day of purchase. Total Shareholder Return is calculated by reference to the increase (or decrease) in share price from the start of the five year period together with dividends on the basis that they are assumed to be reinvested throughout the period. The graph shows cumulative TSR performances over the five year period to this report's year end, 31 December 2002.

As described on pages 13 and 14, none of the Group's share option plans or performance share plans have performance criteria which are linked to TSR or to the particular five year period in question and accordingly the graph is not an indication of the achievement of those plans' performance criteria.

### Historical TSR performance

#### Growth in the value of a hypothetical £100 holding over five years

#### FTSE Mid 250 comparison



We have audited the financial statements of Coats plc for the year ended 31 December 2002 which comprise the profit and loss account, the balance sheets, the cash flow statement, the reconciliation of net cash flow to movement in net debt, the analysis of free cash flow, the statement of total recognised gains and losses, the reconciliation of movements in shareholders' funds, the statement of accounting policies and the related notes 1 to 32. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the Report on Directors' remuneration that is described as audited.

This report is made solely to the members of Coats plc, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the members of Coats plc those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the members of Coats plc, as a body, for our audit work, for this report or for the opinions we have formed.

#### **Respective responsibilities of Directors and auditors**

As described in the statement of Directors' responsibilities, the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the Annual Report including the Report on Directors' remuneration. Our responsibility is to audit the financial statements and the part of the Report on Directors' remuneration described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements, auditing standards, and the Listing Rules of the Financial Services Authority. We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985. We also report 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 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all the risks and controls or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the Directors' report and the other information contained in the Annual Report for the above year as described in the contents section including the unaudited part of the Directors' remuneration report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

#### **Basis of audit opinion**

We conducted our audit in accordance with United Kingdom 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 and the part of the Report on Directors' remuneration described as having been audited. 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 and the part of the Report on Directors' remuneration described as having been audited 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 and the part of the Report on Directors' remuneration described as having been audited.

#### **Going concern**

In forming our opinion, we have considered the adequacy of the disclosures made in the statement of accounting policies – going concern – concerning the uncertainty in relation to the impact of the change of control clause, in the event of a change of ownership, on the Company's current committed facilities of £172 million. In view of the significance of this uncertainty, we consider that it should be drawn to your attention, but our opinion is not qualified in this respect.

#### **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 2002 and of the profit of the Group for the year then ended; and
- the financial statements and part of the Directors' remuneration report described as having been audited have been prepared in accordance with the Companies Act 1985.

#### **Deloitte & Touche**

Chartered Accountants and Registered Auditors  
Manchester

7 March 2003

## 20 Consolidated profit and loss account

For the year ended 31 December 2002	Notes	2002 Total £m	2001 Restated Total £m
<b>Turnover</b>	1&2		
Continuing operations		<b>1,031.4</b>	1,069.4
Discontinued operations		<b>124.2</b>	177.6
		<b>1,155.6</b>	1,247.0
Cost of sales	1&3	<b>(741.6)</b>	(810.6)
<b>Gross profit</b>		<b>414.0</b>	436.4
Distribution costs	1	<b>(266.4)</b>	(287.1)
Administrative expenses	1&3	<b>(110.9)</b>	(117.9)
Other operating income	1&3	<b>3.5</b>	4.5
<b>Operating profit</b>	1,2&3	<b>40.2</b>	35.9
Continuing operations		<b>55.0</b>	41.6
Discontinued operations		<b>(14.8)</b>	(5.7)
Share of operating profits of associated companies		<b>0.9</b>	0.6
Profit on sale of fixed assets of continuing operations		<b>3.4</b>	9.2
Profit on sale of fixed assets of discontinued operations		<b>5.3</b>	4.4
Losses on sale or termination of continuing operations		<b>(7.0)</b>	(24.1)
Losses on sale or termination of discontinued operations		<b>(3.1)</b>	(2.7)
<b>Profit on ordinary activities before interest</b>		<b>39.7</b>	23.3
Interest receivable and similar income	6	<b>9.7</b>	12.0
Interest payable and similar charges	7	<b>(19.1)</b>	(22.5)
Net interest payable		<b>(9.4)</b>	(10.5)
Other finance income	29	<b>14.3</b>	10.2
<b>Profit on ordinary activities before taxation</b>		<b>44.6</b>	23.0
Tax on profit on ordinary activities	8	<b>(9.1)</b>	(11.0)
<b>Profit on ordinary activities after taxation</b>		<b>35.5</b>	12.0
Equity minority interests		<b>(5.2)</b>	(1.1)
<b>Profit for the financial year</b>	9	<b>30.3</b>	10.9
Preference dividends on non-equity shares		<b>(0.7)</b>	(0.7)
<b>Profit attributable to ordinary shareholders</b>		<b>29.6</b>	10.2
Ordinary dividends on equity shares	10	<b>(28.4)</b>	(21.1)
<b>Transferred to/(from) reserves</b>	24	<b>1.2</b>	(10.9)
<b>Basic earnings per Ordinary share of 20p</b>	11	<b>4.2p</b>	1.4p
<b>Headline earnings per Ordinary share of 20p</b>	11	<b>3.8p</b>	2.8p

