Coats plc
Annual Report 2004

Global leader in thread

Contents

Results

In 2004, Coats plc, in line with its operational objectives, delivered an exceptionally strong cash performance, albeit at the expense of underlying profit which was slightly lower.

Net cash inflow from operating activities was $200.2 million, including $93.5 million due to improved management of working capital, and net debt was reduced by $271.3 million. Although cash generation was the main priority, good progress was made in sales. Good growth of industrial thread in low-cost markets and strong crafts sales in North America more than offset the expected continued decline in industrial thread markets in Western Europe and North America. Overall, like-for-like growth in sales was 3% (see Operating and financial review), with 6% in crafts and 2% in industrial.

The main disappointment was a slight decrease in underlying Thread operating margin – from 7.2% to 6.6% (as set out in the Operating and financial review) – due almost entirely to a sharp decline in activity in certain Western European industrial thread plants, as a result of accelerated migration of customers to low-cost regions and our stock reduction program. This offset benefits from earlier reorganisation projects. All other regions outside Europe delivered underlying growth in operating profit.

The Company became a subsidiary of Guinness Peat Group plc on 1 April 2004 and subsequently changed its name from Coats Holdings plc to Coats plc. The operations of the Group comprise almost entirely the operations of Coats Holdings Ltd, previously named Coats Ltd, which was acquired on 7 April 2003. The reported comparative figures in the profit and loss and cash flow statements for 2003 therefore reflect Coats Holdings operations since that date. However in order to assist understanding of changes in underlying trading performance, pro-forma full year figures for 2003 have been provided in the segmental analysis in the Operating and financial review.

Investment, reorganisation and disposals

Rebalancing industrial thread capacity in line with anticipated customer migration continued to dominate the Group's spending priorities. During 2004 major new facilities for industrial thread and zips in Shenzhen, China were completed. At the same time several facilities in Western Europe and North America were closed or downsized.

Towards the end of 2004, the Group entered into an agreement to acquire the crafts distribution business of Almedahls in Sweden and Norway. This business, which has an annual turnover of approximately $27 million, fills a gap in our coverage of the Western European crafts market and is expected to make a modest contribution to earnings from 2006 onwards.

The sale of the last significant non-thread business, UK Bedwear, was completed in February 2005.

During 2004, various surplus properties were sold with proceeds amounting to $42.6 million (2003 – $50.9 million). In addition, the sale of investments and other surplus assets generated cash of $63.5 million (2003 – $9.0 million). In most cases, the availability of surplus properties is the direct result of operational restructuring and, although there may be timing differences, to a large extent their sale will offset the associated cash reorganisation costs. In 2004, property disposals more than covered cash reorganisation costs of $36.2 million (2003 – $29.7 million).

European Commission Investigation

As previously reported, over the last three years the Group has been co-operating with the European Commission in their investigation into former trading practices in the European haberdashery and thread markets. The investigation has been split into three sub-cases covering hand-sewing needles, industrial thread and fasteners. In October 2004 the Commission reached a decision on hand-sewing needles which included a fine of Euro 30 million in respect of alleged infringements. We are vigorously contesting the Commission's decision in an appeal which has been lodged with the Court of First Instance in Luxembourg.

A final decision by the Court is likely to take two to three years and it is also not certain when the Commission will issue its decisions in respect of the other cases. However, full provision has been made for any anticipated eventual payment.

Refinancing

The renegotiation of the Group's banking facilities referred to in last year's report was completed in March 2004. Further details are given in Notes 14 and 15 to the accounts.

Prospects

2005 will be another year of reorganisation and consolidation, the full benefits of which are expected to be reflected in 2006 and beyond.

Investment in new plant and reorganisation spend in 2005 is expected to remain at a similar level to 2004. As in 2004, disposal of surplus assets should largely compensate in terms of cash flow. This spend should start to reduce from 2006. Given the nature of the textiles and clothing industry, there will inevitably be an ongoing requirement for further adjustments in capacity at specific locations but the associated cost of transfer is expected to be significantly lower than in recent years.

The investment and reorganisation undertaken in 2004 and in previous years will begin to yield operating benefits in 2005. Although it is still too early to determine the final impact of the removal of textile quotas, the Group is well placed to take advantage of its leading market positions in crafts and industrial thread. Overall demand remains reasonably firm, with sales in the first quarter 3% ahead of previous year on a like-for-like basis.

Gary Weiss
Chairman
29 April 2005

Thread trading

Underlying operating profit before reorganisation, impairment, goodwill amortisation and exceptional costs: $104.8 million (2003 full year pro-forma – $110.3 million) (see below).

On a like-for-like basis, including a full twelve months for 2003 and excluding the impact of exchange translation, acquisitions and disposals, underlying sales grew by 3%. This reflected strong growth in South America, Asia, and of crafts in North America.

Operating profit on the same basis, and before reorganisation, impairment, goodwill amortisation and exceptional costs, decreased by 5%. This reflected the Group's focus on cash generation and the impact of accelerated migration on production levels in Western Europe, which masked generally good performances in other parts of the Group.

