



Coats plc  
Annual Report 2005

Global leader in thread

# Financial summary

	2005 \$m	Like-for-like* 2004 \$m	2004 \$m
Revenue	<b>1,636.7</b>	1,626.3	1,578.2
Operating profit before reorganisation, impairment and other exceptional items (see note 5)	<b>126.5</b>	92.4	90.5
Operating profit	<b>99.8</b>	42.7	41.1
Profit before taxation	<b>78.1</b>		12.0
Net profit/(loss) attributable to equity shareholders	<b>52.2</b>		(7.6)
Net cash inflow from operations before reorganisation costs and other exceptional items (see note 29)	<b>231.2</b>		233.3
Net cash inflow generated by operations	<b>176.9</b>		197.0
Capital expenditure	<b>81.3</b>		91.1
Net debt (excluding preference shares)**	<b>340.6</b>		403.8
Net debt	<b>363.3</b>		403.8

\*Excluding the impact of exchange translation and the acquisition and disposal of businesses (see Operating review).

\*\*Net debt at 31 December 2005 includes \$22.7 million of preference share capital, as in accordance with IAS 32 and 39 (which were adopted from 1 January 2005), the preference share capital of a subsidiary undertaking is now classified as debt.

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**Results**

In 2005, Coats plc made good progress in terms of profits and cash generation, as well as improving its long term competitive position by substantial investments in the relocation and upgrading of capacity.

Pre-exceptional operating profit (before reorganisation, impairment and other exceptional items) improved by 37% on a like-for-like basis to \$126.5 million (see Operating review). The increase was mainly due to cost reductions in Europe, North America, and Corporate, as the benefits from previous reorganisation projects began to feed through. Like-for-like sales growth was relatively modest at 1%, with strong growth in handknittings offset by declines in other crafts segments, and growth in industrial thread sales in Asia offset by declines in North America and Western Europe.

Net earnings attributable to equity shareholders recovered from a loss of \$7.6 million to a profit of \$52.2 million. Exceptional gains from disposals and foreign exchange more than compensated the impact of higher reorganisation costs.

Net cash inflow from operations before reorganisation costs and other exceptional items was \$231 million (2004 – \$233 million), comfortably covering investment of \$136 million (2004 – \$127 million) in reorganisation projects, new plant and equipment. In addition to increased profit, cash performance was assisted by further improvement in working capital efficiency, with a net working capital reduction of \$55 million coming on top of the previous year's reduction of \$91 million. In 2005, average working capital/sales fell to 24% compared to 27% in 2004.

As a result of the strong operating cash flow, net debt before reclassification of preference shares (\$22.7 million at 31 December 2005) was reduced by \$63.2 million.

**Investment, reorganisation and disposals**

During 2005 the Group continued to invest in upgrading plant and systems in all regions to world class standards, as well as expanding capacity in several Asian markets. Total spending amounted to \$81 million (2004 – \$91 million).

The acquisition of Almedahls, a crafts wholesaler in Sweden and Norway with annual sales of approximately \$27 million, was successfully completed and the business is now fully integrated into our existing operations. The cost of acquisition was more than covered by proceeds from the disposal of Dorma Bedwear.

As anticipated, reorganisation costs continued at a high level, with the vast majority of projects involving plant closures and overhead reductions in Western Europe in response to reduced demand as a result of customer migration. Regrettably this has resulted in significant job losses. Including reductions in other regions, total numbers employed in the continuing business fell by 2,800 to 24,700 at the end of 2005. Total reorganisation spend of \$54 million was matched by proceeds from sales of property, which in most cases had become surplus as a result of the Group's restructuring program.

**European Commission Investigation**

As previously reported, since 2001 the European Commission has been investigating former trading practices in the European haberdashery and thread markets, subsequently splitting its investigation into three sub-cases covering hand-sewing needles, industrial thread, and fasteners. In October 2005 the Commission concluded its investigation into industrial thread and imposed fines against several producers, including Euro 18.5 million against the Coats plc Group. Following legal advice, the Group has determined not to appeal and the fine will be paid over the next two years.

The cost of the thread fine will be met out of the provision established in earlier years and the remaining balance of the provision is believed to be sufficient to cover any anticipated eventual payment in respect of the other cases. 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 disclosure has been included in these accounts of the amount of the provisions.

### Prospects

During 2006 we expect to make substantial progress towards completion of the major projects which have been required to realign the Group's manufacturing capacity and overheads with demand in each region and which have been a dominant feature of management activity and Group results over the last few years. Where possible, remaining projects are being accelerated and this will result in reorganisation costs continuing at a similar level to 2005. However, proceeds from disposal of surplus property are also expected to remain high and, as in 2005, should cover the majority of reorganisation costs.

During 2006, investment in plant, machinery and IT is expected to continue at a high level as production units are brought up to world class standards and business systems move towards a common SAP platform.

The market for industrial thread – which makes up just over half of Group sales – remains highly competitive, but global demand is reasonably firm and margins in 2006 will benefit from the reorganisation and investment projects completed in 2005. On the other hand, demand for industrial zips remains weak and both volumes and margins are under pressure.

In crafts, there is some uncertainty as to whether handknittings sales will be maintained at the high levels experienced during the last few years. First half sales in North America will be affected by retailer de-stocking, as growth in consumer demand during the second half of 2005 fell short of relatively ambitious retail projections. In contrast, handknittings sales in Western Europe remain strong. Although the Group's broad portfolio of craft products and flexible supply chain should enable it to withstand crafts fashion cycles better than many other participants in the industry, handknittings is our most important segment and a key contributor to Group profits.

Overall, despite uncertain market conditions, reorganisation benefits should allow the Group to make progress in 2006 at the operating level on a like-for-like basis. The regional analysis of sales and pre-exceptional operating profits presented below in the Operating review highlights the scope for improvement in margins once our businesses in Europe and North America are correctly configured and running at optimum efficiency. The Board remains confident that the significant investment in reorganisation and new plant will lead to further benefits in future years.

### Gary Weiss

Chairman  
27 April 2006

**Trading performance by region**

	2004 restated* \$m	Exchange retranslation** \$m	Acquisitions/ disposals \$m	2004 like-for-like \$m	2005 reported \$m	Like-for-like increase/ (decrease) %
<b>External sales</b>						
Asia and Rest of world	421.8	2.2	–	424.0	463.9	9
UK and Europe	574.7	(1.6)	19.8	592.9	545.4	(8)
North America	412.6	1.7	4.4	418.7	431.3	3
South America	169.1	21.6	–	190.7	196.1	3
<b>Total</b>	<b>1,578.2</b>	<b>23.9</b>	<b>24.2</b>	<b>1,626.3</b>	<b>1,636.7</b>	<b>1</b>
<b>Pre-exceptional operating profit***</b>						
Asia and Rest of world	66.0	0.3	–	66.3	66.4	
UK and Europe	1.2	0.4	(0.7)	0.9	12.1	
North America	5.1	0.2	–	5.3	26.0	
South America	18.2	1.7	–	19.9	22.0	
<b>Total</b>	<b>90.5</b>	<b>2.6</b>	<b>(0.7)</b>	<b>92.4</b>	<b>126.5</b>	<b>37</b>

\*All figures prepared in accordance with IFRS as explained in note 2. In addition, regional information has been restated to reflect the charge-out of net central costs to each operating unit and reclassification of certain territories.

\*\*Impact of restating 2004 figures at 2005 exchange rates.

\*\*\*Pre reorganisation, impairment and other exceptional items (see note 5).

In the following comments on regional performance, all comparisons with 2004 are based on the table above.

**Asia and Rest of world**

Sales +9%; OP flat

Industrial thread sales continued to grow strongly reflecting the benefit of our relationships with global retailers and brand owners. Operating profit however was flat, partly as a result of start-up issues in the new apparel thread and zip plants in China, but also reflecting the extremely competitive market.

Although there is strong local competition in the region, the investment in new capacity and additional infrastructure in China – which held back results in 2005 – makes the Group well positioned to benefit from future growth. In the short term, strong growth of exports of clothing and footwear to Western markets from the region is likely to continue, even though trade restrictions may alter the balance from individual countries from time to time.

**UK and Europe**

Sales -8%; OP +\$11 million

The market for industrial thread and zips in Europe continued to decline as a result of customer migration to Asia. Excluding the additional sales from the acquisition of Almedahls, crafts sales were also down on previous year as weak demand for other crafts products offset strong growth in handknittings.

Despite weak sales, there was a partial recovery in margins as the benefits from plant closures and general overhead reductions began to come through. During the year, substantial progress was made towards the total restructuring of our industrial thread business in Western Europe, but realisation of the full potential benefits depends on further cost reductions planned for 2006. Our European crafts business is also expected to benefit from increased regional coordination of product ranges and supply chain.

### North America

Sales +3%; OP +\$21 million

Strong growth in handknittings sales, partly assisted by the sell-in of launch stocks of a new fashion range, offset general market declines in industrial thread and other crafts product segments. Sales were also affected by a policy to reduce exposure to low-margin customer or product segments in industrial thread.

Notwithstanding difficult market conditions, a sharp reduction in the industrial thread loss was the main contributor to improvement in North American operating profit as benefits from earlier reorganisation came through. Whilst the crafts market is expected to trade at a reduced level in 2006, there is clear scope for further gains in industrial thread margins from improved manufacturing efficiencies, overhead reductions, and removal of remaining textiles trade restrictions in the USA.

### South America

Sales +3%; OP +\$2 million

US dollar values of sales and profits in South America benefited from revaluation of local currencies. However, the resulting reduction in competitiveness depressed demand for industrial thread. This was offset by strong growth in crafts sales, driven by handknittings. Operating margins strengthened to 11% as a result of the higher crafts volumes.

### Thread reorganisation, impairment and exceptional costs

Reorganisation costs of \$62.4 million (2004 – \$45.6 million) were incurred in the year. The majority of costs related to closures of industrial thread and zip plants in Western Europe but also included a further transfer of industrial thread production from the USA to Mexico, reduction of overheads in the USA and Asia, and closure of two industrial thread spinning plants.

Profits from the sale of properties becoming surplus as a result of the reorganisation program generated almost half of the exceptional gains of \$35.7 million (2004 – loss \$3.8 million) with the balance due to exchange gains (see note 5). Exceptional costs incurred in 2004 are largely in respect of the refinancing exercise completed in March 2004.

### Non-Thread

As announced in last year's report, the refocusing of the Group on Thread was completed with the sale of the Dorma Bedwear business in February 2005. Of the two remaining peripheral businesses, Precision Processes Textiles was sold in 2005 and the sale of Coats Viyella Woollen Yarns is expected to be completed in the first half of 2006. Sales in 2005 from non-thread businesses until the date of disposal amounted to \$17.0 million (2004 – \$133.7 million) and mainly related to Bedwear.

The total profit from discontinued operations of \$15.0 million (2004 loss \$1.4 million) includes a benefit of \$12.5 million in respect of prior year business disposals. This is due to a write-back of the tax provision originally made at the time of disposal.

### Investment income, finance costs and tax

Finance costs fell to \$30.3 million (2004 – \$38.5 million), largely as a result of an increase in pension net finance income and exchange gains. Interest paid, net of interest received (which under IFRS is classified as investment income) increased slightly despite the reduction in year-end net debt. This was due to the reclassification in 2005 of preference shares as debt, an increase in seasonal debt, and the impact of the general rise in US dollar interest rates on the floating rate portion of our debt.

The tax charge of \$39.5 million (2004 – \$13.7 million) represents a rate of 51% (2004 – 114%) on pre-tax profit of \$78.1 million (2004 – \$12.0 million). In 2005, operating losses and reorganisation costs in individual tax jurisdictions were largely matched by exceptional gains, but the overall tax charge was adversely affected by an additional provision of \$14.8 million (2004 – \$4.0 million benefit) in respect of prior year items. Excluding the change in provision for prior year items, the tax rate was 32% (2004 – 148%).

#### **Pension and other post-employment benefits**

The Group operates a defined benefit plan in the UK and there are similar arrangements in the USA. The UK scheme shows a surplus of \$27.2 million (2004 – deficit of \$25.8 million) and the USA scheme shows a surplus of \$28.9 million (2004 – \$26.8 million). The UK and USA scheme surpluses are included in non-current assets. Employer contribution holidays on the UK and USA schemes continue to be taken based on actuarial advice.

There are various pension and leaving indemnity arrangements in other countries (primarily in Europe) where the Group operates. The vast majority of these schemes, in line with local market practice, are not funded but are fully provided in the Group accounts and are predominantly included in current and non-current liabilities.

#### **Balance sheet and cash flow**

Net cash inflow from operations remained strong at \$176.9 million (2004 – \$197.0 million). The increase in operating profit before exceptional items (see note 5) of \$36.0 million was offset by an increase of \$18.0 million in reorganisation spend and a lower decrease in working capital following the very substantial reduction achieved in 2004 (\$55.4 million in 2005 vs \$91.2 million in 2004).

The Group continues to make significant investments in upgrading plant and equipment and capital expenditure was \$81.3 million (2004 – \$91.1 million). The principal projects related to the expansion of capacity in Asia and cost saving projects in Europe and North America.

Disposals of businesses (net of acquisitions) and surplus assets generated \$62.0 million (2004 – \$41.6 million). In addition, disposals of financial investments were \$2.4 million (2004 – \$45.0 million).

Net debt at 31 December 2005 of \$363.3 million includes \$22.7 million of preference share capital, in accordance with IAS 32 and 39 (which were adopted from 1 January 2005). Before reclassification of the preference shares as debt, net debt was reduced by \$63.2 million to \$340.6 million compared to \$403.8 million at the start of the year.

Equity shareholders' funds increased from \$20.4 million to \$117.2 million, largely reflecting the \$52.2 million profit (2004 – \$7.6 million loss) for the year and the actuarial gains in respect of pensions and other post-employment benefits of \$46.8 million (2004 – \$5.1 million).