Movements in reserves appear on page 45.

The notes on pages 28 to 54 form part of these accounts.

At 31 December 2002	Notes	Group		Company	
		2002 £m	2001 Restated £m	2002 £m	2001 £m
<b>Fixed assets</b>					
Goodwill	21	<b>48.3</b>	51.8	–	–
Negative goodwill	21	<b>(11.2)</b>	(4.7)	–	–
		<b>37.1</b>	47.1	–	–
Tangible assets	12	<b>379.8</b>	402.5	–	–
Investments	13	<b>5.5</b>	6.3	<b>1,161.7</b>	2,116.7
		<b>422.4</b>	455.9	<b>1,161.7</b>	2,116.7
<b>Current assets</b>					
Stocks	14	<b>255.6</b>	291.9	–	–
Debtors due within one year	15	<b>241.8</b>	239.0	<b>3.5</b>	5.0
Debtors due in more than one year	15	<b>10.0</b>	16.2	–	0.7
Investments	16	<b>24.3</b>	24.5	–	–
Cash at bank and in hand	19	<b>62.2</b>	88.9	<b>3.1</b>	19.7
		<b>593.9</b>	660.5	<b>6.6</b>	25.4
<b>Creditors – amounts falling due within one year</b>					
Bank overdrafts	19	<b>(26.8)</b>	(24.9)	<b>(26.5)</b>	(22.6)
Other creditors	17	<b>(335.3)</b>	(360.5)	<b>(97.3)</b>	(111.1)
Convertible debt	17	<b>(60.4)</b>	–	<b>(60.4)</b>	–
		<b>(422.5)</b>	(385.4)	<b>(184.2)</b>	(133.7)
<b>Net current assets/(liabilities)</b>		<b>171.4</b>	275.1	<b>(177.6)</b>	(108.3)
<b>Total assets less current liabilities</b>		<b>593.8</b>	731.0	<b>984.1</b>	2,008.4
<b>Creditors – amounts falling due after more than one year</b>					
Other creditors	18	<b>(8.1)</b>	(22.3)	<b>(423.4)</b>	(1,245.3)
Convertible debt	18	–	(60.2)	–	(60.2)
		<b>(8.1)</b>	(82.5)	<b>(423.4)</b>	(1,305.5)
<b>Provisions for liabilities and charges</b>	20	<b>(54.3)</b>	(68.7)	<b>(1.2)</b>	(1.5)
<b>Net assets excluding pension assets and liabilities</b>		<b>531.4</b>	579.8	<b>559.5</b>	701.4
Pension assets	29	<b>31.1</b>	50.7	–	–
Pension liabilities	29	<b>(60.9)</b>	(49.8)	–	–
<b>Net assets including pension assets and liabilities</b>		<b>501.6</b>	580.7	<b>559.5</b>	701.4
<b>Capital and reserves</b>					
Equity share capital	22	<b>141.6</b>	141.1	<b>141.6</b>	141.1
Non-equity share capital	22	<b>14.6</b>	14.6	<b>14.6</b>	14.6
Called up share capital		<b>156.2</b>	155.7	<b>156.2</b>	155.7
Share premium account	23	<b>207.2</b>	206.7	<b>207.2</b>	206.7
Other reserves	23	<b>34.1</b>	34.1	<b>35.6</b>	35.6
Pension reserve	23	<b>(29.8)</b>	0.9	–	–
Profit and loss account	24	<b>96.0</b>	118.0	<b>160.5</b>	303.4
<b>Shareholders' funds</b>		<b>463.7</b>	515.4	<b>559.5</b>	701.4
Equity minority interests	25	<b>37.9</b>	65.3	–	–
<b>Total capital employed</b>		<b>501.6</b>	580.7	<b>559.5</b>	701.4