In the following comments on Thread regional performance, all comparisons with 2003 are based on the table below:

Thread like-for-like sales and operating profit*

	2003 comparatives (see note 2a) $m	2003 1 January -7 April $m	Exchange retranslation $m	Acquisitions/ disposals $m	2003 underlying $m	2004 reported (see note 2a) $m	Increase/ (decrease) %
External sales							
UK and Europe	425.8	147.0	51.2		624.0	606.5	(3)
North America	304.6	96.9	1.7	2.4	405.6	412.6	2
South America	113.2	27.8		1.3	142.3	169.1	19
Asia	295.1	85.5	3.8	(20.9)	363.5	399.3	10
Total	**1,138.7**	**357.2**	**56.7**	**(17.2)**	**1,535.4**	**1,587.5**	**3**
Operating profit*							
UK and Europe	18.8	5.8	0.6		25.2	4.3	(83)
North America	6.4	(2.9)	0.5	(0.1)	3.9	8.2	110
South America	11.5	2.4		0.1	14.0	17.1	22
Asia	52.2	12.0	0.1	(1.6)	62.7	64.5	3
Corporate**	5.3	(1.0)	0.2		4.5	10.7	138
Total	**94.2**	**16.3**	**1.4**	**(1.6)**	**110.3**	**104.8**	**(5)**

*pre reorganisation, impairment, goodwill amortisation and exceptional costs.
**pre-goodwill amortisation of $18.2 million in 2004 and $0.2 million in 2003.

UK and Europe

Sales -3%; OP -83%

The market for industrial thread in Western Europe continued to decline as a result of customer migration to Eastern Europe and Asia. Zip sales were also affected by a fashion swing towards other fasteners. Continued growth in our industrial thread sales in Eastern Europe did not fully offset these negative trends. Modest growth was achieved in crafts, with a strong performance in handknittings offset by weak demand for embroidery and sewing thread. Despite past and current downsizing projects, the pace of the decline in Western European industrial thread sales had a significant impact on operating margins. This was exacerbated by the drive to reduce inventory levels which temporarily reduced production levels and, therefore, overhead recoveries. Benefits from the new bulk production unit in Romania were offset by losses in Italy, France and the UK.

North America

Sales +2%; OP +110%

Strong growth in crafts sales was driven by a buoyant handknittings market and recovery from the de-stocking by major customers which had depressed 2003 reported sales. Industrial sales continued to decline as a result of migration of apparel production to Asia. Improvement in operating profit came from recovery in crafts margins but industrial thread continued in loss. Benefits from restructuring and the new plant in Mexico have taken longer to come through than originally envisaged, but by the end of the year transitional operating issues had been largely resolved.

South America

Sales +19%; OP +22%
Improved economic conditions led to the best performance from the region in recent years. Growth was generally strong across the region and all product categories, with a particularly strong performance by industrial thread and zips in Brazil.

Asia

Sales +10%; OP +3%
Industrial thread sales continued to grow strongly. Sales growth in the region more than offset the declines experienced in North America/Western Europe, reflecting the benefit of our relationships with global retailers and brand owners. Although much of the growth was in premium corespun thread, operating margins were slightly lower. This was mainly as a result of a drive to reduce global grey thread stocks which led to lower capacity utilisation in the first half of the year. Nevertheless, at 16.2% (2003 – 17.2%), operating margins remain highly respectable.

Corporate

The $10.7 million (2003 – $4.5 million) underlying profit reflects increased royalties and technical fees.

Thread reorganisation, impairment and exceptional costs

We continued to make progress in the year in downsizing Western Thread capacity, including in the UK, France and the US, whilst expanding in low cost locations. Thread reorganisation costs of $45.6 million (2003 – $19.5 million) were incurred. The reorganisation programme, which will continue in 2005, is principally designed to reduce the cost base of our industrial businesses in Western Europe and North America to address the migration of customers to lower cost regions.

Thread exceptional operating costs of $3.8 million (2003 – $nil) were accounted for in the year, largely in respect of the refinancing exercise completed in March 2004.

Non-Thread

The refocusing of the Group on Thread has been completed, with the sale of our Bedwear business on 14 February 2005. Sales in 2004 from non-thread businesses of $124.4 million (2003 – $97.1 million) predominantly relate to Bedwear.

The results of Bedwear have been included within discontinued operations and the 2003 categorisation between continuing and discontinued operations has been restated accordingly.

Including related property sold separately, proceeds (net of expenses) from the disposal of Bedwear totalled approximately $19.0 million, resulting in an overall loss on disposal of approximately $15.0 million, which is recognised in 2005 under UK accounting standards. In addition, assets retained are expected to realise approximately $4.0 million in cash.

Interest and tax

Net interest costs rose to $41.8 million (2003 – $23.1 million), largely due to the fact that 2003 included a $18.0 million net exchange gain on foreign currency borrowings. The stated interest expense includes a non cash element of $7.0 million (2003 – $5.1 million), largely arising from the unwinding of the discount on future pension liabilities.

A loss before tax of $4.1 million (2003 – $46.7 million profit) was recorded, reflecting the higher reorganisation and net interest costs. The tax charge of $14.3 million (2003 – $18.1 million) reflects expenses not deductible for tax purposes and losses which cannot be recognised. This charge is primarily made up of tax on profits of overseas subsidiaries net of a deferred tax credit of $12.3 million (2003 – charge of $3.6 million).