### **Executive Director**

**Michael Smithyman** (Aged 60) Group Chief Executive. Joined the Group in October 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 52) Appointed a Director in February 2003 and Chairman in 2004, he has considerable experience in the international business scene. He is an executive director of Guinness Peat Group plc and a director of various public companies outside the UK including Australian Wealth Management Ltd, Capral Aluminium Ltd, Premier Investments Ltd and Tower Ltd. He is Chairman of the Remuneration Committee and a member of the Audit Committee.

**Anthony Gibbs** (Aged 58) Appointed a Director in 2004, he has been involved with public company boards for many years. His experience includes mergers, acquisitions and divestments. He is chairman of Turners & Growers Ltd and Staveley Inc., an executive director of Guinness Peat Group plc, and a director of Vector Ltd, NGC Holdings Ltd, PrefSure Holdings Ltd, and Tower Ltd. He is a member of the Remuneration Committee.

**Blake Nixon** (Aged 45) Appointed a Director in 2003, he has wide corporate experience in both the UK and Australia. He is an executive director of Guinness Peat Group plc, and his other directorships include Nationwide Accident Repair Services plc. He is Chairman of the Audit Committee and a member of the Remuneration Committee.

**Rex Wood-Ward** (Aged 57) Appointed a Director in 2003, with over 30 years international experience in general management, mergers and acquisitions and corporate strategy, Rex has been a director of several public companies on three continents. He is currently Chairman and CEO of Emess PLC, and serves on the boards of three companies listed on the Australian Stock Exchange. He is a member of the Audit Committee and the Remuneration Committee.

**Company Secretary:** Carolyn Gibson/Gemma Aldridge

**Auditors:** Deloitte & Touche LLP



The Directors present their report and the financial statements for the year ended 31 December 2005.

**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.

The subsidiaries and joint ventures principally affecting the profits or net assets of the Group in the year are listed in note J to the Company's accounts.

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

**Results and dividends** The results of the Group for the year are set out in the consolidated income statement on page 10.

The Directors do not recommend the payment of a dividend (nil – 2004).

**Directors** Gary Weiss, Mike Smithyman, Tony Gibbs, Blake Nixon and Rex Wood-Ward all served as Directors throughout the year.

**Directors' interests** Mike Smithyman has an interest in 30 'B' Growth Shares of the Company which were allotted to him on 29 December 2004 and had an interest in 180,000 (2004 – 90,000) Ordinary shares of the Company's ultimate parent, Guinness Peat Group plc, at the year end. 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 the Company, Guinness Peat Group plc or any of its subsidiaries at any time 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. The annual gathering of Coats Business Leaders was held to this effect in April 2005.

The Group remains committed to meaningful employee consultation. The European Works Council Select Committee met regularly during the year and 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 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 2005 was nil (2004 – nil).

**Research and development** Once again the main focus of our Research and Development activity for the year has focussed on Colour Management Systems. During the year we completed the installation of our new enterprise dyehouse management system across all dyehouses and also installed ColourStitch, our proprietary colour imaging and palette management system in all dyehouses and in key sales offices.

**Financial risk management** Details of the financial risk management objectives and policies of the Group, and the exposure of the Group to credit risk, foreign currency and interest rate risk, are set out in notes 17 and 21 to the financial statements.

**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 \$21,000 (2004 – \$121,000) 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** The Directors are responsible for preparing the Annual Report and the financial statements in accordance with the Companies Act 1985 and Article 4 of the International Accounting Standards (IAS) Regulation. As the Company is a wholly owned subsidiary of Guinness Peat Group plc, which prepares consolidated financial statements under International Financial Reporting Standards (IFRS), there is no requirement under Company law for the Company to prepare consolidated financial statements. However, the Directors have elected to prepare consolidated financial statements, and these have been prepared under IFRS to provide consistency with Guinness Peat Group plc. The Directors have elected to prepare financial statements for the Company in accordance with UK GAAP.

IAS 1 requires that financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the IAS Board's "Framework for the Preparation and Presentation of Financial Statements". In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS.

The Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' report and Operating review which comply with the requirements of the Companies Act 1985.

The Directors are responsible for the maintenance and integrity of the Company website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By Order of the Board

**Carolyn Gibson**  
Company Secretary  
27 April 2006

**Independent auditors' report to the members of Coats plc**

We have audited the Group financial statements of Coats plc for the year ended 31 December 2005 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of recognised income and expense and the related notes 1 to 35. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the individual Company financial statements of Coats plc for the year ended 31 December 2005.

This report is made solely to the Company's members, 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 Company's members 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 Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of Directors and Auditors**

The Directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted for use in the European Union are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view in accordance with the relevant financial reporting framework and have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the EU IAS Regulation. We report to you if, in our opinion, the Directors' report is not consistent with the Group financial statements. We also report to you if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' transactions with the Company and other members of the Group is not disclosed.

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

**Basis of audit opinion**

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

**Opinion**

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted for use in the European Union, of the state of the Group's affairs as at 31 December 2005 and of its profit for the year then ended; and
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985.

**Deloitte & Touche LLP**

Chartered Accountants and Registered Auditors  
London  
27 April 2006

## 10 Consolidated income statement

For the year ended 31 December 2005	Notes	2005 \$m	2004 \$m
<b>Continuing operations</b>			
<b>Revenue</b>	4	<b>1,636.7</b>	1,578.2
Cost of sales		<b>(1,084.0)</b>	(1,069.4)
<b>Gross profit</b>		<b>552.7</b>	508.8
Distribution costs		<b>(306.2)</b>	(298.1)
Administrative expenses		<b>(165.6)</b>	(170.9)
Other operating income	4	<b>18.9</b>	1.3
<b>Operating profit</b>	5&6	<b>99.8</b>	41.1
Share of profits of joint ventures		<b>1.6</b>	1.3
Share of profits of associated undertakings		–	0.2
Investment income	8	<b>7.0</b>	7.9
Finance costs	9	<b>(30.3)</b>	(38.5)
<b>Profit before taxation</b>		<b>78.1</b>	12.0
Taxation	10	<b>(39.5)</b>	(13.7)
<b>Profit/(loss) from continuing operations</b>		<b>38.6</b>	(1.7)
<b>Discontinued operations</b>			
Profit/(loss) from discontinued operations	11	<b>15.0</b>	(1.4)
<b>Profit/(loss) for the year</b>		<b>53.6</b>	(3.1)
<b>Attributable to:</b>			
<b>EQUITY SHAREHOLDERS' FUNDS</b>	27	<b>52.2</b>	(7.6)
Minority interests		<b>1.4</b>	4.5
		<b>53.6</b>	(3.1)

At 31 December 2005	Notes	2005 \$m	2004 \$m
<b>Non-current assets</b>			
Intangible assets	12	257.5	251.9
Property, plant and equipment	13	482.5	477.4
Investments in joint ventures and associates	15	16.4	17.8
Available-for-sale investments		3.5	4.0
Deferred tax assets	24	4.6	13.6
Pension surpluses	32	57.5	28.7
Trade and other receivables	17	23.4	17.1
		<b>845.4</b>	<b>810.5</b>
<b>Current assets</b>			
Inventories	16	286.9	303.1
Trade and other receivables	17	302.7	348.6
Available-for-sale investments		8.8	–
Cash and cash equivalents	29	77.8	136.5
		<b>676.2</b>	<b>788.2</b>
Non-current assets classified as held for sale	11	30.2	114.0
<b>Total assets</b>		<b>1,551.8</b>	<b>1,712.7</b>
<b>Current liabilities</b>			
Trade and other creditors	19	(313.5)	(311.0)
Current income tax liabilities		(4.5)	(37.0)
Bank overdrafts and other borrowings	20	(122.0)	(65.6)
Provisions	22	(150.0)	(191.1)
		<b>(590.0)</b>	<b>(604.7)</b>
<b>Net current assets</b>		<b>86.2</b>	<b>183.5</b>
<b>Non-current liabilities</b>			
Amounts owed to parent undertaking (subordinated and convertible)	23	(280.7)	(280.8)
Trade and other creditors	19	(28.0)	(2.2)
Deferred tax liabilities	24	(12.1)	(25.9)
Borrowings	20	(319.1)	(474.7)
Retirement benefit obligations:			
Funded schemes	32	(2.1)	(25.8)
Unfunded schemes	32	(113.3)	(117.7)
Provisions	22	(62.6)	(43.2)
		<b>(817.9)</b>	<b>(970.3)</b>
Liabilities directly associated with non-current assets classified as held for sale	11	–	(58.5)
<b>Total liabilities</b>		<b>(1,407.9)</b>	<b>(1,633.5)</b>
<b>Net assets</b>		<b>143.9</b>	<b>79.2</b>
<b>Equity</b>			
Share capital	25	137.9	137.9
Hedging and translation reserves	26	3.0	6.4
Retained loss	27	(23.7)	(123.9)
<b>EQUITY SHAREHOLDERS' FUNDS</b>	28	<b>117.2</b>	<b>20.4</b>
Minority interests	28	26.7	58.8
<b>Total equity</b>	28	<b>143.9</b>	<b>79.2</b>

The financial statements were approved by the Board of Directors and authorised for issue on 27 April 2006.

They were signed on its behalf by:  
Blake Nixon, Director  
27 April 2006

## 12 Consolidated cash flow statement

For the year ended 31 December 2005	Notes	2005 \$m	2004 \$m
<b>Cash inflow/(outflow) from operating activities</b>			
Net cash inflow generated by operations	29	<b>176.9</b>	197.0
Interest paid		<b>(36.7)</b>	(34.0)
Taxation paid		<b>(39.8)</b>	(33.4)
<b>Net cash generated from operating activities</b>		<b>100.4</b>	129.6
<b>Cash inflow/(outflow) from investing activities</b>			
Dividends received from associates and joint ventures		<b>2.8</b>	1.7
Acquisition of property, plant and equipment and intangible assets		<b>(81.3)</b>	(91.1)
Disposal of property, plant and equipment and intangible assets		<b>56.6</b>	57.3
Acquisition of financial investments		<b>(9.3)</b>	–
Disposal of financial investments		<b>2.4</b>	45.0
Acquisition of subsidiaries	29	<b>(7.6)</b>	(4.6)
Disposal of subsidiaries	29	<b>13.0</b>	(11.1)
<b>Net cash absorbed in investing activities</b>		<b>(23.4)</b>	(2.8)
<b>Cash inflow/(outflow) from financing activities</b>			
Issue of Ordinary shares		–	137.8
Dividends paid to minority interests		<b>(7.1)</b>	(9.0)
Decrease in debt and lease financing		<b>(119.2)</b>	(250.2)
<b>Net cash absorbed in financing activities</b>		<b>(126.3)</b>	(121.4)
<b>Net (decrease)/increase in cash and cash equivalents</b>			
		<b>(49.3)</b>	5.4
Net cash and cash equivalents at beginning of the year		<b>113.5</b>	87.5
Foreign exchange (losses)/gains on cash and cash equivalents		<b>(7.1)</b>	20.6
<b>Net cash and cash equivalents at end of the year</b>	29	<b>57.1</b>	113.5
<b>Reconciliation of net cash flow to movement in net debt</b>			
Net (decrease)/increase in cash and cash equivalents		<b>(49.3)</b>	5.4
Cash outflow from change in debt and lease financing		<b>119.2</b>	250.2
Change in net debt resulting from cash flows		<b>69.9</b>	255.6
New finance leases		<b>(3.6)</b>	–
Loans and finance leases disposed with subsidiaries		–	1.7
Transfer of preference shares from equity under IAS 32		<b>(28.0)</b>	–
Other		<b>(3.9)</b>	(3.4)
Foreign exchange		<b>6.1</b>	1.9
Decrease in net debt		<b>40.5</b>	255.8
Net debt at start of year		<b>(403.8)</b>	(659.6)
Net debt at end of year	29	<b>(363.3)</b>	(403.8)

For the year ended 31 December 2005	Notes	2005 \$m	2004 \$m
Gain on cash flow hedges		<b>4.6</b>	–
Exchange differences on translation of foreign operations		<b>(6.7)</b>	6.0
Actuarial gains in respect of retirement benefit schemes	32	<b>47.4</b>	5.1
Tax on items taken directly to equity		<b>0.3</b>	–
<b>Net income recognised directly in equity</b>		<b>45.6</b>	11.1
Profit/(loss) for the year		<b>53.6</b>	(3.1)
Transferred to profit or loss on cash flow hedges		<b>0.8</b>	–
Other transfers to profit or loss		<b>(2.1)</b>	–
<b>Total recognised income and expense for the year</b>	28	<b>97.9</b>	8.0
<b>Attributable to:</b>			
<b>EQUITY SHAREHOLDERS OF THE COMPANY</b>		<b>96.5</b>	3.5
Minority interests		<b>1.4</b>	4.5
		<b>97.9</b>	8.0
<b>IAS 32 and 39 transitional adjustments</b>			
	28	<b>(25.8)</b>	
<b>Attributable to:</b>			
<b>EQUITY SHAREHOLDERS OF THE COMPANY</b>		<b>0.3</b>	
Minority interests		<b>(26.1)</b>	
		<b>(25.8)</b>	

# 14 Notes to the consolidated accounts

## 1 General information

Coats plc is a company incorporated in the United Kingdom under the Companies Act 1985. The address of its registered office is 1 The Square, Stockley Park, Uxbridge, Middlesex, UB11 1TD. The nature of the Group's operations and its principal activities are set out in the Chairman's statement and Operating review on pages 1 to 5 and the Directors' report on pages 7 and 8.

## 2 Principal accounting policies

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. The following are the principal policies adopted in preparing the Group financial statements.

### (a) Accounting convention and format

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for the first time. The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS are given in note 35. The financial statements have been prepared in accordance with IFRS adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing an opening IFRS balance sheet at 1 January 2004 for the purposes of the transition to IFRS, except for the accounting policies required by IAS 32 and IAS 39 which were implemented with effect from 1 January 2005 when the Group adopted those standards.