Approved by the Board on 7 March 2003  
 Sir Harry Djanogly, Director  
 Mr Martin Flower, Director

The notes on pages 28 to 54 form part of these accounts.

## 22 Cash flow statement

For the year ended 31 December 2002	Notes	2002 £m	2001 £m
<b>Net cash inflow from operating activities</b>	31	<b>100.7</b>	86.9
<b>Returns on investments and servicing of finance</b>			
Interest received		7.2	15.5
Interest paid		(13.9)	(17.4)
Cost of financing convertible debt		(3.8)	(3.8)
Interest element of finance lease rental payments		(0.3)	(0.7)
Income from investments		0.1	–
Preference dividends paid		(0.7)	(0.7)
Dividends paid to minority shareholders		(5.9)	(3.7)
<b>Net cash outflow for returns on investments and servicing of finance</b>		<b>(17.3)</b>	(10.8)
<b>Taxation</b>		<b>(5.7)</b>	(11.1)
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets		(48.6)	(54.7)
Purchase of fixed asset investments		–	(0.5)
Sale of tangible fixed assets		16.7	24.0
Sale of fixed asset investments		0.5	1.7
<b>Net cash outflow for capital expenditure and financial investment</b>		<b>(31.4)</b>	(29.5)
<b>Acquisitions and disposals</b>			
Purchase of subsidiary undertakings	31	(11.6)	(22.4)
Net cash acquired with subsidiaries		0.4	3.5
Sale of subsidiary undertakings	31	1.0	36.6
Net cash disposed with subsidiaries		–	(3.5)
<b>Net cash (outflow)/inflow for acquisitions and disposals</b>		<b>(10.2)</b>	14.2
<b>Equity dividends paid</b>		<b>(21.2)</b>	(21.1)
<b>Management of liquid resources</b>			
Decrease in short term deposits		12.0	1.8
Purchase of current asset investments		–	(1.7)
Sale of current asset investments		0.6	–
<b>Net cash inflow from management of liquid resources</b>		<b>12.6</b>	0.1
<b>Financing</b>			
Issue of ordinary share capital		1.0	0.6
Issue of shares to minorities		0.6	0.1
Decrease in borrowings	31	(44.4)	(35.2)
<b>Net cash outflow from financing</b>		<b>(42.8)</b>	(34.5)
<b>Decrease in cash</b>	31	<b>(15.3)</b>	(5.8)
<b>Reconciliation of net cash flow to movement in net debt</b>			
<b>Decrease in cash</b>		<b>(15.3)</b>	(5.8)
Cash outflow from change in debt and lease financing		44.4	35.2
Cash inflow from change in short term deposits		(12.0)	(1.8)
Change in net debt resulting from cash flows		17.1	27.6
New finance leases		(0.2)	(0.3)
Loan notes issued in respect of acquisitions		–	(2.5)
Loans and finance leases acquired with subsidiaries		–	(0.4)
Other		(0.2)	(0.1)
Exchange		7.0	(4.2)
<b>Decrease in net debt</b>		<b>23.7</b>	20.1
Net debt at 1 January		(128.1)	(148.2)
<b>Net debt at 31 December</b>	31	<b>(104.4)</b>	(128.1)



