29 April 2005

Coats Holdings Ltd announces unaudited preliminary results for the year to 31 December 2004

Financial Summary

		2004 $m	2003 $m
Turnover	- Thread	1,588	1,496
	- Total	1,712	1,646
Operating (loss)/profit		(181)	47
Pre-tax loss		(186)	(15)
Net cash inflow from operating activities		217	83
Net debt		36	235
Net gearing		5%	28%

Chairman's statement

Results

In 2004, the Group, in line with its operational objectives, delivered an exceptionally strong cash performance but with mixed results in trading.

Net cash inflow from operating activities was $217.2 million, including $96.8 million due to improved management of working capital, and net debt was reduced by $199.3 million to $36.1 million. Although cash generation was the main priority, good progress was made in sales. Good growth of industrial thread in low-cost markets and strong crafts sales in North America more than offset the expected continued decline in industrial thread markets in Western Europe and North America. Overall, like-for-like growth in sales was 3%, with 6% in crafts and 2% in industrial.

Thread like-for-like sales

	2003 comparatives (see note 1) $m	Exchange retranslation $m	Acquisitions/ disposals $m	2003 underlying $m	2004 reported (see note 1) $m	Increase/ (decrease) %
External sales						
UK and Europe	572.8	51.2		624.0	606.5	(3)
North America	401.5	1.7	2.4	405.6	412.6	2
South America	141.0		1.3	142.3	169.1	19
Asia	380.6	3.8	(20.9)	363.5	399.3	10
Total	1,495.9	56.7	(17.2)	1,535.4	1,587.5	3

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

The Company became a wholly owned subsidiary of Coats plc on 7 April 2003 and of Guinness Peat Group plc on 1 April 2004. Reported operating profit for 2004 was impacted by various exceptional charges. In addition to charges for reorganisation and fixed asset impairment as detailed below, operating profit was also reduced by increased provisions for alignment of accounting treatments with Coats plc and for the European Commission investigation.

Investment, reorganisation and disposals

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

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

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

During 2004, various surplus properties were sold with proceeds amounting to $42.6 million (2003 – $52.8 million). In addition, the sale of investments and other surplus assets generated cash of $63.5 million (2003 – $5.9 million). In most cases, the availability of surplus properties is the direct result of operational restructuring and, although there may be timing differences, to a large extent their sales will offset the associated cash reorganisation costs. In 2004, property disposals more than covered cash reorganisation costs of $38.6 million (2003 – $26.0 million).

We have reviewed the possibility of recycling redundant or potentially redundant plant and equipment in our Western European and North American operations to growth markets. However in many cases this is either not feasible or would result in sub-optimal configuration in our future growth markets. This has led to a non-cash impairment charge of $73.1 million, principally relating to a write-down in value of remaining fixed assets in Western Europe and North America.

European Commission Investigation

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

A final decision by the Court is likely to take two to three years and it is also not certain when the Commission will issue its decisions in respect of the other cases. However, full provision has been made in the accounts of the Company and its subsidiary undertakings for any anticipated eventual payment. 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 this report of the amount of the provisions, nor of segmental operating profit and net assets.

Refinancing

The renegotiation of the Group's banking facilities referred to in last year's report was completed in March 2004. The Group is primarily funded by its immediate parent company, Coats plc, which has provided $420.0 million of facilities, of which $300.0 million is committed to 2011.

Board changes

Following the acquisition by Guinness Peat Group plc of the outstanding minority in the Group's immediate parent company Coats plc, the composition of the Board was changed to reflect the simpler legal and operating structure. Martin Flower, Jonathan Lea, and Don La Vigne retired from the Board and Gary Weiss became Chairman in June 2004.