The rules for first time adoption are set out in IFRS 1 – First-time Adoption of International Financial Reporting Standards. In general, a company is required to select IFRS accounting policies and apply these retrospectively to determine its opening balance sheet under IFRS. The standard allows a number of exceptions to this general principle to assist companies as they change to reporting under IFRS. The Group has taken advantage of certain of these exemptions as noted below:

- Business combinations: business combinations prior to the IFRS transition date (1 January 2004) have not been restated onto an IFRS basis.
- Financial instruments: financial instruments in the comparative period are recorded on the existing UK GAAP basis, rather than in accordance with IAS 32 – Financial Instruments: Disclosure and Presentation and IAS 39 – Financial Instruments: Recognition and Measurement. As noted above, the transition to IAS 32 and IAS 39 is effective from 1 January 2005. Adoption impacts the accounting for financial derivatives and results in the reclassification of preference shares as debt.
- Fair value or revaluation as deemed cost: the Group has not elected to fair value its property, plant and equipment at the IFRS transition date and has adopted the UK GAAP values at the date of IFRS transition.
- Employee benefits: all cumulative actuarial gains and losses on the Group's defined benefit retirement and other post-employment schemes have been recognised in equity at the IFRS transition date.
- Cumulative translation difference: IAS 21: The Effects of Changes in Foreign Exchange Rates requires translation differences relating to net investments in foreign operations to be classified as a separate component of equity. In accordance with IFRS 1, the cumulative translation differences for all foreign operations are deemed to be zero at the date of transition.

The Group has adopted IFRS 5 early. IFRS 5 – Non-current assets held for sale and discontinued operations requires disposal groups to be classified as held for sale.

### (b) Basis of consolidation

#### (i) Subsidiaries

The principal subsidiaries are listed in note J in the notes to the Company's accounts. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. The effective date is when control passes to or from the Group. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain economic benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered in determining the existence or otherwise of control.



## 2 Principal accounting policies (continued)

### (ii) Associates

The Group's investment in associates is accounted for under the equity method of accounting. These are entities in which the Group has the ability to exert significant influence and which are neither subsidiaries nor joint ventures. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The investment in associates is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate, less any impairment in value. The income statement reflects the share of the profit or losses after taxation of associates. If the Group's share of losses exceeds the carrying amount of an associated undertaking, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the undertaking.

Where there has been a change recognised directly in the associate's equity, the Group recognises its share of any changes and discloses this, where applicable, in the statement of recognised income and expense.

### (iii) Joint ventures

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Group reports its interests in jointly controlled entities using the equity method as allowed under the 'alternative accounting rules' set out in IAS 31 – Interests in Joint Ventures.

### (c) Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the income statement.

### (d) Foreign currencies

#### (i) Foreign currency translation

Given the markets in which the Group operates and the global dimension of the business, the US dollar is the functional currency. The Group results in these financial statements are therefore prepared and presented in US dollars.

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. All currency differences are taken to the income statement with the exception of differences on receivables and payables that represent a net investment in a foreign operation, which are taken directly to equity until disposal of the net investment, at which time they are recycled through the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction.

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

		2005	2004
Average	Sterling	<b>0.55</b>	0.55
	Euro	<b>0.81</b>	0.80
Year end	Sterling	<b>0.58</b>	0.52
	Euro	<b>0.85</b>	0.73

**2 Principal accounting policies (continued)****(ii) Group companies**

Assets and liabilities of overseas subsidiaries are translated into the presentation currency of the Group at the rate of exchange ruling at the balance sheet date and their income statements are translated at the average exchange rates for the year. The exchange differences arising on the retranslation since 1 January 2004 are taken to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recycled through the income statement. Translation differences that arose before the date of transition to IFRS in respect of all foreign entities are not presented as a separate component.

Goodwill and fair value adjustments arising on acquisition of a foreign operation are regarded as assets and liabilities of the foreign operation, expressed in the functional currency of the foreign operation and recorded at the exchange rate at the date of the transaction and subsequently retranslated at the applicable closing rates.

**(e) Property, plant and equipment****(i) Owned assets**

Items of property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairments.

**(ii) Leased assets**

Finance leases, which transfer to the Group substantially all the risks and benefits of ownership of the leased items, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

**(iii) Subsequent expenditure**

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the income statement as an expense as incurred.

**(iv) Depreciation**

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of property, plant and equipment, and major components that are accounted for separately. Land is not depreciated. The estimated useful lives are as follows:

Land and buildings:		Fixtures and equipment:	
Freehold and long leasehold land	nil	Motor vehicles	20%
Freehold and long leasehold buildings	2%	Electronic office equipment	25%
Short leasehold property	over period of lease	All other plant and machinery	5 to 25%

Assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

## 2 Principal accounting policies (continued)

### (f) Intangible assets

#### (i) Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or joint venture at the date of acquisition. Goodwill is recognised as an asset carried at cost less any provision for impairment, and reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed. On disposal of a subsidiary, associate or joint venture, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

In respect of acquisitions prior to 1 January 2004, goodwill is included on the basis of its deemed cost, which represents the amount recorded previously under UK GAAP. The classification and accounting treatment of business combinations that occurred prior to 1 January 2004 has not been reconsidered in preparing the Group's opening IFRS balance sheet at 1 January 2004.

Negative goodwill is recognised immediately in the income statement.

#### (ii) Brands

Brands with indefinite useful lives are carried at cost less impairment.

#### (iii) Other intangibles

Acquired computer software licences and computer software development costs are capitalised on the basis of the costs incurred to acquire and bring to use the specific software and are amortised over their estimated useful lives of up to five years.

#### (iv) Research and development

All research and development costs are expensed as they are incurred.

### (g) Impairment of tangible and intangible assets excluding goodwill

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). An impairment loss is recognised as an expense.

### (h) Investments

Investments are recognised and derecognised on a trade date basis and are initially measured at fair value plus directly attributable transaction costs. Investments are classified as either short term or long term available-for-sale investments, and are measured at subsequent reporting dates at fair value. Gains and losses arising from changes in fair value are recognised directly in equity, until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the income statement for the period. Impairment losses recognised in the income statement for equity investments classified as long term investments are not subsequently reversed through the income statement.

Listed investments held as current assets are stated at fair value, which is market value.

Unlisted investments held as current assets are stated at fair value.

## 2 Principal accounting policies (continued)

### (i) Revenue recognition

Revenue comprises the fair value of the sale of goods, net of VAT, discounts and after eliminating sales within the Group. Sales of goods are recognised in revenue when the associated risks and rewards of ownership of the goods have been transferred to the buyer.

Income from sales of property is recognised on completion when legal title of the property passes to the buyer.

Income from equity investments is recognised when the legal entitlement vests.

### (j) Inventories

Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- Raw materials are valued at cost on a first-in, first-out basis.
- Finished goods and work in progress are valued based on the cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Provision is made for obsolete, slow moving and defective inventories.

### (k) Employee benefits

#### (i) Retirement and other post-employment obligations

The retirement and other post-employment benefit obligation recognised in the balance sheet in respect of defined benefit plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains and losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms of maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged directly to equity. Past service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension plans on a mandatory, contractual or voluntary basis. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

#### (ii) Share-based compensation

The Group operates cash-settled share-based compensation plans. Cash-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at each reporting date. The fair value is expensed on a straight-line basis over the service period, with a corresponding increase in liabilities.

#### (iii) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

## 2 Principal accounting policies (continued)

### (iv) Short term employee benefits

Employee entitlements to salaries and wages and annual leave, to be settled within one year of the reporting date, represent present obligations resulting from employees' services provided up to the reporting date, calculated at undiscounted amounts based on remuneration rates that the Group expects to pay.

### (l) Operating profit

Operating profit is stated after charging restructuring costs and crediting property profits but before the share of results of associates and joint ventures and before investment income and finance costs.

### (m) Restructuring provisions

Provisions are only made for losses arising as a result of restructuring when the Group is constructively obligated to implement the restructuring.

### (n) Taxation

The tax expense represents the sum of current and deferred tax.

Tax is recognised in the income statement except where it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred taxation is measured on a non-discounted basis. The following temporary differences are not provided for: goodwill not deducted for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### (o) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when a sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell.

### 2 Principal accounting policies (continued)

#### (p) Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

#### (i) Trade receivables

Trade receivables are recognised and carried at fair value, being the original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

#### (ii) Financial liabilities and equity instruments

From 1 January 2005, on the adoption of IAS 32 and IAS 39, financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. As a result, from 1 January 2005, preference shares have been classified as financial liabilities.

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

#### (iii) Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the profit and loss account.

#### (iv) Derivative financial instruments and hedge accounting

The Group's activities expose it to the financial risks of changes in foreign currency exchange rates and interest rates. The Group uses foreign exchange forward contracts and interest rate swap contracts to hedge these exposures. The Group does not use derivative financial instruments for speculative purposes.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the income statement. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss.

For an effective hedge of an exposure to changes in fair value, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in profit or loss. Gains or losses from re-measuring the derivative, or for non-derivatives the foreign currency component of its carrying amount, are recognised in profit or loss.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period.

#### (q) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short term deposits with an original maturity of three months or less.

For the purposes of the consolidated cash flow statement, net cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

### 3 Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Group's accounting policies, which are described in note 2, management has made the following judgements that have the most significant effect on the amounts recognised in the financial statements.

#### (a) Goodwill

In testing for impairment, certain assumptions, both concerning the future development of the business and which are consistent with its annual budget and strategic plan, have been made. Should these assumptions not be met, then it is possible that goodwill included in the balance sheet could become impaired.

#### (b) Pension and other post-employment obligations

The retirement benefit obligation recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of any plan assets. Key assumptions involved in the determination of the present value of the defined benefit obligation include discount rates and pensions in payment inflation rates. Changes in any of these assumptions could materially change the retirement benefit obligation recognised in the balance sheet.

### 4 Revenue and other operating income

An analysis of the Group's revenue, as defined by IFRS, is as follows:

	Year ended 31 December 2005 \$m	Year ended 31 December 2004 \$m
Sales of goods	<b>1,636.7</b>	1,578.2
Other income	<b>1.7</b>	1.3
Investment income (note 8)	<b>7.0</b>	7.9
	<b>1,645.4</b>	1,587.4
Other operating income as reported in the consolidated income statement includes:		
Other income (as above)	<b>1.7</b>	1.3
Profit on the sale of property	<b>17.2</b>	–
	<b>18.9</b>	1.3

### 5 Exceptional items

Exceptional items charged/(credited) to operating profit:

	Year ended 31 December 2005 \$m	Year ended 31 December 2004 \$m
Reorganisation costs and impairment of property, plant and equipment	<b>62.4</b>	45.6
Profit on the sale of property	<b>(17.2)</b>	–
Other (see below)	<b>(18.5)</b>	3.8
	<b>26.7</b>	49.4

For the year ended 31 December 2005, the \$18.5 million exceptional credit represents exchange gains. The other exceptional charges arising in 2004 largely represent Group refinancing costs.

## 22 Notes to the consolidated accounts (continued)

### 6 Operating profit

In addition to the exceptional items above, operating profit has been arrived at after charging:

	Year ended 31 December 2005 \$m	Year ended 31 December 2004 \$m
Depreciation of property, plant and machinery	<b>50.4</b>	50.7
Amortisation of computer software included in administrative expenses	<b>5.2</b>	5.2
Amortisation of computer software included in cost of sales	<b>0.4</b>	0.3
Research and development expenditure	<b>1.3</b>	2.1
Cost of inventories recognised as an expense	<b>587.9</b>	570.0
Auditors' remuneration (see note)	<b>3.7</b>	3.6

#### Note

Total auditors' remuneration on a worldwide basis is as follows:

Statutory audit services	<b>2.9</b>	2.7
Tax services	<b>0.6</b>	0.8
Other services	<b>0.2</b>	1.9
	<b>3.7</b>	5.4

Other services for the year ended 31 December 2004 include fees of \$1.8 million incurred in respect of refinancing which were not chargeable to operating profit.

### 7 Staff costs

The average monthly number of employees was:

	Year ended 31 December 2005 Number	Year ended 31 December 2004 Number
Continuing operations:		
Direct	<b>15,297</b>	16,517
Indirect	<b>3,383</b>	4,040
Staff	<b>7,297</b>	7,429
	<b>25,977</b>	27,986
Discontinued operations	<b>222</b>	1,305
	<b>26,199</b>	29,291
Comprising:		
Continuing operations:		
UK	<b>482</b>	761
Overseas	<b>25,495</b>	27,225
	<b>25,977</b>	27,986
Discontinued operations	<b>222</b>	1,305
	<b>26,199</b>	29,291

The total numbers employed at the end of the year were:

Continuing operations:		
UK	<b>412</b>	652
Overseas	<b>24,301</b>	26,916
	<b>24,713</b>	27,568
Discontinued operations	<b>134</b>	1,224
	<b>24,847</b>	28,792



**7 Staff costs (continued)**

	Year ended 31 December 2005 \$m	Year ended 31 December 2004 \$m
Their aggregate remuneration comprised:		
Continuing operations:		
Wages and salaries	<b>344.4</b>	385.0
Social security costs	<b>52.1</b>	50.9
Other pension costs: included in operating profit (note 32)	<b>19.9</b>	18.9
	<b>416.4</b>	454.8
Discontinued operations:		
Wages and salaries	<b>2.2</b>	23.2
Social security costs	<b>0.1</b>	1.6
Other pension costs: included in operating profit (note 32)	<b>0.1</b>	1.1
	<b>2.4</b>	25.9
Total remuneration	<b>418.8</b>	480.7

**8 Investment income**

	Year ended 31 December 2005 \$m	Year ended 31 December 2004 \$m
Interest on bank deposits	<b>4.3</b>	5.6
Income from other investments	<b>2.7</b>	2.3
	<b>7.0</b>	7.9

**9 Finance costs**

	Year ended 31 December 2005 \$m	Year ended 31 December 2004 \$m
Amounts payable to parent undertakings	<b>0.2</b>	0.6
Interest on bank loans and overdrafts	<b>39.7</b>	36.6
Interest on other borrowings	<b>1.5</b>	1.3
Foreign exchange gains	<b>(5.9)</b>	(1.6)
Net return on pension scheme assets and liabilities (note 32)	<b>(8.3)</b>	(3.2)
Unwinding of discounts on provisions	<b>0.8</b>	0.2
Interest on obligations under finance leases	<b>0.1</b>	0.2
Other	<b>2.2</b>	4.4
	<b>30.3</b>	38.5

## 24 Notes to the consolidated accounts (continued)

### 10 Taxation

	Year ended 31 December 2005		Year ended 31 December 2004	
	\$m	\$m	\$m	\$m
UK taxation based on profit for the year:				
Corporation tax at 30%		<b>30.3</b>		18.3
Double taxation relief		<b>(30.3)</b>		(18.3)
Total UK taxation		–		–
Overseas taxation:				
Current taxation		<b>32.6</b>		28.7
Deferred taxation (note 24)		<b>(7.9)</b>		(11.0)
		<b>24.7</b>		17.7
Prior year adjustments:				
Current taxation	<b>11.6</b>		(2.6)	
Deferred taxation (note 24)	<b>3.2</b>		(1.4)	
		<b>14.8</b>		(4.0)
		<b>39.5</b>		13.7

Overseas taxation is calculated at the rates prevailing in the respective jurisdictions.