## Analysis of free cash flow

For the year ended 31 December 2002	2002 £m	2001 £m
Net cash inflow from operating activities	<b>100.7</b>	86.9
Returns on investments and servicing of finance	<b>(17.3)</b>	(10.8)
Tax paid	<b>(5.7)</b>	(11.1)
Capital expenditure and financial investment	<b>(31.4)</b>	(29.5)
<b>Free cash flow</b>	<b>46.3</b>	35.5

## Statement of total recognised gains and losses

For the year ended 31 December 2002	Notes	2002 £m	2001 Restated £m
Profit for the financial year		<b>30.3</b>	10.9
Currency translation differences on foreign currency net investments		<b>(25.4)</b>	(12.2)
Actuarial losses	29	<b>(28.5)</b>	(4.4)
<b>Total recognised gains and losses relating to the year</b>		<b>(23.6)</b>	(5.7)
Prior year adjustment – Deferred tax		<b>(27.3)</b>	
<b>Total gains and losses recognised since the last Annual Report</b>		<b>(50.9)</b>	

## Reconciliation of movements in shareholders' funds

For the year ended 31 December 2002	2002 £m	2001 Restated £m
Profit for the financial year	<b>30.3</b>	10.9
Dividends	<b>(29.1)</b>	(21.8)
	<b>1.2</b>	(10.9)
Other recognised gains and losses relating to the year	<b>(53.9)</b>	(16.6)
New share capital subscribed	<b>1.0</b>	0.6
Goodwill attributable to businesses sold or terminated	–	12.5
<b>Net reduction of shareholders' funds</b>	<b>(51.7)</b>	(14.4)
Opening shareholders' funds (see note)	<b>515.4</b>	529.8
<b>Closing shareholders' funds</b>	<b>463.7</b>	515.4
Equity shareholders' funds	<b>449.1</b>	500.8
Non-equity shareholders' funds	<b>14.6</b>	14.6
	<b>463.7</b>	515.4
<b>Note</b>		
Opening shareholders' funds as reported	<b>542.7</b>	556.9
Prior year adjustment – Deferred tax	<b>(27.3)</b>	(27.1)
Opening shareholders' funds as restated	<b>515.4</b>	529.8

## 24 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.

The Group's accounting policies are unchanged from the year ended 31 December 2001 except for the adoption of FRS19 – Deferred Tax. In accordance with this financial reporting standard, deferred tax is now stated on a full liability basis, instead of on a partial provisioning basis. Comparative figures have been restated to reflect this change of accounting policy, as a result of which the Group's net deferred tax liability as at 31 December 2001 was increased by £30.9 million and the Group's pension liabilities were reduced by £3.1 million.

This has resulted in reductions in the Group's profit and loss account and equity minority interests of £30.4 million and £0.5 million respectively, and an increase in the Group's pension reserve of £3.1 million. Accordingly, shareholders' funds at 31 December 2001 have fallen by £27.3 million.

For the year ended 31 December 2001, the tax charge and equity minority interest in the profit and loss account have been reduced by £0.1 million and £0.2 million respectively and currency translation losses on foreign currency net investments have increased by £0.5 million. The Group's tax charge for the year to 31 December 2002 is £1.7 million lower than it would have been if deferred tax had been calculated on a partial provisioning basis. The detailed accounting policy arising from the adoption of this financial reporting standard is set out below.

### **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 is capitalised and amortised to the profit and loss account over its estimated useful life which will not exceed 20 years.

Negative goodwill is capitalised in accordance with FRS10 and is amortised over the expected useful economic lives of the non-monetary assets acquired. As a matter of accounting policy, goodwill written off directly to reserves prior to 1 January 1998 in respect of businesses still retained 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.