Prospects

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

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

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

Consolidated profit and loss account

For the year ended 31 December 2004	Notes	2004 unaudited $m	2003 (Restated) audited $m
Turnover	1		
Continuing operations		1,587.5	1,509.4
Discontinued operations		124.4	136.9
		1,711.9	1,646.3
Cost of sales		(1,355.6)	(1,096.2)
Gross profit		356.3	550.1
Distribution costs		(350.1)	(342.3)
Administrative expenses		(189.3)	(162.7)
Other operating income		2.4	1.6
Operating (loss)/profit	2	(180.7)	46.7
Continuing operations		(175.4)	59.2
Discontinued operations		(5.3)	(12.5)
Share of operating profits of associated companies		1.5	1.5
Profit on sale of fixed assets of continuing operations		6.3	8.0
Profit on sale of fixed assets of discontinued operations		12.3	26.4
(Losses)/gains on sale or termination of continuing operations	3	(1.7)	3.7
Losses on sale or termination of discontinued operations	3	(5.8)	(75.3)
(Loss)/profit on ordinary activities before interest		(168.1)	11.0
Amounts written off investments		(4.0)	(1.0)
Interest receivable and similar income		7.8	8.2
Interest payable and similiar charges		(21.8)	(33.2)
Net interest payable		(14.0)	(25.0)
Loss on ordinary activities before taxation		(186.1)	(15.0)
Tax on loss on ordinary activities	4	(1.2)	(6.2)
Loss on ordinary activities after taxation		(187.3)	(21.2)
Equity minority interests		(4.3)	(10.7)
Loss for the financial year		(191.6)	(31.9)
Preference dividends on non-equity shares	5	(1.3)	(1.2)
Loss attributable to ordinary shareholders		(192.9)	(33.1)
Basic loss per Ordinary share of 20p	6	(27.2)c	(4.7)c

Balance Sheet

At 31 December 2004	2004 unaudited $m	2003 audited $m
Fixed assets		
Goodwill	82.0	87.5
Negative goodwill	(17.4)	(20.3)
	64.6	67.2
Tangible assets	553.1	622.2
Investments	0.3	7.5
	618.0	696.9
Current assets		
Stocks	337.7	408.1
Debtors due within one year	365.4	369.8
Debtors due in more than one year	94.7	87.7
Investments	3.7	42.8
Cash at bank and in hand	138.4	111.7
	939.9	1,020.1
Creditors – amounts falling due within one year		
Bank overdrafts	(23.0)	(32.5)
Other creditors	(388.2)	(652.3)
	(411.2)	(684.8)
Net current assets	528.7	335.3
Total assets less current liabilities	1,146.7	1,032.2
Creditors – amounts falling due after more than one year	(123.1)	(5.5)
Provisions for liabilities and charges	(360.4)	(197.6)
Net assets	663.2	829.1
Capital and reserves		
Equity share capital	253.7	253.7
Non-equity share capital	26.1	26.1
Called up share capital	279.8	279.8
Share premium account	371.1	371.1
Other reserves	61.1	61.1
Profit and loss account	(100.4)	56.5
Shareholders' funds	611.6	768.5
Equity minority interests	51.6	60.6
Total capital employed	663.2	829.1

Cash flow statement

For the year ended 31 December 2004	Notes	2004 unaudited $m	2003 audited $m
Net cash inflow from operating activities	7	217.2	82.5
Returns on investments and servicing of finance			
Interest received		5.2	5.2
Interest paid		(12.8)	(21.3)
Cost of financing convertible debt		-	(3.8)
Interest element of finance lease rental payments		(0.2)	(0.2)
Income from investments		0.6	0.5
Preference dividends paid		(1.3)	(1.2)
Dividends paid to minority shareholders		(9.4)	(5.0)
Net cash outflow for returns on investments and servicing of finance		(17.9)	(25.8)
Taxation		(33.4)	(25.1)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(92.7)	(108.2)
Sale of tangible fixed assets		59.1	62.8
Sale of fixed asset investments		3.7	0.5
Net cash outflow for capital expenditure and financial investment		(29.9)	(44.9)
Acquisitions and disposals			
Purchase of subsidiary undertakings		(1.6)	(15.4)
Sale of subsidiary undertakings		2.9	(6.6)
Net cash disposed with subsidiaries		(0.5)	-
Net cash inflow/(outflow) for acquisitions and disposals		0.8	(22.0)
Equity dividends paid		-	(46.4)
Management of liquid resources			
Decrease/(increase) in short term deposits		17.4	(5.4)
Sale of current asset investments		40.9	2.0
Net cash inflow/(outflow) from management of liquid resources		58.3	(3.4)
Financing			
Issue of ordinary share capital		-	0.5
Issue of shares to minorities		-	0.3
(Decrease)/increase in borrowings		(159.2)	71.0
Net cash (outflow)/inflow from financing		(159.2)	71.8
Increase/(decrease) in cash		35.9	(13.3)