Pension arrangements

The Group has a defined benefit plan in the UK and there are similar arrangements in North America. The Group accounts for pensions on a SSAP 24 – Accounting for Pension Costs basis. An actuarial review of the UK and USA schemes under SSAP 24 was conducted as at 7 April 2003 and indicates that these schemes are in surplus. Employer contributions continue to be suspended based on actuarial advice. The pension prepayments included in debtors in respect of these schemes on a SSAP 24 basis total $73.4 million (2003 – $68.6 million).

There are various pension and leaving indemnity arrangements in other countries, primarily in Europe, where the Group operates, which in general are not funded. These are predominantly included in provisions for liabilities and charges.

Goodwill

$169.1 million of goodwill has arisen in the year in respect of the finalisation of the fair value adjustments in respect of the acquisition of Coats Holdings Ltd in the year ended 31 December 2003. This includes provisions made in respect of the European Commission investigation, referred to in the Chairman's statement. The Directors consider that the disclosure at this stage of further details in respect of these provisions could seriously prejudice the outcome of the investigation. Therefore no analysis has been included in these accounts of these fair value adjustments.

The goodwill amortisation charge arising in the year of $18.2 million (2003 – $0.2 million) reflects this additional goodwill.

Balance sheet and cash flow

Net cash inflow from operating activities was $200.2 million (2003 – $134.8 million), including the benefit of a $93.5 million (2003 – $39.3 million) reduction in working capital. Stock reduced significantly over 2003 levels, resulting in a $54.7 million (2003 – $14.9 million) cash inflow.

$33.4 million (2003 – $18.4 million) tax was paid, broadly comparable with the Group's current tax charge of $26.5 million (2003 – $14.5 million).

The Group continues to make significant investments in its Thread business and capital expenditure was $93.6 million (2003 – $46.8 million). After adjusting for opening and closing year-end creditors, actual associated cash outflow was $92.7 million (2003 – $76.1 million). The principal project was the expansion of thread and zip capacity in China, culminating in the opening of a major new plant (80,000 sq.m) in Shenzhen just before the year-end.

The disposal of businesses and surplus assets generated $65.2 million (2003 – $59.7 million). In addition, current asset investments were realised for cash of $40.9 million (2003 – $0.2 million).

As part of the refinancing exercise completed in March 2004, new share capital of $137.8 million (2003 – $0.1 million) was subscribed.

The net result of the above was a $271.3 million reduction in the Group's net debt to $401.5 million at 31 December 2004, compared to $672.8 million at the start of the year. Shareholders' funds increased from a deficit of $17.6 million to $107.7 million, reflecting the $24.0 million (2003 – $19.5 million profit) retained loss for the year, offset by the new share capital injection referred to above and a $11.5 million exchange gain (2003 – $37.2 million loss) as shown in the statement of total recognised gains and losses.

Functional currency

Following the refocusing of the Group on Thread, a review has taken place of the functional currency of the Group. Given the markets in which the Group operates and the global dimension of the business, the US dollar is the functional currency. In order to reflect more appropriately the underlying results of the business, the Group's results in these financial statements are prepared and presented in US dollars.

The 2003 comparative figures have been translated from the sterling reported figures to US dollars by applying the 2003 US dollar average exchange rate of 1.64 to profit and loss account and cash flow items, and by applying the 2003 US dollar year end exchange rate of 1.79 to balance sheet items.

The principal exchange rates (to the US dollar) used in preparing the financial statements are as follows:

		2004	2003
Average	Sterling	**0.55**	0.61
	Euro	**0.80**	0.88
Year end	Sterling	**0.52**	0.56
	Euro	**0.73**	0.79

As at 31 December 2004, a proportion of borrowings are drawn in sterling and euros and represent a hedge against the impact of changes in exchange rates on the translation of sterling and euro denominated assets. The Group's translation exposure in the profit and loss account is not hedged.

Directors and advisers

Executive Director

Michael Smithyman (Aged 59) Joined the Group as Group Chief Executive in 2003. He previously held the position of Chief Executive Officer of WACO International and prior to that MD of BTR Dunlop (South Africa).

Non Executive Directors

Gary Weiss (Aged 51) Chairman. Appointed a Director in 2003 and Chairman in 2004. He has considerable experience in the international business sector. He is an Executive Director of Guinness Peat Group plc and a Non Executive Director of a number of other companies. He is Chairman of the Remuneration Committee and a member of the Audit Committee.

Anthony Gibbs (Aged 57) Appointed a Director in 2004. He has diverse experience in mergers, acquisitions, divestments and restructuring. He is an Executive Director of Guinness Peat Group plc and Chairman of Turners & Growers Ltd, Tenon Ltd and Staveley Inc. He is a member of the Remuneration Committee.

Blake Nixon (Aged 44) Appointed a Director in 2003. 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 Chairman of the Audit Committee and a member of the Remuneration Committee.

Rex Wood-Ward (Aged 56) Appointed a Director in 2003. He has over 30 years of corporate experience. He is the Chairman and CEO of Emess plc, and is a Non Executive Director of three companies listed on the Australian Stock Exchange. He is a member of the Audit Committee and the Remuneration Committee.

