

Coats Holdings Ltd
Interim Report 2004



Global leader in thread

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		2004	2003	2003
		Half year	Half year	Half year
			Like-for-like ²	Restated ¹
		£m	£m	£m
Turnover	– Thread	430.6	414.6	455.0
	– Total	466.0	453.6	507.7
Operating profit before reorganisation costs, impairment of fixed assets and exceptional items (see Note 1)				
	– Thread	25.9	26.2	30.7
	– Total	24.9	24.9	27.6
Operating profit	– Thread	10.4	11.4	15.2
	– Total	9.4	7.8	9.8
Pre-tax profit/(loss)		16.7		(33.5)
Net cash inflow/(outflow) from operating activities		40.6		(21.5)
Net debt		109.0		186.2
Net gearing		24%		40%

Notes

¹The 2003 restated comparatives have been restated following the adoption of SSAP 24 – Accounting for Pension Costs (see Note 8).

²The 2003 like-for-like comparatives reflect the adoption of SSAP 24 and also exclude the impact of exchange translation and the acquisition and disposal of businesses (see Operating and financial review).

2 Operating and financial review

Performance in the first six months of 2004 was in line with management expectations and showed significant improvement in earnings and cash flow. Profit before tax increased to £16.7 million (2003 – £33.5 million loss), while net debt reduced by £22.5 million to £109.0 million (2003 – increase of £81.8 million to £186.2 million). Operating cash flow was strongly positive at £40.6 million (2003 – £21.5 million outflow). This reflected management focus on working capital, which was reduced by £8.7 million (2003 – £48.5 million increase), principally as a result of lower inventories.

Results

Our core Thread business performed broadly in line with expectations. On a like-for-like basis sales increased by 3.9%, due to the further development of our Asian business and a good performance from our South American business. However,

operating profit (before reorganisation, impairment and exceptional costs) fell by 1.1%, due mainly to the impact of declining industrial thread sales in Western Europe as customer migration to lower cost areas accelerated.

Exchange rate movements had an adverse effect on sales and operating profit (before reorganisation, impairment and exceptional costs) reported in sterling, of £35.1 million and £4.1 million respectively, with the translated results of Thread's predominantly overseas business impacted by the US dollar average exchange rate weakening to US\$1.82 (2003 – US\$1.61). Reported sales were £430.6 million (2003 – £455.0 million) generating an operating profit (before reorganisation, impairment and exceptional costs) of £25.9 million (2003 – £30.7 million).

Like-for-like sales and operating profit

January-June	2003 restated £m	Exchange retranslation £m	Acquisition/ disposal of businesses £m	2003 adjusted £m	2004 reported £m
Turnover					
Thread	455.0	(35.1)	(5.3)	414.6	430.6
Other/Discontinued	52.7	(0.9)	(12.8)	39.0	35.4
Total	507.7	(36.0)	(18.1)	453.6	466.0
Operating profit/(loss) pre reorganisation, impairment and exceptional costs (see Note 1)					
Thread	30.7	(4.1)	(0.4)	26.2	25.9
Other/Discontinued	(3.1)	0.1	1.7	(1.3)	(1.0)
Total	27.6	(4.0)	1.3	24.9	24.9
Operating profit/(loss)					
Thread	15.2	(3.4)	(0.4)	11.4	10.4
Other/Discontinued	(5.4)	0.1	1.7	(3.6)	(1.0)
Total	9.8	(3.3)	1.3	7.8	9.4

Strategy

Our strategy of reshaping the business in response to customer migration made good progress. Industrial thread capacity in Western Europe and North America was significantly reduced and reorganisation costs of £14.9 million (2003 – £8.4 million) were incurred in the period. At the same time expansion of capacity in lower cost countries, particularly China, enabled us to maintain growth in overall sales. Capital expenditure in the first half amounted to £22.1 million (2003 – £27.0 million). Key projects included the construction of two new plants in China for industrial thread and zip fasteners.