If a business is subsequently sold or closed, any goodwill arising on acquisition that was written off directly to reserves or that has not been amortised through the profit and loss account is taken into account in determining the profit or loss on sale or closure.

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 the profit and loss account in the year to which they relate.

**Research and development expenditure**

Expenditure is charged to the 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.

The Group operates various defined benefit and contribution pension schemes throughout the world. Contributions to the defined contribution schemes are charged to the accounts as incurred.

The defined benefits schemes provide benefits based on the final pensionable salary. The assets of most of the defined benefit schemes, particularly those in the UK and North America, are held separately from those of the Group. In certain countries in Europe, pension liabilities are unfunded and are carried on those companies' balance sheets.

Defined benefit pension scheme assets are measured using closing market values. Pension scheme liabilities are measured using the projected unit method and are discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. Under FRS17, any surplus arising as a result of these valuations is restricted to the present value of any pension contribution holiday. No account is taken of any potential refund from the scheme as these can only be included once agreed by the trustees. The amount included in the accounts is defined as the recognised recoverable surplus.

The increase in the present value of the liabilities of the Group's defined benefit pension schemes expected to arise from employee service in the period is charged to operating profit. The expected return on the scheme's assets and the increase during the period in the present value of the scheme's liabilities, arising from the passage of time, are included in other finance income.

Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

Liabilities for US post-retirement medical benefits have been accounted for in accordance with FRS17.

## 26 Statement of accounting policies (continued)

### 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	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

Deferred tax is recognised on a full provision basis on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law, and is not discounted. Timing differences arise from the inclusion of items of income or expenditure in taxation computations in periods different from those in which they are included in the financial statements.

Deferred tax is not recognised on timing differences arising on property revaluation surpluses where there is no commitment to sell the asset nor on gains on asset sales that are rolled over into replacement assets for tax purposes. In addition, 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.

Deferred tax assets are recognised only to the extent that it is considered more likely than not there will be suitable future taxable profits to permit tax relief of the underlying timing differences. Unrelieved advance corporation tax is carried forward only when it can be set against provisions for taxation or to the extent it is recoverable against tax liabilities in respect of the following period.

**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.

**Going concern**

The financial statements have been prepared on a going concern basis.

Under the terms of the Company's £172 million committed bank facilities, in the event of a change in control, the Company must negotiate with a view to agreeing terms and conditions acceptable to the lenders for continuing to make the facilities available.

In recommending the current offer from Avenue Acquisition for the ordinary share capital of the Company, the Directors have assessed the likelihood of the facilities not continuing to be made available and, if they are not available, whether alternative facilities can be negotiated and agreed. In forming their assessment, the Directors have had regard to the considerable investment made in the share capital of the Company by the acquiror and the structure of that investment, as well as to certain representations made by Avenue Acquisition and Guinness Peat Group plc regarding their intentions either to invite the Company's existing banks to continue making the facility available with changes acceptable to the various parties or to re-finance the facility through Avenue Acquisition's own bankers. In the circumstances, the Directors have no evidence to suggest that the facilities will be withdrawn or that a re-financing would not be achievable and accordingly the Directors continue to believe that it remains appropriate to adopt the going concern basis in preparing the Company's financial statements.

After making enquiries, and based on the above the Directors have formed a judgement that at the time of approving the financial statements, there is a reasonable expectation that the Group has sufficient resources to continue in operational existence for the foreseeable future.

**1 Continuing and discontinued operations and acquisitions**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Note**

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



### 3 Operating profit

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

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

#### and after crediting other operating income:

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

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

##### Thread

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

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

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

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

Impairment of goodwill	–	1.1
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<b>Continuing operations</b>	<b>–</b>	<b>1.1</b>
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Discontinued operations	0.1	(0.1)
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<b>Total</b>	<b>0.1</b>	<b>1.0</b>
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**4 Directors' emoluments**