Company Secretary: Gemma Aldridge
Auditors: Deloitte & Touche LLP

The Directors present their report and the financial statements for the year ended 31 December 2004.

Principal activities The principal activities of the Group during the year were the manufacture, processing and distribution of sewing thread for industrial and domestic use.

Change of Company name The Company changed its name from Coats Holdings plc to Coats plc with effect from 1 July 2004.

Results and dividends The results of the Group for the year are set out in the profit and loss account on page 10.

A review of the business during the year and of prospective future developments is contained within the Chairman's statement and the Operating and financial review on pages 1 to 5.

The Directors do not recommend the payment of a dividend (nil – 2003).

Directors Gary Weiss and Blake Nixon served as Directors throughout the year. Rex Wood-Ward resigned as a Director on 1 April 2004 but was reappointed on 8 September 2004, Michael Smithyman was appointed on 4 May 2004 and Tony Gibbs was appointed on 27 May 2004. Don La Vigne retired from the Board on 30 June 2004.

Directors' interests Michael Smithyman has an interest in 30 B Growth Shares of the Company which were allotted to him on 29 December 2004 and he had an interest in 90,000 ordinary shares of the Company's ultimate parent company, Guinness Peat Group plc throughout the year. Michael Smithyman had no interest in the share capital of any of the other subsidiaries of Guinness Peat Group plc. The interests of Gary Weiss, Tony Gibbs and Blake Nixon in the shares of the ultimate parent company, Guinness Peat Group plc, and its subsidiaries, are declared in the statutory accounts of that company. Rex Wood-Ward had no interest in the shares of Guinness Peat Group plc or any of its subsidiaries during the year.

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. A gathering of Coats Business Leaders was held to this effect in April 2004.

The Group remains committed to meaningful employee consultation. A plenary meeting of Coats European Works Council (EWC) took place in September 2004 and the EWC Select Committee, created in 2002, was consulted in relation to key projects affecting employment in more than one European country.

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

Health and safety The Group is committed to effective Health and Safety risk management. A comprehensive Health and Safety management system was developed in 2003 and launched in 2004. Line management across Coats' businesses is fully accountable for the consistent implementation of Coats Health and Safety standards and policies.

Ethical employment Coats operates worldwide in full recognition of the ILO Conventions, the UN Declaration of Human Rights and Convention on Rights of the Child and the OECD Guidelines for Multinational Enterprises. Coats Worldwide Employment Standards Statement contains the ethical principles which are observed across its global operations. The statement refers to employee rights to a safe and healthy work environment, the right to collective representation and the Group's commitment to ensuring that no persons below the legal age of employment are employed.

It is the Group's policy to offer equal opportunities to disabled persons applying for vacancies and provide them with the same opportunities for employment, training, career development and promotion as are available to all employees, within the limitation of their aptitude and abilities. Employment within the Group is offered on the basis of the person's ability to work and not on the basis of their race, individual characteristics, creed or political opinion. The Group seeks to ensure that its suppliers also act in full conformity with this policy.

Supplier credit It is the Group’s policy that its subsidiaries follow the guidance issued by the CBI regarding Better Payment Practice. A copy of the guidance may be obtained from the CBI. In particular, for all trade creditors it is the Group’s policy to:

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

As the parent company does not trade, the number of days’ credit in 2004 was nil (2003 – nil).

Research and development Investment in R&D this year has again focused primarily on further development of the Group’s proprietary colour management systems. These are ahead of any commercial equivalents and support the high performance level we have in the businesses’ dyehouses. To respond to the increasing complexity of the business’ internal supply chain the business is migrating these colour systems from standalone systems for each dyehouse to networked enterprise-wide systems that provide for fluid communications along the length of the supply chain. Having completed beta testing by the end of 2003, by the end of 2004 approximately 60% of Coats dyehouses were operating under the new system. During 2004 we have also developed and started to implement a replacement for our ColourTalk colour imaging system that can be integrated to the dyehouse system or can operate on a standalone basis. We continue to use external research institutions to support this work.

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

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

Charitable donations Payments of $121,000 (2003 – $68,000) were made to charities during the year to UK and Overseas recipients.

Auditors A resolution to re-appoint Deloitte & Touche LLP as the Group’s auditors and to authorise the Directors to fix their remuneration will be proposed at the Annual General Meeting.

Statement of Directors’ responsibilities for the financial statements
The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group as at the end of the financial year and of the profit or loss for that period. The Directors are also required to prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business. 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
Gemma Aldridge
Company Secretary
29 April 2005

Independent auditors' report to the members of Coats plc (formerly Coats Holdings plc)

We have audited the financial statements of Coats plc for the year ended 31 December 2004 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 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 29. These financial statements have been prepared under the accounting policies set out therein.

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.