The refocusing of the Group on Thread is virtually complete with Bedwear now the only continuing non-Thread business. Sales and operating losses (before reorganisation, impairment and exceptional costs) from non-Thread businesses fell to £35.4 million (2003 – £52.7 million) and £1.0 million (2003 – £3.1 million) respectively.

Non-operating exceptional items arising in the period were property disposal gains of £9.5 million (2003 – £1.1 million) and gains on the sale or termination of operations of £1.9 million (2003 – £37.8 million loss), with the 2004 gain principally arising from the India Textiles business which was closed in 2003.

Outlook

Although we do not expect any significant improvement in overall trading conditions, second half results will benefit from a lower cost base in Western Europe and North America. For the full year we expect the Thread business to make progress on a like-for-like basis.

4 Consolidated profit and loss account (unaudited)

For the six months ended 30 June 2004	Notes	2004 Half year £m	2003 Half year Restated (see Note 8) £m	2003 Full year £m
Turnover				
Continuing operations				
Thread		430.6	455.0	912.2
Other		35.3	39.4	78.2
Total continuing operations		465.9	494.4	990.4
Discontinued operations		0.1	13.3	13.5
Total		466.0	507.7	1,003.9
Operating profit				
Continuing operations				
Thread		10.4	15.2	36.4
Other		(0.8)	(3.5)	(5.4)
Total continuing operations		9.6	11.7	31.0
Discontinued operations		(0.2)	(1.9)	(2.5)
Total	1	9.4	9.8	28.5
Share of operating profits of associated companies		0.4	0.5	0.9
Profit on sale of fixed assets of continuing operations		5.9	1.1	6.2
Profit on sale of fixed assets of discontinued operations		3.6	–	14.8
Profit/(loss) on sale or termination of continuing operations		1.9	1.4	(2.3)
Loss on sale or termination of discontinued operations		–	(39.2)	(41.3)
Profit/(loss) on ordinary activities before interest		21.2	(26.4)	6.8
Amounts written off investments		–	–	(0.6)
Net interest payable		(4.5)	(7.1)	(15.3)
Profit/(loss) on ordinary activities before taxation		16.7	(33.5)	(9.1)
Tax on profit/(loss) on ordinary activities	2	(6.8)	(3.0)	(3.8)
Profit/(loss) on ordinary activities after taxation		9.9	(36.5)	(12.9)
Equity minority interests		(2.2)	(3.3)	(6.6)
Profit/(loss) for the financial period		7.7	(39.8)	(19.5)
Preference dividends on non-equity shares		(0.4)	(0.4)	(0.7)
Transferred to/(from) reserves		7.3	(40.2)	(20.2)
Basic earnings/(loss) per ordinary share of 20p	4	1.0	(5.7)	(2.9)p
Headline (loss)/earnings per ordinary share of 20p	4	(0.5)	(0.5)	0.5p
Principal exchange rates used:				
US Dollar		1.82	1.61	1.64
Euro		1.48	1.46	1.45

Interim results are neither audited nor reviewed, but the 2003 full year figures are extracted from audited accounts which have been filed with the Registrar of Companies and contain an unqualified audit report.

At 30 June 2004	Notes	2004 30 June £m	2003 30 June Restated (see Note 8) £m	2003 31 December £m
Fixed assets				
Tangible assets		336.2	372.7	347.6
Investments		2.4	5.4	4.2
Goodwill		36.7	40.7	37.5
		375.3	418.8	389.3
Current assets				
Stocks		201.1	261.6	228.0
Debtors		241.0	273.6	255.6
Investments		23.4	23.7	23.9
		465.5	558.9	507.5
Less: creditors		(162.7)	(198.8)	(191.8)
Net current assets		302.8	360.1	315.7
Total assets less current liabilities		678.1	778.9	705.0
Provisions for liabilities and charges		(111.1)	(127.7)	(110.4)
		567.0	651.2	594.6
Less: net debt				
Parent undertaking loan falling due after more than one year		(119.5)	–	–
Convertible debt		–	(60.4)	–
Other		10.5	(125.8)	(131.5)
Total	5	(109.0)	(186.2)	(131.5)
Net assets		458.0	465.0	463.1
Shareholders' funds	6	428.6	425.6	429.3
Equity minority interests		29.4	39.4	33.8
Total capital employed		458.0	465.0	463.1
Net gearing		24%	40%	28%
Principal exchange rates used:				
US Dollar		1.81	1.65	1.79
Euro		1.49	1.44	1.42