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

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

**5 Employees**

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

**6 Interest receivable and similar income**

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

**7 Interest payable and similar charges**

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

## 8 Tax on profit on ordinary activities

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

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

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

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

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

## 34 Notes to the accounts (continued)

### 9 Profit for the year

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

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

### 10 Ordinary dividends

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

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

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

### 11 Earnings per share

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

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

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

## 12 Tangible assets

	Land and buildings £m	Plant, machinery and vehicles £m	Total £m
<b>Group</b>			
Cost			
At beginning of year	211.3	661.7	873.0
Exchange difference	(9.0)	(33.1)	(42.1)
Subsidiaries acquired	–	0.7	0.7
Subsidiaries disposed	(0.7)	(14.9)	(15.6)
Additions	4.8	52.1	56.9
Disposals	(7.1)	(35.9)	(43.0)
At 31 December 2002	199.3	630.6	829.9
Depreciation			
At beginning of year	74.6	395.9	470.5
Exchange difference	(3.5)	(16.2)	(19.7)
Subsidiaries acquired	–	0.5	0.5
Subsidiaries disposed	(0.3)	(11.9)	(12.2)
Charge for the year	5.0	37.0	42.0
Impairment of fixed assets	–	1.9	1.9
Disposals	(4.2)	(28.7)	(32.9)
At 31 December 2002	71.6	378.5	450.1
Net book value			
At 31 December 2002	127.7	252.1	379.8
At beginning of year	136.7	265.8	402.5
<b>Land and buildings</b>			
		2002 £m	2001 £m
Cost			
Freehold		163.4	173.1
Long leasehold		14.1	14.3
Short leasehold		21.8	23.9
		199.3	211.3
Accumulated depreciation			
Freehold		56.4	59.1
Long leasehold		4.2	3.9
Short leasehold		11.0	11.6
		71.6	74.6

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

**Plant, machinery and vehicles**

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

## 13 Investments

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

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

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

Principal subsidiaries are listed on page 55.

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

## 14 Stocks

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

## 15 Debtors

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

## 16 Current asset investments

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

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

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

## Note

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

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

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

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

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

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

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

Finance lease obligations are repayable as follows:

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

**Convertible debt**

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

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

**Loans**

Repayable within five years:

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

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



**19 Borrowings and financial instruments (continued)****(a) Loans and loan stock (continued)**

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

**(b) Financial instruments****Group**

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

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

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

**Maturity profile of financial liabilities**

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

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

**Undrawn committed borrowing facilities**

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

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

The analysis of net assets by currency is as follows:

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

**Interest rate and currency profile**

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

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

**Financial liabilities**

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

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

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

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

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

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

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

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

**Financial assets**

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

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

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

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

**Fair values of financial assets and liabilities**

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

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

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

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

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

**Currency exposures**

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

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

( ) represents uncovered monetary liabilities.

**20 Provisions for liabilities and charges**

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

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

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

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

**Other provisions**

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

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

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

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

**21 Goodwill**

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

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

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

**21 Goodwill (continued)**

The goodwill capitalised in the balance sheet is as follows:

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

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

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

**22 Called up share capital**

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

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

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

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

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

## 22 Called up share capital (continued)

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

Options granted for ordinary shares not exercised are as follows:

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

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

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

## 23 Other reserves

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

## 24 Profit and loss account

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

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

## 46 Notes to the accounts (continued)

### 25 Equity minority interests

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

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

### 26 Future capital expenditure

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

### 27 Contingent liabilities

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

### 28 Operating lease rentals

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



## 29 Pensions

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

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

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

## (a) UK

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

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

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

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

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

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

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

**29 Pensions (continued)**

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

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

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

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

The history of experience gains and losses has been:

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

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

**(b) North America**

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

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

## 29 Pensions (continued)

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

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

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

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

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

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

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

**29 Pensions (continued)**

The history of experience gains and losses has been:

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

**(c) Other schemes**

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

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

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

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

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

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

**29 Pensions (continued)**

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

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

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

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

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

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

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

Analysis of net returns on pension schemes:

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

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

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

**30 Related party transactions**

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

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

**Company**

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

**Directors**

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

## 31 Notes to the cash flow statement

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

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

## (b) Analysis of financing cash flows

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

## (c) Analysis of net debt

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

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

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

**32 Post balance sheet events**

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

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



	Country of incorporation or registration and principal country of operation		Country of incorporation or registration and principal country of operation
<b>Holding and Finance Companies</b>			
*Coats Finance Company Limited	England		
Coats Holdings Limited	England		
Jaeger Holdings Limited	England		
Tootal Thread Limited	England		
*Viyella Holdings Limited	England		
Coats Deutschland GmbH	Germany		
*Coats Patons Limited	Scotland		
J. & P. Coats, Limited	Scotland		
*Coats Invers SLU	Spain		
Coats North America Consolidated Inc.	US		
<b>Thread</b>			
Coats (UK) Limited	England		
Coats Bangladesh Ltd	80%	Bangladesh	
Coats Cadena SA		Argentina	
Coats Australian Pty Ltd		Australia	
Coats Corrente Ltda		Brazil	
Coats Canada Inc		Canada	
Coats Cadena SA	60%	Chile	
Guangzhou Coats Limited	90%	China	
Guangying Spinning Company Limited	50%	China	
Jinying Spinning Company Limited	50%	China	
Coats France SAS		France	
Coats GmbH		Germany	
China Thread Development Company Limited		Hong Kong	
Coats Hong Kong Limited		Hong Kong	
Coats Hungary Limited		Hungary	
PT Coats Rejo Indonesia		Indonesia	
Coats Cucirini SpA	72.8%	Italy	
Coats Thread (Malaysia) Sdn Bhd	51%	Malaysia	
Grupo Coats Timon, S.A. De C.V.		Mexico	
Cia de Linha Coats & Clark Lda		Portugal	
Coats South Africa (Pty) Ltd		South Africa	
Coats Fabra SA	98.9%	Spain	
Coats Thread Lanka (Private) Ltd	86.8%	Sri Lanka	
Coats (Turkiye) Iplik Sanayii AS	76.8%	Turkey	
<b>Thread continued</b>			
Coats American Inc.			US
Coats & Clark Inc.			US
Coats Phong Phu Co Ltd	75%		Vietnam
<b>Fashion Retail</b>			
The Jaeger Company Limited			England
The Jaeger Company's Shops Limited			England
William Hollins & Company Limited			England
Jaeger Sportswear Limited			US
<b>Bedwear</b>			
Dorma Group Limited			England
<b>Other</b>			
Madura Coats Limited Ordinary Shares (Thread and India Textiles)	93%		India

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 plc.

A complete list of subsidiary undertakings and companies in which Coats 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 plc.