The charge for the year can be reconciled to the profit per the income statement as follows:

Profit before taxation	<b>78.1</b>	12.0
Tax at the UK corporation tax rate of 30%	<b>23.4</b>	3.6
Adjusted for the effects of:		
Adjustments in respect of prior years	<b>14.8</b>	(4.0)
Deferred taxation not provided	<b>14.5</b>	(1.9)
Expenses not deductible for tax purposes	<b>6.2</b>	15.0
Withholding tax on remittances	<b>4.2</b>	7.4
Intra-Group dividends not covered by double tax relief	<b>1.5</b>	6.2
Utilisation of brought forward losses not previously recognised	<b>(4.3)</b>	(3.8)
Lower rates of tax on overseas earnings	<b>(8.0)</b>	(10.7)
Income not liable to taxation	<b>(15.2)</b>	(3.1)
Other	<b>2.4</b>	5.0
	<b>39.5</b>	13.7

The prior year tax charges of \$14.8 million (2004 – \$4.0 million credit) recognised in the tax charge for continuing operations are largely offset by \$12.5 million (2004 – \$nil) prior year tax credits recognised in the profit/(loss) from discontinued operations (see note 11).

#### 11 Discontinued operations and non-current assets classified as held for sale

The discontinued operations of Dorma Bedwear were sold on 14 February 2005. Prior to 1 January 2004, the Directors resolved to dispose of Dorma Bedwear, and therefore from 1 January 2004 to disposal, Dorma Bedwear has been classified as a business held for sale.

The discontinued operations of Precision Processes Textiles were sold on 29 April 2005.

Prior to 1 January 2004, the Directors resolved to dispose of Coats Viyella Woollen Yarn Company, and therefore from 1 January 2004 to the 31 December 2005, this business has been classified as a business held for sale. The sale of this business is expected to be completed in the first half of 2006.

The results of discontinued operations are as follows:

	Year ended 31 December 2005 \$m	Year ended 31 December 2004 \$m
Revenue	<b>17.0</b>	133.7
Expenses	<b>(17.5)</b>	(135.1)
Net loss attributable to discontinued operations	<b>(0.5)</b>	(1.4)
Profit on disposal of properties from discontinued operations	<b>0.8</b>	–
Profit on disposal of discontinued operations (note 29)	<b>2.2</b>	–
Write-back of tax provision in respect of operations previously disposed of	<b>12.5</b>	–
Net profit/(loss) attributable to discontinued operations	<b>15.0</b>	(1.4)

During the year, discontinued operations contributed \$1.2 million (2004 – \$1.9 million outflow) to the Group's net operating cash flow.

The major classes of assets and liabilities classified as held for sale are as follows:

	2005 \$m	2004 \$m
Property, plant and equipment	<b>23.7</b>	65.2
Inventories	<b>0.8</b>	30.2
Trade and other receivables	<b>4.8</b>	15.9
Cash and cash equivalents	<b>0.9</b>	2.7
Total non-current assets classified as held for sale	<b>30.2</b>	114.0
Trade and other creditors	–	16.3
Provisions	–	42.2
Total liabilities directly associated with non-current assets classified as held for sale	–	58.5
Net non-current assets classified as held for sale	<b>30.2</b>	55.5

As at 31 December 2005, non-current assets classified as held for sale comprised surplus properties and the assets of Coats Viyella Woollen Yarn Company.

## 26 Notes to the consolidated accounts (continued)

### 12 Intangible assets

	Goodwill \$m	Brands \$m	Computer software \$m	Total \$m
<b>Cost</b>				
At 1 January 2004	65.3	–	35.2	100.5
Exchange difference	–	–	1.0	1.0
On acquisition of subsidiaries	169.1	0.1	–	169.2
Additions	–	–	4.3	4.3
Disposals	–	–	(0.9)	(0.9)
At 31 December 2004	234.4	0.1	39.6	274.1
At 1 January 2005	<b>234.4</b>	<b>0.1</b>	<b>39.6</b>	<b>274.1</b>
Exchange difference	<b>0.2</b>	–	<b>(1.7)</b>	<b>(1.5)</b>
On acquisition of subsidiaries (note 29)	–	<b>1.8</b>	–	<b>1.8</b>
Additions	–	–	<b>9.6</b>	<b>9.6</b>
Reclassification	–	–	<b>2.0</b>	<b>2.0</b>
Disposals	–	–	<b>(2.2)</b>	<b>(2.2)</b>
At 31 December 2005	<b>234.6</b>	<b>1.9</b>	<b>47.3</b>	<b>283.8</b>
<b>Amortisation</b>				
At 1 January 2004	–	–	16.2	16.2
Exchange difference	–	–	0.7	0.7
Disposals	–	–	(0.2)	(0.2)
Charge for the year	–	–	5.5	5.5
At 31 December 2004	–	–	22.2	22.2
At 1 January 2005	–	–	<b>22.2</b>	<b>22.2</b>
Exchange difference	–	–	<b>(1.2)</b>	<b>(1.2)</b>
Reclassification	–	–	<b>1.3</b>	<b>1.3</b>
Disposals	–	–	<b>(1.6)</b>	<b>(1.6)</b>
Charge for the year	–	–	<b>5.6</b>	<b>5.6</b>
At 31 December 2005	–	–	<b>26.3</b>	<b>26.3</b>
<b>Net book value</b>				
<b>At 31 December 2005</b>	<b>234.6</b>	<b>1.9</b>	<b>21.0</b>	<b>257.5</b>
At 31 December 2004	234.4	0.1	17.4	251.9

The carrying amount of the Group's computer software includes an amount of \$3.4 million (2004 – \$nil) in respect of assets held under finance leases.

### 13 Property, plant and equipment

	Land and buildings \$m	Fixtures and equipment \$m	Total \$m
<b>Cost</b>			
At 1 January 2004	233.6	899.5	1,133.1
Exchange difference	10.3	29.6	39.9
On acquisition of subsidiaries	37.2	9.8	47.0
Additions	7.1	80.1	87.2
Disposals	(56.0)	(89.3)	(145.3)
At 31 December 2004	232.2	929.7	1,161.9
At 1 January 2005	<b>232.2</b>	<b>929.7</b>	<b>1,161.9</b>
Exchange difference	<b>(11.3)</b>	<b>(25.5)</b>	<b>(36.8)</b>
On acquisition of subsidiaries (note 29)	–	0.6	0.6
Additions	6.8	68.5	75.3
Reclassifications to non-current assets held-for-sale	(7.8)	–	(7.8)
Other reclassifications	5.1	(10.6)	(5.5)
Disposals	(0.5)	(57.2)	(57.7)
At 31 December 2005	<b>224.5</b>	<b>905.5</b>	<b>1,130.0</b>
<b>Accumulated depreciation and impairment</b>			
At 1 January 2004	76.1	549.2	625.3
Exchange difference	4.1	24.1	28.2
On acquisition of subsidiaries	19.7	50.2	69.9
Charge for the year	6.7	44.0	50.7
Impairment of fixed assets	–	2.4	2.4
Disposals	(20.5)	(71.5)	(92.0)
At 31 December 2004	86.1	598.4	684.5
At 1 January 2005	<b>86.1</b>	<b>598.4</b>	<b>684.5</b>
Exchange difference	<b>(4.4)</b>	<b>(22.5)</b>	<b>(26.9)</b>
Charge for the year	5.1	45.3	50.4
Reclassifications to non-current assets held-for-sale	(4.2)	–	(4.2)
Other reclassifications	1.5	(6.3)	(4.8)
Disposals	(0.3)	(51.2)	(51.5)
At 31 December 2005	<b>83.8</b>	<b>563.7</b>	<b>647.5</b>
<b>Net book value</b>			
<b>At 31 December 2005</b>	<b>140.7</b>	<b>341.8</b>	<b>482.5</b>
At 31 December 2004	146.1	331.3	477.4

The carrying amount of the Group's fixtures and equipment includes an amount of \$0.4 million (2004 – \$0.4 million) in respect of assets held under finance leases.

As at 31 December 2005, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to \$6.0 million (2004 – \$6.5 million).

In the year ended 31 December 2004, fair value revaluation adjustments were made in respect of property, plant and equipment acquired as part of the acquisition of Coats Holdings Ltd in 2003.

## 28 Notes to the consolidated accounts (continued)

### 14 Subsidiaries

Principal subsidiary undertakings, including name, country of incorporation and proportion of ownership interest, are given in note J.

### 15 Investments in joint ventures and associates

	Joint ventures \$m	Associates \$m	Total \$m
<b>Cost</b>			
At 1 January 2004	13.6	4.3	17.9
Exchange difference	–	0.1	0.1
On acquisition of subsidiaries	–	(4.2)	(4.2)
At 31 December 2004	13.6	0.2	13.8
At 1 January 2005	<b>13.6</b>	<b>0.2</b>	<b>13.8</b>
Exchange difference	<b>(0.2)</b>	–	<b>(0.2)</b>
At 31 December 2005	<b>13.4</b>	<b>0.2</b>	<b>13.6</b>
<b>Share of profits/(losses) retained</b>			
At 1 January 2004	4.6	(0.4)	4.2
Share of profits for the year	1.3	0.2	1.5
Dividends paid	(1.7)	–	(1.7)
At 31 December 2004	4.2	(0.2)	4.0
At 1 January 2005	<b>4.2</b>	<b>(0.2)</b>	<b>4.0</b>
Share of profits for the year	<b>1.6</b>	–	<b>1.6</b>
Dividends paid	<b>(2.8)</b>	–	<b>(2.8)</b>
At 31 December 2005	<b>3.0</b>	<b>(0.2)</b>	<b>2.8</b>
<b>Net book value</b>			
<b>At 31 December 2005</b>	<b>16.4</b>	–	<b>16.4</b>
At 31 December 2004	17.8	–	17.8

The aggregated amounts relating to joint ventures and associates are:

	2005 \$m	2004 \$m
Aggregated amounts relating to joint ventures		
Total assets	<b>37.9</b>	47.0
Total liabilities	<b>(5.0)</b>	(11.4)
Revenues	<b>38.0</b>	33.4
Profit after taxation	<b>3.3</b>	2.7
Aggregated amounts relating to associates		
Total assets	<b>34.4</b>	31.7
Total liabilities	<b>(34.4)</b>	(31.7)
Revenues	<b>23.8</b>	21.6
Profit after taxation	–	0.5

Principal joint ventures and associates, including name, country of incorporation and proportion of ownership interest, are given in note J.

**16 Inventories**

	2005 \$m	2004 \$m
Raw materials	<b>66.0</b>	63.2
Work-in-progress	<b>75.0</b>	97.8
Finished goods	<b>145.9</b>	142.1
	<b>286.9</b>	303.1

**17 Trade and other receivables**

	2005 \$m	2004 \$m
<b>Non-current assets</b>		
Due from joint ventures and associates	–	1.2
Taxation recoverable	<b>4.5</b>	–
Derivative financial instruments	<b>3.5</b>	–
Other receivables	<b>15.4</b>	15.9
	<b>23.4</b>	17.1
<b>Current assets</b>		
Trade receivables	<b>246.6</b>	275.8
Due from joint ventures and associates	<b>0.7</b>	7.4
Taxation recoverable	<b>10.6</b>	11.6
Prepayments and accrued income	<b>12.5</b>	12.9
Derivative financial instruments	<b>3.4</b>	–
Other receivables	<b>28.9</b>	40.9
	<b>302.7</b>	348.6

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

Trade receivables are net of the following bad debt provisions:

Bad debt provisions	<b>24.1</b>	22.1
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**Credit risk**

The Group's principal financial assets are trade and other receivables, bank balances and investments.

The Group's credit risk is primarily attributable to its trade receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-ratings agencies.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

## 30 Notes to the consolidated accounts (continued)

### 18 Financial assets

Trade and other receivables are set out in note 17. Other financial assets are set out below.