6 Cash flow statement (unaudited)

For the six months ended 30 June 2004	Notes	2004 Half year £m	2003 Half year £m	2003 Full year £m
Net cash inflow/(outflow) from operating activities	7	40.6	(21.5)	50.3
Returns on investments and servicing of finance				
Net interest paid		(2.5)	(5.8)	(11.9)
Preference dividends paid		(0.4)	(0.4)	(0.7)
Dividends paid to minority shareholders		(3.6)	(1.5)	(3.1)
Net cash outflow for returns on investment and servicing of finance		(6.5)	(7.7)	(15.7)
Taxation paid		(8.4)	(8.1)	(15.3)
Capital expenditure and financial investment				
Purchase of tangible fixed assets		(22.1)	(27.0)	(66.0)
Sale of tangible fixed assets		12.6	3.9	38.3
Sale of fixed asset investments		1.6	–	0.3
Net cash outflow for capital expenditure and financial investment		(7.9)	(23.1)	(27.4)
Acquisitions and disposals				
Purchase of businesses		(0.8)	(4.3)	(9.4)
Sale or termination of businesses		3.9	(3.9)	(4.0)
Net cash inflow/(outflow) for acquisitions and disposals		3.1	(8.2)	(13.4)
Equity dividends paid		–	(28.3)	(28.3)
Management of liquid resources				
Decrease/(increase) in short term deposits		7.5	(5.1)	(3.3)
Sale of current asset investments		0.3	1.5	1.2
Net cash inflow/(outflow) from management of liquid resources		7.8	(3.6)	(2.1)
Financing				
Issue of ordinary share capital		–	0.3	0.3
Net funds from minorities		–	0.2	0.2
(Decrease)/increase in borrowings		(36.9)	101.1	43.3
Net cash (outflow)/inflow from financing		(36.9)	101.6	43.8
(Decrease)/increase in cash		(8.2)	1.1	(8.1)
Reconciliation of net cash flow to movement in net debt				
(Decrease)/increase in cash		(8.2)	1.1	(8.1)
Cash outflow/(inflow) from change in debt and lease financing		36.9	(101.1)	(43.3)
Cash (inflow)/outflow from change in short term deposits		(7.5)	5.1	3.3
Change in net debt resulting from cash flows		21.2	(94.9)	(48.1)
Other		(0.3)	–	(0.3)
Exchange		1.6	13.1	21.3
Decrease/(increase) in net debt		22.5	(81.8)	(27.1)
Net debt at 1 January		(131.5)	(104.4)	(104.4)
Net debt at 30 June		(109.0)	(186.2)	(131.5)

1 Operating profit is stated after charging:

	2004 Half year £m	2003 Half year £m	2003 Full year £m
Reorganisation costs and impairment of fixed assets			
Continuing operations			
Thread	14.9	8.4	19.1
Other	–	1.4	1.6
Total	14.9	9.8	20.7
Exceptional items			
Continuing operations			
Thread	0.6	7.1	7.4
Other	–	0.9	1.1
Total	0.6	8.0	8.5

Thread exceptional items largely represent costs incurred by the Company in respect of its acquisition by Coats plc (formerly Coats Holdings plc).

2 Taxation

The taxation charge for the six months ended 30 June 2004 is based on the estimated effective tax rate for the full year, including the effect of prior period tax adjustments.

3 Dividend

No interim ordinary dividend has been declared (2003 – nil).