Reconciliation of net cash flow to movement in net debt			
Increase/(decrease) in cash		35.9	(13.3)
Cash outflow/(inflow) from change in debt and lease financing		159.2	(71.0)
Cash (inflow)/outflow from change in short term deposits		(17.4)	5.4
Change in net debt resulting from cash flows		177.7	(78.9)
New finance leases		-	(0.3)
Loans and finance leases disposed with subsidiary undertakings		1.7	-
Other		(0.6)	(0.2)
Exchange		20.5	12.1
Decrease/(increase) in net debt		199.3	(67.3)
Net debt at 1 January		(235.4)	(168.1)
Net debt at 31 December	8	(36.1)	(235.4)

Notes to the preliminary announcement

1 Analysis of turnover

	2004 unaudited $m	2003 (Restated) audited $m
Thread		
UK and Europe	606.5	572.8
North America	412.6	401.5
South America	169.1	141.0
Asia	399.3	380.6
Total Thread	1,587.5	1,495.9
Other businesses		
India Textiles	-	13.5
Bedwear	124.3	114.8
Fashion Retail	0.1	22.1
Total other businesses	124.4	150.4
Total Group	1,711.9	1,646.3

The analysis of turnover between continuing and discontinued operations was:

Continuing		
Total Thread	1,587.5	1,495.9
India Textiles	-	13.5
	1,587.5	1,509.4
Discontinued		
Bedwear	124.3	114.8
Fashion Retail	0.1	22.1
	124.4	136.9
Total	1,711.9	1,646.3

2 Operating (loss)/profit is stated after charging:

	2004 unaudited $m	2003 (Restated) audited $m
Reorganisation costs and impairment of fixed assets		
Thread		
UK and Europe	64.9	7.5
North America	39.0	21.7
South America	1.6	1.1
Asia	11.2	0.2
Corporate	1.5	0.9
Total Thread	118.2	31.4
India Textiles	-	0.2
Continuing operations	118.2	31.6
Discontinued operations		
Bedwear	3.8	2.4
Total	122.0	34.0
Product category analysis of exceptional items		
Thread		
UK and Europe	0.1	-
Corporate	4.4	12.2
Continuing operations	4.5	12.2
Discontinued operations		
Bedwear	-	1.7
Total	4.5	13.9

For the year ended 31 December 2004, Thread exceptional items largely represent legal costs associated with the proceedings against the Company resulting from the European Commission investigation. For the year ended 31 December 2003, Thread exceptional items represent costs incurred by the Company in respect of the offer for the Company by Coats plc (formerly Coats Holdings plc).

3 (Losses)/gains on sale or termination of operations

			2004 unaudited			2003 (Restated) audited
	Continuing $m	Discontinued $m	Total $m	Continuing $m	Discontinued $m	Total $m
Losses	(2.9)	(6.5)	(9.4)	-	(77.8)	(77.8)
Gains	1.2	0.7	1.9	3.7	2.5	6.2
	(1.7)	(5.8)	(7.5)	3.7	(75.3)	(71.6)

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

During the year ended 31 December 2004, the loss of $2.9 million in respect of the sale or termination of continuing operations arose from the India Textiles business, which was closed in 2003. A loss of $6.5 million arose on the sale or termination of discontinued operations, largely in respect of prior year disposals. Of the $1.9 million gain on the the sale or termination of operations, $1.2 million relates to the disposal of non core businesses and $0.7 million to prior year disposals.