## 56 Five year statistics

	2002	2001	2000	1999	1998
	£m	Restated £m	£m	£m	£m
Turnover	<b>1,155.6</b>	1,247.0	1,596.1	1,679.5	2,082.9
Operating profit before exceptional items	<b>40.2</b>	35.9	50.4	15.6	88.5
FRS3 exceptional items	<b>(1.4)</b>	(13.2)	(81.2)	86.9	(18.1)
Profit/(loss) before interest and associated companies	<b>38.8</b>	22.7	(30.8)	102.5	70.4
Share of profits of associated companies	<b>0.9</b>	0.6	0.6	(0.4)	(0.4)
Amounts written off investments	<b>–</b>	–	–	(16.8)	–
Net interest	<b>(9.4)</b>	(10.5)	(20.1)	(21.7)	(34.5)
Other finance income	<b>14.3</b>	10.2	19.2	–	–
Profit/(loss) before taxation	<b>44.6</b>	23.0	(31.1)	63.6	35.5
Taxation	<b>(9.1)</b>	(11.0)	(16.8)	(31.3)	(56.2)
Profit/(loss) after taxation	<b>35.5</b>	12.0	(47.9)	32.3	(20.7)
Preference dividends and minority interests	<b>(5.9)</b>	(1.8)	(15.5)	(3.7)	(5.9)
Profit/(loss) attributable to ordinary shareholders	<b>29.6</b>	10.2	(63.4)	28.6	(26.6)
Ordinary dividends	<b>(28.4)</b>	(21.1)	(21.1)	(21.1)	(20.9)
Profit/(loss) retained	<b>1.2</b>	(10.9)	(84.5)	7.5	(47.5)
Basic earnings/(loss) per ordinary share	<b>4.2p</b>	1.4p	(9.0)p	4.1p	(3.8)p
Headline earnings/(loss) per share	<b>3.8p</b>	2.8p	3.9p	(4.3)p	(1.4)p
Dividends per ordinary share (conventional equivalent)	<b>4.0p</b>	3.0p	3.0p	3.0p	3.0p
Goodwill, fixed assets and investments	<b>422.4</b>	455.9	485.0	540.1	626.6
Net current assets	<b>171.4</b>	275.1	298.4	574.4	472.7
Total assets less current liabilities	<b>593.8</b>	731.0	783.4	1,114.5	1,099.3
Creditors due after more than one year	<b>(8.1)</b>	(82.5)	(88.1)	(210.4)	(269.0)
Provisions for liabilities and charges	<b>(54.3)</b>	(68.7)	(56.3)	(128.1)	(120.8)
Net pension (liabilities)/assets	<b>(29.8)</b>	0.9	(3.8)	–	–
Net assets	<b>501.6</b>	580.7	635.2	776.0	709.5
Net debt	<b>104.4</b>	128.1	148.2	125.1	320.8
Net asset value per ordinary share	<b>63.4p</b>	71.0p	77.1p	99.0p	88.9p
Net gearing including convertible debt	<b>20.8%</b>	22.1%	23.3%	16.1%	45.2%
Cash inflow from normal operating activities	<b>119.5</b>	114.4	113.2	158.5	222.9
Net cash inflow from operating activities	<b>100.7</b>	86.9	73.3	118.4	187.1
Decrease/(increase) in net debt	<b>23.7</b>	20.1	(23.1)	195.7	41.1
Free cash flow	<b>46.3</b>	35.5	1.3	40.9	61.2

### Note

The 2002 and 2001 figures above reflect FRS19 – Deferred tax. The 2002, 2001, and 2000 figures above reflect FRS17 – Retirement Benefits. The information required to restate earlier years is not available.

# Shareholder information

## Annual General Meeting

The date, time and venue of the Annual General Meeting will be notified to shareholders separately.

## Company information

Registered Office: 1 The Square, Stockley Park, Uxbridge, Middlesex UB11 1TD Tel: +44 (0)20 8210 5000

Registered in: England No.104998

Registrars: Capita Registrars, Balfour House, 390/398 High Road, Ilford, Essex IG1 1NQ  
Tel: 0870 162 3100 (UK only) +44 20 8639 2157 (outside UK)

## On-line shareholder facilities

Private shareholders can obtain secure access on-line to their personal shareholder details at the Registrars in the Shareholder services section of the Company website. You can update your shareholder account on-line; for example, record a change of address or request dividends to be sent directly into a bank or building society account.

Alternatively, contact the Registrars in writing or by telephone for any share registration queries.

## 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.

<b>Analysis by category</b>	Numbers of shareholders	Number of ordinary 20p shares
Banks and nominee companies	1,276	597,979,302
Individuals	24,962	49,098,613
Insurance companies	22	43,226,021
Other institutions	222	14,633,655
Investment trusts	34	2,783,446
Pension funds	4	252,389
	26,520	707,973,426

<b>Analysis by shareholding</b>	Numbers of shareholders	Number of ordinary 20p shares
Under 1,000	16,251	6,108,216
1,000 – 5,000	8,067	17,765,543
5,001 – 50,000	1,831	24,042,946
50,001 – 100,000	98	7,294,984
100,001 – 500,000	150	34,131,659
Over 500,000	123	618,630,078
	26,520	707,973,426

## Unsolicited mail

The Company is obliged to make its share register available to members of the public and organisations on 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 7EZ



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