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements 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 regarding Directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

We read the Directors' report for the above period as described in the contents section 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. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2004 and of the loss of the Group for the year ended 31 December 2004 and have been prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Manchester
29 April 2005

Consolidated profit and loss account

For the year ended 31 December 2004	Notes	2004 $m	Period ended 31 December 2003 (Restated) $m
Turnover	1&2		
Continuing operations		**1,587.5**	1,148.6
Discontinued operations		**124.4**	87.2
		1,711.9	1,235.8
Cost of sales	1	**(1,144.6)**	(813.6)
Gross profit		**567.3**	422.2
Distribution costs	1	**(346.3)**	(250.7)
Administrative expenses	1	**(186.2)**	(103.9)
Other operating income	1	**0.7**	1.1
Operating profit	1,2&3	**35.5**	68.7
Continuing operations		**37.2**	74.1
Discontinued operations		**(1.7)**	(5.4)
Share of operating profits of associated companies		**1.5**	1.1
Profit on sale of fixed assets of continuing operations	1	**0.7**	–
Profit on ordinary activities before interest		**37.7**	69.8
Interest receivable and similar income	5	**8.5**	24.3
Interest payable and similar charges	6	**(50.3)**	(47.4)
Net interest payable		**(41.8)**	(23.1)
(Loss)/profit on ordinary activities before taxation		**(4.1)**	46.7
Tax on (loss)/profit on ordinary activities	7	**(14.3)**	(18.1)
(Loss)/profit on ordinary activities after taxation		**(18.4)**	28.6
Equity minority interests		**(5.6)**	(9.1)
(Loss)/profit for the financial period transferred (from)/to reserves	20	**(24.0)**	19.5

Movement in reserves appear on page 27.

The notes on pages 17 to 36 form part of these accounts.

At 31 December 2004	Notes	Group 2004 $m	Group 2003 $m	Company 2004 $m	Company 2003 $m
Fixed assets					
Goodwill	18	**215.9**	65.4	**–**	–
Negative goodwill	18	**(2.4)**	(2.8)	**–**	–
		213.5	62.6	**–**	–
Tangible assets	9	**585.4**	623.4	**–**	–
Investments	10	**0.3**	7.5	**723.6**	720.6
		799.2	693.5	**723.6**	720.6
Current assets					
Stocks	11	**337.7**	401.3	**–**	–
Debtors due within one year	12	**359.4**	364.9	**1.1**	0.7
Debtors due in more than one year	12	**94.7**	90.7	**195.0**	3.0
Investments	13	**3.7**	42.8	**–**	–
Cash at bank and in hand		**141.4**	111.3	**3.0**	0.4
		936.9	1,011.0	**199.1**	4.1
Creditors – amounts falling due within one year					
Bank overdrafts		**(23.0)**	(32.5)	**–**	–
Other creditors	14	**(406.5)**	(1,110.4)	**(18.4)**	(448.8)
		(429.5)	(1,142.9)	**(18.4)**	(448.8)
Net current liabilities		**507.4**	(131.9)	**180.7**	(444.7)
Total assets less current liabilities		**1,306.6**	561.6	**904.3**	275.9
Creditors – amounts falling due after more than one year					
Amounts owed to parent undertaking (subordinated and convertible)	15	**(280.8)**	–	**(280.8)**	–
Amounts owed to parent undertaking (subordinated)	15	**–**	(280.6)	**–**	(280.6)
Other creditors	16	**(477.4)**	(5.4)	**(549.9)**	–
		(758.2)	(286.0)	**(830.7)**	(280.6)
Provisions for liabilities and charges	17	**(363.0)**	(208.5)	**–**	–
Net assets/(liabilities)		**185.4**	67.1	**73.6**	(4.7)
Capital and reserves					
Called up share capital	19	**137.9**	0.1	**137.9**	0.1
Profit and loss account	20	**(30.2)**	(17.7)	**(64.3)**	(4.8)
Equity shareholders' funds/(deficit)		**107.7**	(17.6)	**73.6**	(4.7)
Equity minority interests		**51.5**	58.5	**–**	–
Non-equity minority interests	21	**26.2**	26.2	**–**	–
Total capital employed		**185.4**	67.1	**73.6**	(4.7)

Approved by the Board on 29 April 2005
Michael Smithyman, Director

The notes on pages 17 to 36 form part of these accounts.

Cash flow statement

For the year ended 31 December 2004	Notes	2004 $m	Period ended 31 December 2003 $m
Net cash inflow from operating activities	27	**200.2**	134.8
Returns on investments and servicing of finance			
Interest received		**6.2**	3.4
Interest paid		**(39.0)**	(38.9)
Cost of financing convertible debt		**–**	(2.3)
Interest element of finance lease rental payments		**(0.2)**	(0.2)
Income from investments		**0.6**	0.2
Dividends paid to pre-acquisition shareholders of Coats Holdings Ltd		**–**	(25.4)
Dividends paid to minority shareholders		**(10.7)**	(5.4)
Net cash outflow for returns on investments and servicing of finance		**(43.1)**	(68.6)
Taxation		**(33.4)**	(18.4)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(92.7)**	(76.1)
Sale of tangible fixed assets		**59.1**	60.0
Sale of fixed asset investments		**3.7**	0.5
Net cash outflow for capital expenditure and financial investment		**(29.9)**	(15.6)
Acquisitions and disposals			
Purchase of subsidiary undertakings	27	**(4.6)**	(412.8)
Net cash acquired with subsidiaries	18	**0.8**	27.7
Sale of subsidiary undertakings	27	**2.9**	(0.8)
Net cash disposed with subsidiaries	27	**(0.5)**	–
Net cash outflow for acquisitions and disposals		**(1.4)**	(385.9)
Management of liquid resources			
Decrease/(increase) in short term deposits		**17.4**	(5.4)
Purchase of current asset investments		**–**	(0.5)
Sale of current asset investments		**40.9**	0.2
Net cash inflow/(outflow) from management of liquid resources		**58.3**	(5.7)
Financing			
Issue of ordinary share capital		**137.8**	0.1
(Decrease)/increase in borrowings	27	**(252.0)**	378.0
Net cash (outflow)/inflow from financing		**(114.2)**	378.1
Increase in cash	27	**36.5**	18.7