#### Analysis of other financial assets by currency at 31 December

	US dollars \$m	Sterling \$m	Other \$m	2005 Total \$m
Available-for-sale investments	0.1	2.9	9.3	12.3
Cash and cash equivalents	31.1	2.1	44.6	77.8
	<b>31.2</b>	<b>5.0</b>	<b>53.9</b>	<b>90.1</b>

  

	US dollars \$m	Sterling \$m	Other \$m	2004 Total \$m
Available-for-sale investments	0.1	–	3.9	4.0
Cash and cash equivalents	20.5	24.0	92.0	136.5
	20.6	24.0	95.9	140.5

#### Interest rate profile of other financial assets at 31 December

	Floating rate \$m	Non-interest bearing \$m	2005 Total \$m
Available-for-sale investments	8.2	4.1	12.3
Cash and cash equivalents	73.5	4.3	77.8
	<b>81.7</b>	<b>8.4</b>	<b>90.1</b>

  

	Floating rate \$m	Non-interest bearing \$m	2004 Total \$m
Available-for-sale investments	1.7	2.3	4.0
Cash and cash equivalents	79.7	56.8	136.5
	81.4	59.1	140.5

Floating interest rate cash and cash equivalents include deposits of \$15.3 million (2004 – \$14.1 million) that have been placed on deposit with banks for periods not exceeding six months and earn available market rates. The remainder of the floating rate cash balances are held on current account.

The Directors consider that the carrying amount of available-for-sale investments and cash and cash equivalents approximates to their fair value.

### 19 Trade and other creditors

	2005 \$m	2004 \$m
<b>Current liabilities</b>		
Trade creditors	199.1	181.0
Due to joint ventures and associates	4.6	11.4
Other taxes and social security payable	14.6	16.8
Accruals and deferred income	52.9	60.8
Derivative financial instruments	0.6	–
Other creditors	41.7	41.0
	<b>313.5</b>	<b>311.0</b>
<b>Non-current liabilities</b>		
Amounts owed to fellow subsidiary undertakings	–	0.1
Tax liabilities	27.0	–
Other payables	1.0	2.1
	<b>28.0</b>	<b>2.2</b>

The Directors consider that the carrying amount of trade creditors approximates to their fair value.



## 20 Bank overdrafts and other borrowings

	2005 \$m	2004 \$m
Bank overdrafts	<b>20.7</b>	23.0
Loans	<b>416.6</b>	517.0
Obligations under finance leases	<b>3.8</b>	0.3
	<b>441.1</b>	540.3

The Directors consider that the carrying amount of the Group's borrowings (before the effect of interest rate swaps) approximates to their fair value.

Bank overdrafts are repayable on demand. The bank overdrafts and other borrowings are repayable as follows:

On demand or within one year	<b>122.0</b>	65.6
In the second year	<b>55.4</b>	41.9
In the third to fifth years inclusive	<b>192.8</b>	295.0
After five years	<b>70.9</b>	137.8
	<b>441.1</b>	540.3
Less: Amount due for settlement within one year (shown under current liabilities)	<b>(122.0)</b>	(65.6)
Amount due for settlement after more than one year	<b>319.1</b>	474.7

The obligations under finance leases are payable as follows:

	2005		2004	
	Minimum lease payments \$m	Present value of minimum lease payments \$m	Minimum lease payments \$m	Present value of minimum lease payments \$m
Amounts payable under finance leases:				
Within one year	<b>0.1</b>	<b>0.1</b>	0.1	0.1
In the second to fifth years inclusive	<b>3.7</b>	<b>3.7</b>	0.2	0.2
	<b>3.8</b>	<b>3.8</b>	0.3	0.3
Less: Amount due for settlement within one year (shown under current liabilities)		<b>(0.1)</b>		(0.1)
Amount due for settlement after more than one year		<b>3.7</b>		0.2

### Analysis of borrowings by currency

	2005			2004
	US dollars \$m	Sterling \$m	Other \$m	Total \$m
Bank overdrafts	<b>5.3</b>	–	<b>15.4</b>	<b>20.7</b>
Loans	<b>369.7</b>	<b>25.6</b>	<b>21.3</b>	<b>416.6</b>
Obligations under finance leases	<b>0.1</b>	<b>3.6</b>	<b>0.1</b>	<b>3.8</b>
	<b>375.1</b>	<b>29.2</b>	<b>36.8</b>	<b>441.1</b>
	US dollars \$m	Sterling \$m	Other \$m	Total \$m
Bank overdrafts	–	–	23.0	23.0
Loans	335.3	38.0	143.7	517.0
Obligations under finance leases	0.1	–	0.2	0.3
	335.4	38.0	166.9	540.3

**20 Bank overdrafts and other borrowings (continued)****Interest rate exposure**

The exposure of the borrowings of the Group to interest rate changes and the periods in which the interest rates on the borrowings reprice or mature, whichever is earlier, are as follows:

	2005			
	In one year or less \$m	In two to five years \$m	In more than five years \$m	Total \$m
Bank overdrafts	20.7	–	–	20.7
Loans	416.6	–	–	416.6
Obligations under finance leases	0.1	3.7	–	3.8
Total borrowings	437.4	3.7	–	441.1
Effect of interest rate swaps (note 21)	(250.0)	220.0	30.0	–
	187.4	223.7	30.0	441.1

  

	2004			
	In one year or less \$m	In two to five years \$m	In more than five years \$m	Total \$m
Bank overdrafts	23.0	–	–	23.0
Loans	516.6	0.4	–	517.0
Obligations under finance leases	0.1	0.2	–	0.3
Total borrowings	539.7	0.6	–	540.3
Effect of interest rate swaps (note 21)	(275.0)	215.0	60.0	–
	264.7	215.6	60.0	540.3

The effective interest rates (including the effect of interest rate swaps) at the balance sheet date were as follows:

	2005 %	2004 %
Bank overdrafts	8.0	5.7
Loans	6.5	5.9
Obligations under finance leases	6.0	6.4

Loans of \$393.9 million (2004 – \$516.6 million) have been arranged at floating interest rates. However, the associated cash flow interest rate risk has been mitigated by floating rate to fixed rate swaps with a notional principal of \$275.0 million (2004 – \$275.0 million) as set out in note 21.

Loans of \$22.7 million (2004 – \$0.4 million) are at fixed interest rates and expose the Group to fair value interest rate risk. These loans of \$22.7 million as at 31 December 2005 represent preference shares, which under IAS 32 and 39 (adopted by the Group from 1 January 2005), are classified as debt.

**21 Treasury policy and derivative financial instruments****Credit facilities**

The Group is financed primarily through a secured banking facility. As at 31 December 2005, this facility totalled \$619.2 million (2004 – \$635.8 million), of which \$44.5 million (2004 – \$17.8 million) expires within one year, \$58.7 million (2004 – \$44.6 million) expires between one and two years, \$467.8 million (2004 – \$435.6 million) expires between two and five years and \$48.2 million (2004 – \$137.8 million) expires after five years.

As at 31 December 2005, bank overdrafts of \$4.7 million (2004 – \$6.9 million) are secured on Group assets, including property, plant and equipment, trade receivables and inventories. In total, \$339.3 million (2004 – \$498.2 million) of bank overdrafts, loans and lease finance as at 31 December 2005 are secured on assets of the Group. Security comprises both fixed and floating charges.

## 21 Treasury policy and derivative financial instruments (continued)

### Currency exposures

The Group changed its functional currency in 2004 from sterling to US dollars, reflecting the fact that much of its business is transacted in US dollars or in currencies that have a close association with the US dollar. This has significantly reduced the translation exposure on the Group's reported results. In respect of transaction exposures, Group companies use forward foreign exchange contracts to manage the exposures arising on transactions which are not in the functional currency of the company.

At 31 December 2005, the fair value of the Group's currency derivatives was as follows:

	Assets \$m	Liabilities \$m
Forward foreign exchange contracts – fair value hedges	<b>0.1</b>	<b>0.4</b>
Forward foreign exchange contracts – not designated as hedges	<b>0.4</b>	<b>0.2</b>
	<b>0.5</b>	<b>0.6</b>

At 1 January 2005, the date of adoption of IAS 32 and 39, the fair value of the Group's currency derivatives was as follows:

	Assets \$m	Liabilities \$m
Forward foreign exchange contracts – fair value hedges	0.2	0.9
Forward foreign exchange contracts – hedge of net investment in foreign entity	–	0.7
Forward foreign exchange contracts – not designated as hedges	0.5	0.8
	0.7	2.4

The table below shows the extent to which Group companies have monetary assets and liabilities in currencies other than their functional currency. Foreign exchange differences on retranslation of these assets and liabilities are taken to the Group's income statement. The table excludes loans between Group companies that form part of the net investment in overseas subsidiaries, on which the exchange differences are dealt with through reserves, but includes other Group balances.

	31 December 2005 Net foreign currency of monetary assets/(liabilities)			
	US dollars \$m	Sterling \$m	Other \$m	Total \$m
Functional currency				
US dollars	–	<b>(37.9)</b>	<b>(120.3)</b>	<b>(158.2)</b>
Sterling	<b>0.7</b>	–	<b>1.8</b>	<b>2.5</b>
Other	<b>10.6</b>	<b>(1.2)</b>	<b>2.2</b>	<b>11.6</b>
	<b>11.3</b>	<b>(39.1)</b>	<b>(116.3)</b>	<b>(144.1)</b>

	31 December 2004 Net foreign currency of monetary assets/(liabilities)			
	US dollars \$m	Sterling \$m	Other \$m	Total \$m
Functional currency				
US dollars	–	(0.5)	4.0	3.5
Sterling	0.1	–	2.1	2.2
Other	13.4	0.2	16.6	30.2
	13.5	(0.3)	22.7	35.9

### Interest rate swaps

The Group's debt is largely at floating rate. In order to provide protection from interest rate fluctuations, the Group utilises interest rate swaps to convert a proportion of its floating rate exposure to fixed rates.

Contracts with principal values of \$275.0 million at 31 December 2005 and 1 January 2005 have fixed interest payments at rates between 2.75% and 4.80% for periods up until 1 May 2013 and have floating rate interest receipts. \$25.0 million of these contracts mature in 2006.

The fair values of interest rate swaps entered into at 31 December 2005 comprise assets of \$6.4 million. The fair value of interest rate swaps entered into at 1 January 2005 comprise assets of \$2.0 million and liabilities of \$1.5 million. All of these interest rate swaps were designated and effective as cash flow hedges and movements in fair value were taken to equity.

**22 Provisions**

	2005 \$m	2004 \$m
Included in current liabilities	<b>150.0</b>	191.1
Included in non-current liabilities	<b>62.6</b>	43.2
<b>Total provisions</b>	<b>212.6</b>	234.3

As set out in the Chairman's statement on pages 1 and 2, provisions have been made in respect of the European Commission investigation. In accordance with paragraph 92 of IAS 37 Provisions, Contingent Liabilities and Contingent Assets, the disclosures usually required by IAS 37 are not given as the Directors consider that their disclosure could seriously prejudice the outcome of that investigation.

Included in provisions is a financial liability of \$21.9 million (2004 – \$nil), at an interest rate of 3.6%, payable in instalments until 2008.

**23 Amounts owed to parent undertaking (non-current liabilities)**

The amounts owed to the parent undertaking are 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.

**24 Deferred tax**

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon:

	Accelerated tax depreciation \$m	Retirement benefit obligations \$m	Tax losses \$m	Undistributed reserves \$m	Other timing differences \$m	Total \$m
At 1 January 2004	43.0	3.1	(16.4)	17.0	(8.5)	38.2
Charge to income	3.2	3.4	(19.0)	1.0	(1.0)	(12.4)
Acquisition of subsidiary	(8.3)	–	–	–	–	(8.3)
Transfer to current tax	(4.3)	–	–	–	–	(4.3)
Exchange differences	(1.6)	(0.1)	–	0.5	0.3	(0.9)
At 31 December 2004	32.0	6.4	(35.4)	18.5	(9.2)	12.3
At 1 January 2005	<b>32.0</b>	<b>6.4</b>	<b>(35.4)</b>	<b>18.5</b>	<b>(9.2)</b>	<b>12.3</b>
Charge to income	<b>(7.1)</b>	<b>4.6</b>	<b>4.4</b>	<b>(6.7)</b>	<b>0.1</b>	<b>(4.7)</b>
Charge to equity	–	<b>(0.3)</b>	–	–	–	<b>(0.3)</b>
Acquisition of subsidiary (note 29)	–	–	–	–	<b>(0.1)</b>	<b>(0.1)</b>
Transfer to current tax	–	–	–	–	<b>0.3</b>	<b>0.3</b>
At 31 December 2005	<b>24.9</b>	<b>10.7</b>	<b>(31.0)</b>	<b>11.8</b>	<b>(8.9)</b>	<b>7.5</b>

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2005 \$m	2004 \$m
Deferred tax liabilities – non-current	<b>12.1</b>	25.9
Deferred tax assets – non-current	<b>(4.6)</b>	(13.6)
	<b>7.5</b>	12.3

As at 31 December 2005, the Group has unused income tax losses of \$436.7 million (2004 – \$415.2 million). A deferred tax asset of \$31.0 million (2004 – \$35.4 million) has been recognised in respect of \$83.8 million (2004 – \$98.8 million) of those losses. No deferred tax has been recognised in respect of the remaining \$352.9 million (2004 – \$316.4 million) of such losses due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of \$14.6 million (2004 – \$8.2 million) that will expire over the next five years if not utilised in that period. Other losses will be carried forward for in excess of ten years or indefinitely.

As at 31 December 2005, the Group also has unrecovered advance corporation tax of \$93.9 million (2004 – \$116.4 million) available for offset against future UK profits. No deferred tax has been recognised in respect of these due to the uncertainty of recoverability.

As at 31 December 2005, the Group also had unused capital tax losses of \$240.0 million (2004 – \$331.8 million) available for offset against future UK capital gains. No deferred tax has been recognised in respect of the capital losses due to the unpredictability of future UK capital profit streams.

As at 31 December 2005, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have been recognised was \$11.8 million (2004 – \$18.5 million). A liability has been recognised in respect of these differences because the Group plans to distribute these earnings back to the UK in the near future, so that it is probable that such differences will reverse in the foreseeable future.