During the year ended 31 December 2003, a $77.8 million loss arose on the sale or termination of discontinued operations, largely in respect of the sale or closure of the Group's Fashion Retail businesses and the sale of the UK manufacturing operation of the Group's Bedwear business. Gains on sale or termination of operations of $6.2 million principally represent adjustments in respect of prior year disposals.

4 Tax on loss on ordinary activities

			2004 unaudited $m		2003 audited $m
UK taxation based on loss for the year:					
Corporation tax at 30%			18.3		6.9
Double taxation relief			(18.3)		(6.9)
Prior year adjustments	- Corporation tax		-		(1.8)
Total UK taxation			-		(1.8)
Overseas taxation:					
Current taxation			29.1		18.0
Deferred taxation			(25.5)		(2.8)
			3.6		15.2
Prior year adjustments	- Current taxation	(1.1)		0.8	
	- Deferred taxation	(1.4)		(8.0)	
			(2.5)		(7.2)
Total overseas taxation			1.1		8.0
Associated companies taxation			0.1		-
			1.2		6.2

5 Dividends

No dividends were declared or paid during the year in respect of the Company's Ordinary shares. Dividends of $1.3 million (2003 – $1.2 million) were paid in respect of the Company's 4.9% Cumulative Preference Shares.

6 Loss per share

	2004 unaudited	2003 audited
Loss per share is based on:		
Loss available for Ordinary shareholders	$(192.9)m	$(33.1)m
Average number of shares	708.6m	708.3m
Resulting in basic and diluted loss per share	(27.2)c	(4.7)c

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

		2004 unaudited $m	2003 audited $m
Operating (loss)/profit		(180.7)	46.7
Depreciation		62.3	59.5
Amortisation of goodwill		2.5	1.1
Reorganisation costs		48.9	26.8
Impairment of fixed assets		73.1	7.2
Exceptional items		4.5	13.9
Decrease/(increase) in stocks		54.7	(3.9)
Decrease in debtors		11.2	9.5
Increase/(decrease) in creditors		30.9	(22.5)
Non-cash and provision movements		148.3	(15.9)
Net cash inflow from normal operating activities		255.7	122.4
Continuing operations		251.3	127.7
Discontinued operations		4.4	(5.3)
		255.7	122.4
Net cash outflow in respect of reorganisation costs and exceptional items:			
Utilisation of provision:	- closures and reorganisation	(38.6)	(26.0)
	- operating exceptional items	(4.5)	(13.9)
	- non-cash asset write down	4.6	-
		(38.5)	(39.9)
Net cash inflow from operating activities		217.2	82.5

8 Net debt

	2004 unaudited $m	2003 audited $m
Cash at bank and in hand	125.3	83.4
Bank overdrafts	(23.0)	(32.5)
Net cash	102.3	50.9
Short term deposits	13.1	28.3
Loans	(33.1)	(313.0)
Loans from parent company	(118.1)	-
Lease finance	(0.3)	(1.6)
Total	(36.1)	(235.4)

9 Post balance sheet event

The Group's Bedwear business was sold on 14 February 2005. Including related property sold separately, proceeds from the disposal of Bedwear totalled approximately $19.0 million (net of expenses), resulting in an overall loss on disposal of approximately $13.0 million, which is recognised in 2005 under UK accounting standards.

10 Basis of preparation

The financial information set out in this announcement does not constitute the Company's statutory accounts for the years ended 31 December 2003 or 2004.

The financial information for 2003 has been derived from the 2003 statutory accounts which have been delivered to the Registrar of Companies. The report of the auditors on the 2003 accounts was unqualified and did not contain a statement under s237(2) or s237(3) of the Companies Act 1985. The statutory accounts for the year ended 31 December 2004 will be finalised on the basis of the financial information presented by the Directors in this announcement and will be delivered to the Registrar of Companies following the Company's Annual General Meeting.

11 Accounting policies

This announcement has been prepared using the same accounting policies as used for the 2003 published statutory accounts.

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

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

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

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