Reconciliation of net cash flow to movement in net debt

Increase in cash		**36.5**	18.7
Cash outflow/(inflow) from change in debt and lease financing		**252.0**	(378.0)
Cash (inflow)/outflow from change in short term deposits		**(17.4)**	5.4
Change in net debt resulting from cash flows		**271.1**	(353.9)
New finance leases		**–**	(0.3)
Deposits acquired with subsidiaries		**–**	21.0
Loans and finance leases disposed/(acquired) with subsidiaries		**1.7**	(342.3)
Other		**(3.4)**	–
Exchange		**1.9**	2.7
Decrease/(increase) in net debt		**271.3**	(672.8)
Net debt at start of period		**(672.8)**	–
Net debt at 31 December 2004	27	**(401.5)**	(672.8)

Statement of total recognised gains and losses

For the year ended 31 December 2004	2004 $m	Period ended 31 December 2003 $m
(Loss)/profit for the financial period	**(24.0)**	19.5
Currency translation differences on foreign currency net investments	**11.5**	(37.2)
Total recognised gains and losses relating to the period	**(12.5)**	(17.7)

Reconciliation of movements in equity shareholders' funds/(deficit)

For the year ended 31 December 2004	2004 $m	Period ended 31 December 2003 $m
(Loss)/profit for the financial period	**(24.0)**	19.5
Other recognised gains and losses relating to the period	**11.5**	(37.2)
New share capital subscribed	**137.8**	0.1
Net increase in equity shareholders' funds/(deficit)	**125.3**	(17.6)
Opening equity shareholders' deficit	**(17.6)**	–
Closing equity shareholders' funds/(deficit)	**107.7**	(17.6)

Statement of accounting policies

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

Functional currency
Following the refocusing of the Group on Thread, a review has taken place of the functional currency of the Group. Given the markets in which the Group operates and the global dimension of the business, the US dollar is the functional currency. In order to reflect more appropriately the underlying results of the business, the Group's results in these financial statements are prepared and presented in US dollars.

The 2003 comparative figures (which are for the period from incorporation on 18 December 2002 to 31 December 2003) have been translated from the sterling reported figures to US dollars by applying the 2003 US dollar average exchange rate of 1.64 to profit and loss account and cash flow items, and by applying the 2003 US dollar year end exchange rate of 1.79 to balance sheet items. The impact of translating the profit and loss account and balance sheet at different exchange rates means that the 2003 currency translation differences on foreign currency net investments recognised in the statement of total recognised gains and losses is restated as a loss of $37.2 million.

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. The amount 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.

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 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 US dollars 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.

In accordance with SSAP 24 – Accounting for pension costs, pension costs incurred in the Group's UK and US defined benefit plans are charged to the profit and loss account over the anticipated working lives of the pension plan members currently in service.

In other overseas countries, pension and other retirement benefits are provided for in a number of ways. The Directors are satisfied that, in relation to legal requirements and established accounting practice, other overseas pension obligations are, in aggregate, adequately provided for and that, in relation to material overseas pension plans, the accounting treatment complies with the requirements of SSAP 24.

Full provision has been made for the current actuarial liability for US post-retirement benefits.

Tangible fixed assets and depreciation
Tangible fixed assets are stated at cost less accumulated depreciation and, where appropriate, provision for impairment. 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
Freehold and long leasehold buildings	2%
Short leasehold property	Over period of lease
Motor vehicles	20%
Electronic office equipment	25%
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 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.

Restructuring 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 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.

1 Continuing and discontinued operations and acquisitions

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

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

All acquisitions during the year have been accounted for using the acquisition method. None of these acquisitions were material for the purpose of the Companies Act 1985, FRS3 or FRS6.