Temporary differences arising in connection with interests in joint ventures and associates are insignificant.

## 25 Share capital

	Number of shares	2005 \$m	Number of shares	2004 \$m
Authorised:				
Ordinary shares of £1 each	<b>75,050,000</b>	<b>137.9</b>	75,050,000	137.9
A Growth shares of £1 each	<b>70</b>	–	70	–
B Growth shares of £1 each	<b>30</b>	–	30	–
		<b>137.9</b>		<b>137.9</b>
Allotted and fully paid:				
Ordinary shares of £1 each	<b>75,050,000</b>	<b>137.9</b>	75,050,000	137.9
A Growth shares of £1 each	<b>51</b>	–	–	–
B Growth shares of £1 each	<b>30</b>	–	30	–
		<b>137.9</b>		<b>137.9</b>

The Growth shares represent non-equity shares. The Growth shares confer on 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 ended 31 December 2005, the Company issued 51 A Growth shares of £1 each at par. During the year ended 31 December 2004, the Company issued 30 B Growth shares of £1 each at par and 75,000,000 Ordinary shares of £1 each at par.

## 26 Hedging and translation reserve

	Hedging reserve \$m	Translation reserve \$m	Total \$m
Balance at 1 January 2004	–	–	–
Exchange differences on translation of foreign operations	–	6.4	6.4
Balance at 31 December 2004	–	6.4	6.4
Restatement for the effects of IAS 32 and IAS 39	2.0	(2.6)	(0.6)
Restated balance at 1 January 2005	2.0	3.8	5.8
Exchange differences on translation of foreign operations	–	(6.1)	(6.1)
Increase in fair value of cash flow hedges	4.6	–	4.6
Transfer to income	0.8	–	0.8
Other	–	(2.1)	(2.1)
Balance at 31 December 2005	<b>7.4</b>	<b>(4.4)</b>	<b>3.0</b>

## 27 Retained loss

	2005 \$m	2004 \$m
Balance at 1 January	<b>(123.9)</b>	(121.0)
Restatement for the effects of IAS 32 and IAS 39	<b>0.9</b>	–
Restated balance at 1 January 2005	<b>(123.0)</b>	(121.0)
Net profit/(loss) for the year	<b>52.2</b>	(7.6)
Actuarial gains in respect of retirement benefit schemes	<b>46.8</b>	4.7
Tax on items taken directly to equity	<b>0.3</b>	–
Balance at 31 December	<b>(23.7)</b>	(123.9)

**28 Reconciliation of closing equity**

	2005			2004		
	Equity holders of the parent \$m	Minority interests \$m	Total equity \$m	Equity holders of the parent \$m	Minority interests \$m	Total equity \$m
Balance at 1 January	20.4	58.8	79.2	(120.9)	65.1	(55.8)
Restatement for the effects of IAS 32 and IAS 39	0.3	(26.1)	(25.8)	–	–	–
Restated balance at 1 January	20.7	32.7	53.4	(120.9)	65.1	(55.8)
Total recognised income and expense for the year	96.5	1.4	97.9	3.5	4.5	8.0
Dividends paid	–	(7.1)	(7.1)	–	(8.9)	(8.9)
Other	–	(0.3)	(0.3)	–	(1.9)	(1.9)
Issue of Ordinary shares	–	–	–	137.8	–	137.8
Balance at 31 December	117.2	26.7	143.9	20.4	58.8	79.2

The restatement of minority interests for the effects of IAS 32 and IAS 39 represents the preference share capital of a subsidiary undertaking now classified as debt.

**29 Notes to the cash flow statement****(a) Reconciliation of operating profit to net cash inflow generated by operations**

	Year ended 31 December 2005 \$m	Year ended 31 December 2004 \$m
Operating profit	99.8	41.1
Depreciation	50.4	50.7
Amortisation of intangible assets (computer software)	5.6	5.5
Reorganisation costs	62.4	43.2
Impairment of property, plant and equipment	–	2.4
Other exceptional items	(35.7)	3.8
Decrease in inventories	3.9	45.0
Decrease in debtors	34.2	7.7
Increase in creditors	17.3	38.5
Provision movements	(11.7)	(6.0)
Other non-cash movements	5.0	1.4
Net cash inflow from normal operating activities	231.2	233.3
Net cash outflow in respect of reorganisation costs and other exceptional items	(54.3)	(36.3)
Net cash inflow generated by operations	176.9	197.0

**(b) Analysis of net debt**

	At 31 December 2004 \$m	Restatement for the effects of IAS 32 and IAS 39 \$m	Cash flow \$m	Other non-cash changes \$m	Exchange \$m	At 31 December 2005 \$m
Cash and cash equivalents	136.5	–	–	–	–	77.8
Bank overdrafts	(23.0)	–	(49.3)	–	(7.1)	(20.7)
Net cash and cash equivalents	113.5	–	(49.3)	–	(7.1)	57.1
Loans	(517.0)	(28.0)	119.2	(3.9)	13.1	(416.6)
Finance leases	(0.3)	–	–	(3.6)	0.1	(3.8)
Total	(403.8)	(28.0)	69.9	(7.5)	6.1	(363.3)

Net debt is before amounts owed to the parent undertaking of \$280.7 million (2004 – \$280.8 million) as set out in note 23.

## 29 Notes to the cash flow statement (continued)

### (c) Acquisition of subsidiaries

During the year, the Group's main acquisition was the Almedahls business, which was acquired and consolidated from 1 April 2005.

	Book value \$m	Fair value adjustments \$m	Fair value \$m
Brands	–	1.8	1.8
Property, plant and equipment	0.6	–	0.6
Deferred tax assets	0.1	–	0.1
Inventories	5.1	(0.3)	4.8
Trade and other receivables (current assets)	1.3	0.1	1.4
Cash and cash equivalents	1.0	–	1.0
Trade and other creditors (current liabilities)	(1.1)	–	(1.1)
Provisions	(0.2)	–	(0.2)
Attributable to minority interests	0.2	–	0.2
Net assets acquired	7.0	1.6	8.6
Satisfied by:			
Cash paid in the year			8.6
Cash paid in the year			8.6
Cash and cash equivalents acquired			(1.0)
Net cash paid			7.6

Acquisitions contributed \$2.6 million to the Group's net operating cash flows for the year ended 31 December 2005.

### (d) Disposal of subsidiaries

During the year, the Group disposed of Dorma Bedwear on 14 February 2005 and other non-core operations.

The net assets at the dates of disposal were:

	\$m	\$m
Property, plant and equipment		0.9
Inventories		25.1
Trade and other receivables (current assets)		17.3
Trade and other creditors (current liabilities)		(15.1)
Provisions		(18.3)
Net assets sold		9.9
Exchange differences	(0.3)	
Profit on disposal (note 11)	2.2	
		1.9
Consideration		11.8
Satisfied by:		
Cash received in the year		13.1
Cost of disposal		(1.3)
		11.8

During the year ended 31 December 2005, discontinued businesses contributed \$1.2 million to the Group's net operating cash flow, resulting in a \$13.0 million inflow overall in respect of discontinued operations.

During the year ended 31 December 2004, the sale of subsidiary undertakings generated a cash inflow of \$2.4 million (net of cash disposed) and, under IFRS, discontinued operations generated a cash outflow of \$13.5 million, resulting in a \$11.1 million overall cash outflow in respect of discontinued operations.

## 38 Notes to the consolidated accounts (continued)

### 30 Contingent liabilities

	2005 \$m	2004 \$m
Trade facility and bank guarantees	<b>7.2</b>	4.1

### 31 Operating lease arrangements

	2005 \$m	2004 \$m
<b>The Group as lessee</b>		
Minimum lease payments under operating leases recognised in profit and loss for the year	<b>25.5</b>	27.6

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

Within one year	<b>23.7</b>	24.9
In the second to fifth years inclusive	<b>55.3</b>	64.7
After five years	<b>27.7</b>	51.1
	<b>106.7</b>	140.7

Operating lease payments represent rentals payable by the Group for land and buildings, hire of plant and machinery and contract hire of vehicles.

#### The Group as lessor

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

Within one year	<b>4.4</b>	5.3
In the second to fifth years inclusive	<b>14.2</b>	18.0
After five years	<b>12.2</b>	8.4
	<b>30.8</b>	31.7

### 32 Retirement and other post-employment benefit arrangements

#### (a) Pension and other post-employment costs

Pension and other post-employment costs included in operating profit for the year were:

	Year ended 31 December 2005		Year ended 31 December 2004	
	\$m	\$m	\$m	\$m
Defined contribution schemes		<b>3.8</b>		5.1
Defined benefit schemes – UK funded	<b>5.5</b>		7.7	
US funded	<b>3.7</b>		3.4	
Other funded and unfunded	<b>7.0</b>		3.8	
		<b>16.2</b>		14.9
		<b>20.0</b>		20.0

#### (b) Defined contribution schemes

The Group operates a number of defined contribution plans around the world to provide pension benefits.



### 32 Retirement and other post-employment benefit arrangements (continued)

#### (c) Defined benefit schemes

The Group operates a number of defined benefit plans around the world to provide pension and other post-employment benefits. The principal defined benefit arrangements are those in the UK and in the US and the assets of these plans are held under self-administered trust funds and hence are separated from the Group's assets. The schemes hold no employer related 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.

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, updated to take account of the valuations of assets and liabilities as at 31 December 2005.

Principal assumptions at 31 December 2005	UK %	US %	Other %
Rate of increase in salaries	<b>3.75</b>	<b>5.00</b>	<b>2.52</b>
Discount rate	<b>5.00</b>	<b>5.40</b>	<b>4.69</b>
Inflation assumption	<b>2.75</b>	<b>2.50</b>	<b>2.19</b>
Principal assumptions at 31 December 2004	UK %	US %	Other %
Rate of increase in salaries	3.75	5.00	3.20
Discount rate	5.25	5.75	4.95
Inflation assumption	2.75	2.50	2.20
Long term rate of return expected at 31 December 2005	UK %	US %	Other %
Equities	<b>7.84</b>	<b>8.30</b>	<b>8.40</b>
Corporate bonds and gilts	<b>4.34</b>	<b>5.00</b>	<b>7.40</b>
Other	<b>6.49</b>	<b>1.60</b>	<b>1.60</b>
Long term rate of return expected at 31 December 2004	UK %	US %	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

Long term rates of return are net of investment expenses. Long term rates of return have been calculated as the weighted rate of return on each asset class. Rates of return on bonds are weighted by the approximate investment split between government and corporate bonds. The return on each asset class is taken as the market rate of return.

**32 Retirement and other post-employment benefit arrangements (continued)****(c) Defined benefit schemes (continued)**

Amounts recognised in income in respect of these defined benefit schemes are as follows:

	UK \$m	US \$m	Other \$m	Group \$m
For the year ended 31 December 2005				
Current service cost	(5.5)	(3.7)	(5.9)	(15.1)
Settlements and curtailments	–	–	(1.1)	(1.1)
Included in operating profit	(5.5)	(3.7)	(7.0)	(16.2)
Interest on defined benefit obligations – unwinding of discount	(131.1)	(9.1)	(6.7)	(146.9)
Expected return on pension scheme assets	138.5	14.9	1.8	155.2
Included in finance costs – net return/(charge)	7.4	5.8	(4.9)	8.3
For the year ended 31 December 2004				
Current service cost	(7.9)	(3.4)	(2.3)	(13.6)
Past service cost	(0.7)	–	(0.2)	(0.9)
Settlements and curtailments	0.9	–	(1.3)	(0.4)
Included in operating profit	(7.7)	(3.4)	(3.8)	(14.9)
Interest on defined benefit obligations – unwinding of discount	(128.3)	(10.4)	(7.6)	(146.3)
Expected return on pension scheme assets	134.2	13.8	1.5	149.5
Included in finance costs – net return/(charge)	5.9	3.4	(6.1)	3.2

The actual return on scheme assets was \$315.6 million (2004 – \$207.4 million) for the UK, \$12.6 million (2004 – \$24.5 million) for the US and \$1.6 million (2004 – \$1.6 million) for other.

The amounts included in the balance sheet arising from the Group's defined benefit arrangements are as follows:

	UK \$m	US \$m	Other \$m	Total \$m
As at 31 December 2005				
Equities	699.6	121.4	9.1	830.1
Corporate bonds and gilts	1,666.8	94.0	12.5	1,773.3
Other	205.8	10.6	1.1	217.5
Total market value of assets	2,572.2	226.0	22.7	2,820.9
Actuarial value of scheme liabilities	(2,525.2)	(174.9)	(149.7)	(2,849.8)
Gross net asset/(liability) in the scheme	47.0	51.1	(127.0)	(28.9)
Adjustment due to surplus cap	(19.8)	(22.2)	–	(42.0)
Recoverable net asset/(liability) in the scheme	27.2	28.9	(127.0)	(70.9)

This amount is presented in the balance sheet as follows:

Non-current assets	57.5
Current liabilities	(13.0)
Non-current liabilities	(115.4)
	(70.9)

**32 Retirement and other post-employment benefit arrangements (continued)**  
**(c) Defined benefit schemes (continued)**

As at 31 December 2004	UK \$m	US \$m	Other \$m	Total \$m
Equities	804.5	130.3	9.0	943.8
Corporate bonds and gilts	1,878.4	98.1	12.1	1,988.6
Other	–	11.6	1.8	13.4
Total market value of assets	2,682.9	240.0	22.9	2,945.8
Actuarial value of scheme liabilities	(2,708.7)	(182.8)	(150.9)	(3,042.4)
Gross net asset/(liability) in the scheme	(25.8)	57.2	(128.0)	(96.6)
Adjustment due to surplus cap	–	(30.4)	(0.4)	(30.8)
Recoverable net asset/(liability) in the scheme	(25.8)	26.8	(128.4)	(127.4)

This amount is presented in the balance sheet as follows:

Non-current assets	28.7
Current liabilities	(12.6)
Non-current liabilities	(143.5)
	(127.4)

The UK and US schemes are funded arrangements. Of the other schemes' actuarial liabilities as at 31 December 2005, \$126.0 million (2004 – \$130.2 million) related to wholly unfunded arrangements.