4 Earnings/(loss) per share

	2004 Half year	2003 Half year Restated	2003 Full year	2004 Half year £m	2003 Half year Restated £m	2003 Full year £m
Earnings/(loss) per share are based on profit/(loss) available for Ordinary shareholders of:				7.3	(40.2)	(20.2)
and on an average number of shares of:	708.6m	708.1m	708.3m			
resulting in basic and diluted earnings/(loss) per share of:	1.0p	(5.7)p	(2.9)p			
Less:						
amortisation of goodwill	0.1p	0.1p	0.1p	0.6	0.8	0.7
amounts written off investments	–	–	0.1p	–	–	0.6
profit on sale of fixed assets	(1.3)p	(0.1)p	(3.0)p	(9.5)	(1.1)	(21.0)
(profit)/loss on sale or termination of operations	(0.3)p	5.3p	6.2p	(1.9)	37.8	43.6
taxation/minority interests relating to these items	–	(0.1)p	–	0.1	(0.8)	(0.1)
Headline (loss)/earnings per share	(0.5)p	(0.5)p	0.5p	(3.4)	(3.5)	3.6

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

8 Notes to the interim accounts For the six months ended 30 June 2004

5 Net debt

	2004 Half year £m	2003 Half year £m	2003 Full year £m
Net cash	(21.5)	(31.3)	(28.4)
Short term deposits	(8.0)	(17.9)	(15.8)
Parent undertaking loan	119.5	–	–
Convertible debt	–	60.4	–
Other loans and finance leases	19.0	175.0	175.7
Net debt	109.0	186.2	131.5

6 Reconciliation of movements in shareholders' funds

	2004 Half year £m	2003 Half year Restated £m	2003 Full year £m
Profit/(loss) for the financial period	7.7	(39.8)	(19.5)
Dividends	(0.4)	(0.4)	(0.7)
	7.3	(40.2)	(20.2)
Currency translation differences on foreign currency net investments	(8.0)	2.3	(14.0)
New share capital subscribed	–	0.3	0.3
Net reduction of shareholders' funds	(0.7)	(37.6)	(33.9)
Opening shareholders' funds as restated (see below)	429.3	463.2	463.2
Closing shareholders' funds	428.6	425.6	429.3
Equity shareholders' funds	414.0	411.0	414.7
Non-equity shareholders' funds	14.6	14.6	14.6
	428.6	425.6	429.3
Opening shareholders' funds as previously reported		463.7	463.7
Prior period adjustments – Pensions		(0.5)	(0.5)
Opening shareholders' funds as restated		463.2	463.2

7 Reconciliation of operating profit to net cash inflow/(outflow) from operating activities

	2004 Half year	2003 Half year Restated	2003 Full year
	£m	£m	£m
Operating profit	9.4	9.8	28.5
Depreciation	17.5	18.9	36.3
Amortisation of goodwill	0.6	0.8	0.7
Reorganisation costs and impairment of fixed assets	14.9	9.8	20.7
Exceptional items	0.6	8.0	8.5
Decrease/(increase) in stocks	16.2	(26.7)	(2.4)
(Increase)/decrease in debtors	(1.3)	(15.6)	5.8
Decrease in creditors	(6.2)	(6.2)	(13.7)
Other non-cash movements	(3.2)	(6.0)	(9.6)
Net cash inflow/(outflow) from normal operating activities	48.5	(7.2)	74.8
Net cash outflow in respect of reorganisation/exceptional items	(7.9)	(14.3)	(24.5)
Net cash inflow/(outflow) from operating activities	40.6	(21.5)	50.3

8 Accounting policies

All accounting policies applied are consistent with those used in the audited financial statements for the year ended 31 December 2003.

In the 2003 full year accounts the Group adopted SSAP 24 – Accounting for Pension Costs and the effects of that standard were explained in detail in note 29 to those accounts. The comparative figures for the six months to 30 June 2003 above have also been restated to incorporate SSAP 24, which increased operating profit for the six months to 30 June 2003 by £3.6 million, increased net interest payable by £1.7 million, reduced other finance charges by £1.8 million and increased the tax charge by £0.5 million. Shareholders' funds at 30 June 2003 have increased by £2.7 million.

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