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

	Turnover Year ended 31 December 2004 $m	Turnover Period ended 31 December 2003 $m	Operating profit Year ended 31 December 2004 $m	Operating profit Period ended 31 December 2003 $m	Net assets 31 December 2004 $m	Net assets 31 December 2003 $m
Thread						
UK and Europe	**606.5**	425.8	**4.3**	18.8	**174.1**	233.3
North America	**412.6**	304.6	**8.2**	6.4	**241.5**	273.0
South America	**169.1**	113.2	**17.1**	11.5	**98.4**	110.2
Asia	**399.3**	295.1	**64.5**	52.2	**258.7**	244.2
Corporate	**–**	–	**(7.5)**	5.1	**(217.8)**	(224.1)
Total Thread	**1,587.5**	1,138.7	**86.6**	94.0	**554.9**	636.6
Reorganisation costs			**(45.6)**	(19.5)		
Exceptional items			**(3.8)**	–		
Thread operating profit			**37.2**	74.5		
Other businesses						
India Textiles	**–**	9.9	**–**	(0.1)	**–**	9.4
Bedwear	**124.3**	83.9	**(1.2)**	(4.2)	**29.8**	34.7
Fashion Retail	**0.1**	3.3	**(0.3)**	(1.2)	**(1.8)**	8.9
Total other businesses	**124.4**	97.1	**(1.5)**	(5.5)	**28.0**	53.0
Reorganisation costs			**(0.2)**	(0.3)		
Other businesses operating loss			**(1.7)**	(5.8)		
Total Group	**1,711.9**	1,235.8	**35.5**	68.7	**582.9**	689.6
Associated companies			**1.5**	1.1		
Profit on sale of fixed assets			**0.7**	–		
Profit before interest			**37.7**	69.8		
Net interest payable			**(41.8)**	(23.1)		
(Loss)/profit before tax			**(4.1)**	46.7		
Tax on (loss)/profit			**(14.3)**	(18.1)		
(Loss)/profit after tax			**(18.4)**	28.6		
Net debt					**(401.5)**	(672.8)
Other fixed and current asset investments					**4.0**	50.3
Net assets per consolidated balance sheet					**185.4**	67.1

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

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

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

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

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

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

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

Note

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

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

3 Operating profit

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

Note

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

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

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

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

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

4 Employees

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

Note

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

5 Interest receivable and similar income

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

6 Interest payable and similar charges

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

7 Tax on (loss)/profit on ordinary activities

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

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

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

8 Company's loss

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

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

9 Tangible assets

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

Land and buildings	2004 $m	2003 $m
Cost		
Freehold	**293.4**	307.4
Long leasehold	**11.1**	2.5
Short leasehold	**17.6**	21.3
	322.1	331.2
Accumulated depreciation		
Freehold	**106.8**	102.8
Long leasehold	**4.4**	0.2
Short leasehold	**5.9**	8.6
	117.1	111.6

Plant, machinery and vehicles

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

10 Investments

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

Company	Total $m
Cost and net book value	
At beginning of year	**720.6**
On acquisition of subsidiaries	**3.0**
At 31 December 2004	**723.6**

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

11 Stocks

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

12 Debtors

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

Note

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

The Group has unrecognised deferred tax assets relating to unutilised tax losses of $316.4 million (2003 – $255.4 million) and unrecovered advance corporation tax of $110.9 million (2003 – $108.5 million). These have not been recognised since it is more likely than not that there will be no suitable future taxable profits against which they may be offset.

13 Current asset investments

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

14 Other creditors (amounts falling due within one year)

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

Note

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

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

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

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

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

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

17 Provisions for liabilities and charges

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

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

18 Goodwill and acquisitions

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

Negative goodwill	Cost $m	Amortisation and impairment $m	Net $m
At beginning of year	**4.8**	**2.0**	**2.8**
Amortised in the year	**–**	**0.4**	**(0.4)**
Carried forward at 31 December 2004	**4.8**	**2.4**	**2.4**

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

(a) Acquisition of Coats Holdings Ltd and its subsidiaries

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

Other adjustments

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

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

18 Goodwill and acquisitions (continued)

(b) Other acquisitions

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

19 Called up share capital

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

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

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

20 Profit and loss account

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

21 Non-equity minority interests

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

22 Future capital expenditure

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

23 Contingent liabilities

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

24 Operating lease rentals

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

25 Pensions

(a) Retirement benefit schemes

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

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

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

(b) Accounting and disclosures

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

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

25 Pensions (continued)

(c) SSAP 24 disclosures

Pension costs for the period were:

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

(i) United Kingdom

Pension costs for the period were:

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

The last full actuarial valuation of the UK scheme was carried out as at 1 April 2003. The pension cost for the year ended 31 December 2004 and the pension asset at 31 December 2004 are based on an actuarial review as at 7 April 2003, being the date the Company acquired Coats Holdings Ltd (formerly Coats Ltd). The estimated market value of assets in the scheme at that date was $2,004 million and the funding level was 104%. The projected unit method was used and the principal assumptions were:

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

(ii) North America

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

Pension costs for the period were:

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

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

25 Pensions (continued)

(d) FRS17 retirement benefits

The information provided below for defined benefit plans has been prepared by independent qualified actuaries based on the most recent actuarial valuations of the schemes concerned, updated to take account of the valuations of assets and liabilities as at 31 December 2004. All pension arrangements relate to Coats Holdings Ltd and its subsidiaries and therefore were transferred into the Group at 7 April 2003.