	Year ended 31 December 2005 \$m	Year ended 31 December 2004 \$m
Movements in the present value of defined benefit obligations were as follows:		
At 1 January 2005	<b>(3,042.4)</b>	(2,773.9)
Current service cost	<b>(15.1)</b>	(13.6)
Past service cost	–	(0.9)
Interest on defined benefit obligations – unwinding of discount	<b>(146.9)</b>	(146.3)
Actuarial gains and losses	<b>(114.0)</b>	(90.1)
Benefits paid	<b>182.3</b>	178.1
Settlements and curtailments	<b>1.7</b>	0.9
Transfer in	<b>(14.7)</b>	(2.8)
Exchange difference	<b>299.3</b>	(193.8)
At 31 December 2005	<b>(2,849.8)</b>	(3,042.4)

Movements in the fair value of scheme assets were as follows:

At 1 January 2005	<b>2,945.8</b>	2,693.4
Expected return on scheme assets	<b>155.2</b>	149.5
Actuarial gains and losses	<b>173.7</b>	84.0
Contributions from members	<b>1.4</b>	1.8
Contribution from sponsoring companies	<b>16.2</b>	13.4
Benefits paid	<b>(182.3)</b>	(178.1)
Settlements and curtailments	<b>(2.8)</b>	(1.3)
Exchange difference	<b>(286.3)</b>	183.1
At 31 December 2005	<b>2,820.9</b>	2,945.8

**32 Retirement and other post-employment benefit arrangements (continued)**  
**(c) Defined benefit schemes (continued)**

	Year ended 31 December 2005	Year ended 31 December 2004
	\$m	\$m
Actuarial gains and losses were as follows:		
Actuarial losses on obligations	<b>(114.0)</b>	(90.1)
Actuarial gains on assets	<b>173.7</b>	84.0
Adjustment due to surplus cap	<b>(11.2)</b>	11.8
Exchange difference	<b>(1.1)</b>	(0.6)
	<b>(12.3)</b>	11.2
Included in the consolidated statement of recognised income and expense	<b>47.4</b>	5.1
Cumulative amount included in the consolidated statement of recognised income and expense	<b>52.5</b>	5.1

**History of experience adjustments**

	UK \$m	US \$m	Other \$m
For the year ended 31 December 2005 these were:			
Present value of defined benefit obligations	<b>(2,525.2)</b>	<b>(174.9)</b>	<b>(149.7)</b>
Fair value of scheme assets	<b>2,572.2</b>	<b>226.0</b>	<b>22.7</b>
Net asset/(liability) in respect of the scheme	<b>47.0</b>	<b>51.1</b>	<b>(127.0)</b>
Experience gains and losses on scheme liabilities	<b>(10.5)</b>	<b>(10.0)</b>	<b>0.1</b>
Percentage of scheme liabilities	–	<b>(6)%</b>	–
Difference between the expected and actual return on pension scheme assets	<b>177.1</b>	<b>(2.3)</b>	<b>(0.2)</b>
Percentage of scheme assets	<b>7%</b>	<b>(1)%</b>	<b>(1)%</b>
For the year ended 31 December 2004 these were:			
Present value of defined benefit obligations	(2,708.7)	(182.8)	(150.9)
Fair value of scheme assets	2,682.9	240.0	22.9
Net (liability)/asset in respect of the scheme	(25.8)	57.2	(128.0)
Experience adjustments on scheme liabilities	(15.7)	2.0	5.9
Percentage of scheme liabilities	(1)%	1%	4%
Difference between the expected and actual return on pension scheme assets	73.2	10.7	0.1
Percentage of scheme assets	3%	4%	–
For the period from 7 April 2003 to 31 December 2003 these were:			
Present value of defined benefit obligations	(2,464.5)	(175.1)	(140.9)
Fair value of scheme assets	2,429.5	237.2	22.4
Net (liability)/asset in respect of the scheme	(35.0)	62.1	(118.5)
Experience gains and losses on scheme liabilities	6.1	(5.9)	(5.4)
Percentage of scheme liabilities	–	(3)%	(4)%
Difference between the expected and actual return on pension scheme assets	122.0	12.7	2.6
Percentage of scheme assets	5%	5%	12%

The Company acquired Coats Holdings Ltd on 7 April 2003. All pension arrangements relate to Coats Holdings Ltd and its subsidiaries, and therefore were transferred into the Group at 7 April 2003.

The estimated amount of contributions expected to be paid to the schemes during the 2006 financial year is \$14.5 million.

### 33 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its other related parties are disclosed below.

#### Trading transactions

During the year, Group companies entered into the following transactions with related parties who are not members of the Coats plc Group:

	Parent companies 2005 \$m	Parent companies 2004 \$m	Joint ventures 2005 \$m	Joint ventures 2004 \$m	Associates 2005 \$m	Associates 2004 \$m
Sales of goods	–	–	<b>19.3</b>	16.9	<b>1.4</b>	0.9
Purchases of goods	–	–	<b>38.1</b>	33.3	<b>8.2</b>	7.4
Other income	–	–	–	–	<b>0.7</b>	0.4
Other expense	<b>(0.2)</b>	(0.6)	–	–	–	–
Due by related parties (note 17)	–	–	–	7.2	<b>0.7</b>	1.4
Due to related parties (note 19 and 23)	<b>280.7</b>	280.8	<b>2.2</b>	10.1	<b>2.4</b>	1.3

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

#### Remuneration of key management personnel

The remuneration of the Directors, who are the key management personnel of the Group, is set out below in aggregate.

	Year ended 2005 \$m	Year ended 2004 \$m
Short term benefits	<b>1.8</b>	0.8
Post-employment benefits	<b>0.1</b>	0.1
Share-based payments	<b>1.5</b>	–
	<b>3.4</b>	0.9
Emoluments of the highest paid Director	<b>1.7</b>	0.4

As at 31 December 2004 and 2005 one Director was a member of a Group pension arrangement. The accrued pension entitlement at 31 December 2005 is \$13,345 per annum (2004 – \$7,834 per annum).

The Company and the Group accounts include a charge for the year and a liability as at 31 December 2005 of \$2.8 million (2004 – nil) for cash-settled share-based payments.

#### 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.

\$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.

**34 Immediate and ultimate parent company**

At the beginning of 2004 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 for the rest of 2004 and all of 2005.

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.

**35 Explanation of transition to IFRS**

This is the first year that the Group has presented its consolidated financial statements under IFRS. The following disclosures are required in the year of transition. The last consolidated financial statements under UK GAAP were for the year ended 31 December 2004 and the date of transition to IFRS was 1 January 2004.

**Effect of the transition to IFRS on the consolidated income statement for the year ended 31 December 2004**

For the year ended 31 December 2004	UK GAAP \$m	Effect of transition to IFRS \$m	IFRS \$m
<b>Continuing operations</b>			
<b>Revenue</b>	1,711.9	(133.7)	<b>1,578.2</b>
Cost of sales	(1,144.6)	75.2	<b>(1,069.4)</b>
<b>Gross profit</b>	567.3	(58.5)	<b>508.8</b>
Distribution costs	(346.3)	48.2	<b>(298.1)</b>
Administrative expenses	(186.2)	15.3	<b>(170.9)</b>
Other operating income	0.7	0.6	<b>1.3</b>
<b>Operating profit</b>	35.5	5.6	<b>41.1</b>
Share of profits of joint ventures	–	1.3	<b>1.3</b>
Share of profits of associated undertakings	1.5	(1.3)	<b>0.2</b>
Profit on sale of fixed assets	0.7	(0.7)	<b>–</b>
Investment income	8.5	(0.6)	<b>7.9</b>
Finance costs	(50.3)	11.8	<b>(38.5)</b>
<b>(Loss)/profit before taxation</b>	(4.1)	16.1	<b>12.0</b>
Taxation	(14.3)	0.6	<b>(13.7)</b>
<b>(Loss)/profit from continuing operations</b>	(18.4)	16.7	<b>(1.7)</b>
<b>Discontinued operations</b>			
Loss from discontinued operations	–	(1.4)	<b>(1.4)</b>
<b>(Loss)/profit for the year</b>	(18.4)	15.3	<b>(3.1)</b>
<b>Attributable to:</b>			
Equity shareholders of the Company	(24.0)	16.4	<b>(7.6)</b>
Minority interests	5.6	(1.1)	<b>4.5</b>
	(18.4)	15.3	<b>(3.1)</b>

The key adjustments made are as follows:

Under IFRS 3 (Business Combinations), goodwill is no longer amortised, resulting in a \$18.2 million increase in operating profit.

Under IFRS 5 (Non-Current Assets Held for Sale and Discontinued Operations), certain businesses (primarily Dorma Bedwear, which was sold on 14 February 2005) represented discontinued operations, resulting in a \$133.7 million reduction to revenue and a \$1.4 million increase in operating profit from continuing operations.

Under IAS 31 (Interests in Joint Ventures), certain businesses are now accounted for as joint ventures (instead of as subsidiary undertakings), resulting in a reduction to operating profit of \$3.0 million.

Under UK GAAP, Coats plc accounted for pensions in accordance with SSAP 24. IAS 19 (Employee Benefits) has now been adopted resulting in reductions to operating profit and finance costs of \$13.6 million and \$10.0 million respectively.

## 35 Explanation of transition to IFRS (continued)

## Effect of the transition to IFRS on the consolidated balance sheet as at 1 January 2004 and 31 December 2004

At 1 January 2004 and 31 December 2004	UK GAAP at 1 January 2004 \$m	As at 1 January 2004 \$m	IFRS at 1 January 2004 \$m	UK GAAP at 31 December 2004 \$m	As at 31 December 2004 \$m	IFRS at 31 December 2004 \$m
<b>Non-current assets</b>						
Intangible assets	62.6	21.7	<b>84.3</b>	213.5	38.4	<b>251.9</b>
Property, plant and equipment	623.4	(115.6)	<b>507.8</b>	585.4	(108.0)	<b>477.4</b>
Investments in joint ventures and associates	3.9	18.2	<b>22.1</b>	–	17.8	<b>17.8</b>
Available-for-sale investments	3.6	3.9	<b>7.5</b>	0.3	3.7	<b>4.0</b>
Deferred tax assets	–	15.0	<b>15.0</b>	4.6	9.0	<b>13.6</b>
Pension surpluses	68.6	(39.8)	<b>28.8</b>	73.4	(44.7)	<b>28.7</b>
Trade and other receivables	23.2	–	<b>23.2</b>	21.3	(4.2)	<b>17.1</b>
	785.3	(96.6)	<b>688.7</b>	898.5	(88.0)	<b>810.5</b>
<b>Current assets</b>						
Inventories	401.3	(53.2)	<b>348.1</b>	337.7	(34.6)	<b>303.1</b>
Trade and other receivables	363.8	(15.7)	<b>348.1</b>	354.8	(6.2)	<b>348.6</b>
Available-for-sale investments	42.8	(3.9)	<b>38.9</b>	3.7	(3.7)	–
Cash and cash equivalents	111.3	(1.2)	<b>110.1</b>	141.4	(4.9)	<b>136.5</b>
	919.2	(74.0)	<b>845.2</b>	837.6	(49.4)	<b>788.2</b>
Non-current assets classified as held for sale	–	125.3	<b>125.3</b>	–	114.0	<b>114.0</b>
<b>Total assets</b>	<b>1,704.5</b>	<b>(45.3)</b>	<b>1,659.2</b>	<b>1,736.1</b>	<b>(23.4)</b>	<b>1,712.7</b>
<b>Current liabilities</b>						
Trade and other creditors	(319.5)	26.6	<b>(292.9)</b>	(324.1)	13.1	<b>(311.0)</b>
Current income tax liabilities	(41.0)	–	<b>(41.0)</b>	(37.1)	0.1	<b>(37.0)</b>
Bank overdrafts and other borrowings	(782.4)	14.4	<b>(768.0)</b>	(68.3)	2.7	<b>(65.6)</b>
Provisions	–	(57.1)	<b>(57.1)</b>	–	(191.1)	<b>(191.1)</b>
	(1,142.9)	(16.1)	<b>(1,159.0)</b>	(429.5)	(175.2)	<b>(604.7)</b>
<b>Net current assets</b>	<b>(223.7)</b>	<b>(90.1)</b>	<b>(313.8)</b>	<b>408.1</b>	<b>(224.6)</b>	<b>183.5</b>
<b>Non-current liabilities</b>						
Amounts owed to parent undertaking	(280.6)	–	<b>(280.6)</b>	(280.8)	–	<b>(280.8)</b>
Trade and other creditors	(3.9)	–	<b>(3.9)</b>	(2.7)	0.5	<b>(2.2)</b>
Deferred tax liabilities	(21.1)	(32.1)	<b>(53.2)</b>	–	(25.9)	<b>(25.9)</b>
Borrowings	(1.5)	–	<b>(1.5)</b>	(474.7)	–	<b>(474.7)</b>
Retirement benefit obligations:						
Funded schemes	–	(35.0)	<b>(35.0)</b>	(1.1)	(24.7)	<b>(25.8)</b>
Unfunded schemes	(119.4)	10.8	<b>(108.6)</b>	(123.9)	6.2	<b>(117.7)</b>
Provisions	(68.0)	60.1	<b>(7.9)</b>	(238.0)	194.8	<b>(43.2)</b>
	(494.5)	3.8	<b>(490.7)</b>	(1,121.2)	150.9	<b>(970.3)</b>
Liabilities directly associated with non-current assets classified as held for sale	–	(65.3)	<b>(65.3)</b>	–	(58.5)	<b>(58.5)</b>
<b>Total liabilities</b>	<b>(1,637.4)</b>	<b>(77.6)</b>	<b>(1,715.0)</b>	<b>(1,550.7)</b>	<b>(82.8)</b>	<b>(1,633.5)</b>
<b>Net assets</b>	<b>67.1</b>	<b>(122.9)</b>	<b>(55.8)</b>	<b>185.4</b>	<b>(106.2)</b>	<b>79.2</b>
<b>Equity</b>						
Share capital	0.1	–	<b>0.1</b>	137.9	–	<b>137.9</b>
Hedging and translation reserves	–	–	–	11.5	(5.1)	<b>6.4</b>
Retained loss	(17.7)	(103.3)	<b>(121.0)</b>	(41.7)	(82.2)	<b>(123.9)</b>
<b>Equity shareholders' funds</b>	<b>(17.6)</b>	<b>(103.3)</b>	<b>(120.9)</b>	<b>107.7</b>	<b>(87.3)</b>	<b>20.4</b>
Minority interests	84.7	(19.6)	<b>65.1</b>	77.7	(18.9)	<b>58.8</b>
<b>Total equity</b>	<b>67.1</b>	<b>(122.9)</b>	<b>(55.8)</b>	<b>185.4</b>	<b>(106.2)</b>	<b>79.2</b>

**35 Explanation of transition to IFRS (continued)****Effect of the transition to IFRS on the consolidated balance sheet as at 1 January 2004 and 31 December 2004 (continued)**

The key adjustments made to the balance sheet at 1 January 2004 are as follows:

Intangible assets have increased to include computer software of \$19.0 million (previously recognised as part of property, plant and equipment) and to write-back \$2.7 million of negative goodwill in accordance with IFRS 3 (Business Combinations).

The adjustments to property, plant and equipment, investments in joint ventures, inventories, trade and other receivables, and trade and other creditors largely arise due to the reclassification under IFRS 5 (Non-Current Assets Held for Sale and Discontinued Operations) of certain assets and liabilities as assets and liabilities held for sale and due to certain businesses being deconsolidated as they represent joint ventures under IAS 31 (Interests in Joint Ventures).

The adjustments to provisions largely reflect the fact that IFRS require provisions to be allocated between short and long term provisions. In addition, under IFRS 5, which was adopted early, certain provisions are reclassified to liabilities held for sale and, also under IFRS 5, provision is made at 1 January 2004 for the \$14.0 million excess of the carrying value over fair value of the Dorma Bedwear business which was sold in February 2005.

The effect of the adoption of IAS 19 (Employee Benefits) is to increase retirement benefit obligations by \$76.0 million, with the main impact being on the balance sheet categories for pension surpluses and retirement benefit obligations.

Net deferred tax liabilities have increased by \$17.1 million, largely to reflect deferred tax on the undistributed reserves of subsidiaries in accordance with IAS 12 (Income Taxes).

The adjustments to equity shareholders' funds at 1 January 2004 are as follows:

	\$m
Add back negative goodwill	2.7
Provision for the excess of the carrying value of Dorma Bedwear over fair value	(14.0)
Additional provisions for retirement benefit obligations	(76.0)
Provision for additional net deferred tax	(17.1)
Other	1.1
<b>Total adjustment to equity shareholders' funds</b>	<b>(103.3)</b>

The key adjustments made to the balance sheet at 31 December 2004 are as follows:

Intangible assets have increased primarily to include computer software of \$17.4 million (previously recognised as part of property, plant and equipment) and to write-back \$18.4 million of amortisation of goodwill, as under IFRS 3 (Business Combinations) goodwill is no longer amortised.

The adjustments to property, plant and equipment, investments in joint ventures, inventories, trade and other receivables, and trade and other creditors largely arise due to the reclassification under IFRS 5 (Non-Current Assets Held for Sale and Discontinued Operations) of certain assets and liabilities as assets and liabilities held for sale and due to certain businesses being deconsolidated as they represent joint ventures under IAS 31 (Interests in Joint Ventures).

The adjustments to provisions largely reflect the fact that IFRS require provisions to be allocated between short and long term provisions. In addition, under IFRS 5, which was adopted early, certain provisions are reclassified to liabilities held for sale and, also under IFRS 5, provision is made at 31 December 2004 for the \$14.0 million excess of carrying value over fair value of the Dorma Bedwear business which was sold in February 2005.

The effect of the adoption of IAS 19 (Employee Benefits) is to increase retirement benefit obligations by \$75.9 million, with the main impact being on the balance sheet categories for pension surpluses and retirement benefit obligations.

Net deferred tax liabilities have increased by \$16.9 million, largely to reflect deferred tax on the undistributed reserves of subsidiaries in accordance with IAS 12 (Income Taxes). (Under UK GAAP, a \$4.6 million net deferred tax asset was recognised in current assets).

The adjustments to equity shareholders' funds at 31 December 2004 are as follows:

	\$m
Add back goodwill amortisation	18.4
Provision for the excess of the carrying value of Dorma Bedwear over fair value	(14.0)
Additional provisions for retirement benefit obligations	(75.9)
Provision for additional net deferred tax	(16.9)
Other	1.1
<b>Total adjustment to equity shareholders' funds</b>	<b>(87.3)</b>

The adjustment to minority interests is largely due to the deconsolidation of entities which represent joint ventures under IAS 31.

There are no significant impacts on the cash flow statement.



**Independent auditors' report to the members of Coats plc**

We have audited the individual Company financial statements of Coats plc for the year ended 31 December 2005 which comprise the Company balance sheet and the related notes A to J. These individual Company financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, 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 Company's members 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 Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of Directors and Auditors**

The Directors' responsibilities for preparing the Annual Report and the individual Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the individual Company financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the individual Company financial statements give a true and fair view in accordance with the relevant financial reporting framework and have been properly prepared in accordance with the Companies Act 1985. We report to you if, in our opinion, the Directors' report is not consistent with the individual Company financial statements. We also report to you 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 other transactions is not disclosed.

We read the Directors' report and the other information contained in the Annual Report for the above year 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 individual Company financial statements.

**Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the individual Company financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the individual Company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, 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 individual Company 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 individual Company financial statements.

**Opinion**

In our opinion:

- the individual Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2005; and
- the individual Company financial statements have been properly prepared in accordance with the Companies Act 1985.

**Deloitte & Touche LLP**

Chartered Accountants and Registered Auditors  
London

27 April 2006

## 48 Company balance sheet

At 31 December 2005	Notes	2005 \$m	2004 \$m
<b>Fixed assets</b>			
Investments in subsidiary undertakings	C	<b>749.1</b>	723.6
<b>Current assets</b>			
Debtors due within one year	D	<b>0.8</b>	1.1
Debtors due in more than one year	D	–	195.0
Cash at bank and in hand		<b>33.2</b>	3.0
		<b>34.0</b>	199.1
<b>Creditors – amounts falling due within one year</b>			
Other creditors	E	<b>(46.1)</b>	(18.4)
<b>Net current (liabilities)/assets</b>		<b>(12.1)</b>	180.7
<b>Total assets less current liabilities</b>		<b>737.0</b>	904.3
<b>Creditors – amounts falling due after more than one year</b>			
Amounts owed to parent undertaking (subordinated and convertible)	23	<b>(280.7)</b>	(280.8)
Other creditors	F	<b>(417.7)</b>	(549.9)
		<b>(698.4)</b>	(830.7)
<b>Provisions for liabilities and charges</b>		<b>(2.8)</b>	–
<b>Net assets</b>		<b>35.8</b>	73.6
<b>Capital and reserves</b>			
Called up share capital	25	<b>137.9</b>	137.9
Profit and loss account	G	<b>(102.1)</b>	(64.3)
<b>EQUITY SHAREHOLDERS' FUNDS</b>	H	<b>35.8</b>	73.6

The financial statements of Coats plc (the Company) on pages 48 to 52 were approved by the Board of Directors and authorised for issue on 27 April 2006.

They were signed on its behalf by:  
 Blake Nixon, Director  
 27 April 2006

**A Principal accounting policies****(a) Basis of accounting**

Although the Group's consolidated financial statements have been prepared under IFRS, the Coats plc Company financial statements presented in this section have been prepared under UK GAAP and have therefore been prepared on the basis of historical cost and in accordance with applicable United Kingdom law and accounting standards.

FRS 23 – The effects of changes in foreign exchange rates and FRS 26 – Financial Instruments: measurement are not required to be adopted by the Company until 1 January 2006 and have therefore not been followed in these financial statements.

The principal accounting policies for the Company are set out below.

**(b) Foreign currencies**

Since the US dollar and currencies closely linked to it are the main currencies in which the business of the Coats Group and this Company are transacted, the Company's reporting and functional currency is US dollars.

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.

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.

**(c) 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.

**(d) Bank borrowings and other financial instruments**

Interest-bearing bank loans are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the profit or loss account.

The Company uses interest rate swaps to manage its exposure to interest rate movements on its floating rate bank borrowings. Under UK GAAP, their book value is \$nil (2004 – \$nil). Their fair value comprises assets of \$6.3 million (2004 – \$2.0 million) and liabilities of \$nil (2004 – \$1.5 million).

**(e) Share-based compensation**

The Company operates cash-settled share-based compensation plans. Cash-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at each reporting date. The fair value is expensed on a straight-line basis over the service period, with a corresponding increase in liabilities.

**(f) Equity instruments**

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

**B Company's loss**

	Year ended 31 December 2005 \$m	Year ended 31 December 2004 \$m
The Company's loss was	<b>(37.8)</b>	(59.5)

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

The remuneration of the Company's Directors and details of the Company's cash-settled share-based payments are disclosed in note 33. Audit fees and any employee costs were borne by a subsidiary undertaking in the current and prior year.

**C Investments in subsidiary undertakings**

	\$m
Cost and net book value:	
At 1 January 2005	<b>723.6</b>
On acquisition of subsidiaries	<b>25.5</b>
At 31 December 2005	<b>749.1</b>

The principal subsidiary undertakings of the Company and the Group are detailed in note J.

**D Debtors**

	2005 \$m	2004 \$m
Debtors due within one year:		
Trade debtors	<b>0.5</b>	0.5
Amounts owed by subsidiary undertakings	<b>0.3</b>	0.6
	<b>0.8</b>	1.1
Debtors due in more than one year:		
Amounts owed by subsidiary undertakings	–	195.0

**E Other creditors (amounts falling due within one year)**

	2005 \$m	2004 \$m
Loans	<b>40.6</b>	14.3
Accruals and deferred income	<b>5.5</b>	4.1
	<b>46.1</b>	18.4

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

	2005 \$m	2004 \$m
Loans	<b>290.7</b>	472.1
Amounts due to fellow subsidiary undertakings	–	0.1
Amounts due to subsidiary undertakings	<b>127.1</b>	77.7
	<b>417.8</b>	549.9

The loans falling due within one year and after more than one year are secured on the assets of the Company and the Group. The security comprises both fixed and floating charges.

Of the loans falling due after more than one year, \$48.2 million (2004 – \$137.8 million) falls due after more than five years.

**G Profit and loss account**

	2005 \$m	2004 \$m
Balance at 1 January	<b>(64.3)</b>	(4.8)
Net loss for the year	<b>(37.8)</b>	(59.5)
Balance at 31 December	<b>(102.1)</b>	(64.3)

**H Reconciliation of closing equity**

	2005 \$m	2004 \$m
Balance at 1 January	<b>73.6</b>	(4.7)
Share capital issued	–	137.8
Net loss for the year	<b>(37.8)</b>	(59.5)
Balance at 31 December	<b>35.8</b>	73.6

**I Related party transactions**

The Company's immediate and ultimate parent company is set out in note 34.

As the Company is a wholly owned subsidiary of its ultimate parent company, Guinness Peat Group plc, whose consolidated financial statements are publicly available, in accordance with FRS 8 – Related Party Disclosures, no disclosure is given of transactions between the Company and any other entities within the Guinness Peat Group.

**J Principal subsidiary undertakings**

The principal subsidiary undertakings of the Company and the Group are as follows:

		Country of incorporation or registration and principal country of operation
<b>Holding, Finance and Property Companies</b>		
Coats Holdings Ltd		England
Coats International plc	99.998%	England
Coats Finance Co. Limited		England
Coats Property Management Limited		England
Tootal Thread Limited		England
Coats Deutschland GmbH		Germany
J. & P. Coats Limited		Scotland
Coats Invers SLU		Spain
Coats North America Consolidated Inc.		US
Coats China Holdings Limited		Hong Kong
<b>Thread</b>		
Coats Bangladesh Ltd	80%	Bangladesh
Coats Cadena SA		Argentina
Coats Australian Pty Ltd		Australia
Coats (UK) Limited		England
Coats Corrente Ltda		Brazil
Coats Canada Inc		Canada
Coats Opti Shenzhen Ltd		China
Coats Shenzhen Ltd		China
Guangzhou Coats Limited	90%	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	98.8%	Spain
Coats Thread Lanka (Private) Ltd	86.8%	Sri Lanka
Coats (Turkiye) Iplik Sanayii AS	77%	Turkey
Coats American Inc.		US
Coats & Clark Inc.		US
Coats Phong Phu Co Ltd	75%	Vietnam

In addition, the following companies are subsidiary undertakings of the Company under UK GAAP, but represent joint ventures of the Group under IFRS.

**Thread – Joint Ventures**

Guangying Spinning Company Limited	50%	China
Jinying Spinning Company Limited	50%	China

All the above companies carry on businesses, the 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 and the Company. All companies are wholly owned unless otherwise stated; percentage holdings shown represent the ultimate interest of Coats plc as at 31 December 2005.

All companies except Coats Holdings Ltd and Coats International plc are held indirectly.



**Coats plc**  
1 The Square  
Stockley Park  
Uxbridge  
Middlesex UB11 1TD  
Company no. 4620973  
Tel: +44 (0)20 8210 5000  
[www.coats.com](http://www.coats.com)