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

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

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

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

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

25 Pensions (continued)

(d) FRS17 retirement benefits (continued)

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

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

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

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

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

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

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

25 Pensions (continued)

(d) FRS17 retirement benefits (continued)

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

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

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

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

Amounts that would be charged to operating profit under FRS17

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

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

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

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

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

25 Pensions (continued)

(d) FRS17 retirement benefits (continued)

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

For the year ended 31 December 2004	UK $m	North America $m	Other $m	Group $m
Difference between the actual return less expected return on pension scheme assets	**73.2**	**10.7**	**0.1**	**84.0**
Experience gains and losses arising	**(15.7)**	**2.0**	**5.9**	**(7.8)**
Changes in assumptions	**(169.1)**	**(17.5)**	**(8.8)**	**(195.4)**
Adjustment due to surplus cap	**7.3**	**4.4**	**0.6**	**12.3**
Total actuarial loss	**(104.3)**	**(0.4)**	**(2.2)**	**(106.9)**
Related deferred tax movement	**–**	**0.1**	**–**	**0.1**
Actuarial loss to recognise in the statement of total recognised gains and losses	**(104.3)**	**(0.3)**	**(2.2)**	**(106.8)**

For the period ended 31 December 2003	UK $m	North America $m	Other $m	Group $m
Difference between the actual return less expected return on pension scheme assets	122.0	13.0	2.3	137.3
Experience gains and losses arising	6.1	(6.1)	(5.2)	(5.2)
Changes in assumptions	–	(7.9)	(2.8)	(10.7)
Adjustment due to surplus cap	(7.1)	(20.7)	(0.5)	(28.3)
Total actuarial gain/(loss)	121.0	(21.7)	(6.2)	93.1
Related deferred tax movement	(36.2)	8.0	2.1	(26.1)
Actuarial gain/(loss) to recognise in the statement of total recognised gains and losses	84.8	(13.7)	(4.1)	67.0

Financial impact of FRS17

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

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

The $123.1 million (2003 – $16.4 million) reduction in the Group's net assets would have been reflected in the Group's reserves. The Group's profit and loss account would have been in surplus to $29.4 million (2003 – $36.1 million), instead of in deficit to $30.2 million (2003 – $17.7 million), and there would have been a deficit on a pension reserve of $182.7 million (2003 – $70.2 million).

26 Related party transactions

Company

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

Associated companies

The table below shows transactions with associated companies.

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

Other

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

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

27 Notes to the cash flow statement

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

	Year ended 31 December 2004 $m	Period ended 31 December 2003 $m
Operating profit	**35.5**	68.7
Depreciation	**62.3**	43.1
Amortisation of goodwill	**18.2**	0.2
Reorganisation costs	**43.4**	19.8
Exceptional items	**3.8**	–
Decrease in stocks	**54.7**	14.9
Decrease in debtors	**10.9**	6.9
Increase in creditors	**27.9**	17.5
Other non-cash movements	**(18.6)**	(6.6)
Net cash inflow from normal operating activities	**238.1**	164.5
Net cash outflow in respect of reorganisation costs:		
Utilisation of provisions – closures and reorganisation	**(36.2)**	(29.7)
– operating exceptional items	**(3.8)**	–
– non-cash asset write downs	**2.1**	–
Net cash inflow from operating activities	**200.2**	134.8
Continuing operations	**195.8**	129.2
Discontinued operations	**4.4**	5.6
	200.2	134.8

(b) Analysis of financing cash flows

Issue of ordinary share capital	**137.8**	0.1
Increase in borrowings: – new long term loans	**520.4**	–
– new short term loans	**24.2**	533.6
– repayment of amounts borrowed	**(795.7)**	(154.9)
– capital element of finance lease rental payments	**(0.9)**	(0.7)
	(252.0)	378.0
Net cash (outflow)/inflow from financing	**(114.2)**	378.1

27 Notes to the cash flow statement (continued)

(c) Analysis of net debt

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

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

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

(d) Purchase of subsidiary undertakings

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

Note

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

27 Notes to the cash flow statement (continued)

(e) Sale of subsidiary undertakings

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

(f) Cash flow relating to exceptional items

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

28 Immediate and ultimate parent company

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

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

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

29 Post balance sheet event

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

Principal subsidiary undertakings

		Country of incorporation or registration and principal country of operation
Holding, Finance and Property Companies		
Coats Holdings Ltd		England
Coats Finance Co. Limited		England
Coats Holdings Investments Limited		England
Coats Property Management Limited		England
Tootal Thread Limited		England
Coats (VH) 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
Thread		
Coats (UK) Limited		England
Coats Cadena SA		Argentina
Coats Australian Pty Ltd		Australia
Coats Bangladesh Ltd	80%	Bangladesh
Coats Corrente Ltda		Brazil
Coats Canada Inc		Canada
Coats Cadena SA	60%	Chile
Coats Opti Shenzhen Ltd		China
Coats Shenzhen Ltd		China
Guangzhou Coats Limited	90%	China

		Country of incorporation or registration and principal country of operation
Thread (continued)		
Guangying Spinning Company Limited	50%	China
Jinying Spinning Company Limited	50%	China
Coats Cadena SA		Colombia
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
Madura Coats Private Limited		India
Coats Cucirini SpA	72.8%	Italy
Coats Thread (Malaysia) Sdn Bhd	51%	Malaysia
Grupo Coats Timon SA De CV		Mexico
Cia de Linha Coats & Clark Lda		Portugal
SC Coats Romania Impex SRL		Romania
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
Coats American Inc.		US
Coats & Clark Inc.		US
Coats Phong Phu Co Ltd	75%	Vietnam

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.

All companies except Coats Holdings Ltd are held indirectly.

A Merchant production. Typesetting by Saffron Digital Production.

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