Registered No. 104998

Coats Holdings Ltd Annual Report 2004

Coats Holdings Ltd
Annual Report 2004

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Global leader in thread

Contents

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
Capital expenditure		**94**	95
Net debt		**36**	235
Net gearing		**5%**	28%

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.

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 these accounts 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. Further details are given in the treasury section of the Operating and financial review.

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 I 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.

Gary Weiss
Chairman
13 July 2005

Thread trading

Reported sales grew by 6%. Excluding the impact of exchange translation, acquisitions and disposals, underlying sales grew by 3% reflecting strong growth in South America, Asia, and of crafts in North America.

Reported operating profit was significantly affected by the impact of exceptional charges as mentioned in the Chairman's statement. The slight decrease in underlying margins reflected the Group's focus on cash generation and the impact of accelerated migration on production levels in Western Europe, which masked generally good performances in other parts of the Group.

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

Thread like-for-like sales

	2003 comparatives (see note 2a) $m	Exchange retranslation $m	Acquisitions/ disposals $m	2003 underlying $m	2004 reported (see note 2a) $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**

UK and Europe

Sales -3%

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

North America

Sales +2%

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

South America

Sales +19%

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

Asia

Sales +10%

Industrial thread sales continued to grow strongly. Sales growth in the region more than offset the declines experienced in North America/Western Europe, reflecting the benefit of our relationships with global retailers and brand owners. Although much of the growth was in premium corespun thread, underlying operating margins were slightly lower. This was mainly as a result of a drive to reduce global grey thread stocks which led to lower capacity utilisation in the first half of the year. However, our underlying return on investment in the region remains attractive.

Thread reorganisation, impairment and exceptional costs

We continued to make progress in the year in downsizing Western Thread capacity, including in the UK, France and the US, whilst expanding in low cost locations. Thread reorganisation costs of $48.7 million (2003 – $24.2 million) were incurred. In addition, $69.5 million (2003 – $7.2 million) of impairment costs have been charged in the year, largely in respect of our Western European and North American Industrial plant and property, as part of our ongoing reorganisation programme. The reorganisation programme, which will continue in 2005, is principally designed to reduce the cost base of our industrial businesses in Western Europe and North America to address the migration of customers to lower cost regions.

As described in the Chairman's statement, the results for 2004 have been substantially impacted by additional provisions relating to potential fines arising from the European Commission investigation and alignment of accounting treatments with Coats plc.

Non-Thread

The refocusing of the Group on Thread has been completed, with the sale of our Bedwear business on 14 February 2005. Sales in 2004 from non-thread businesses predominantly relate to Bedwear, and fell to $124.4 million (2003 – $150.4 million).

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

Including related property sold separately, proceeds (net of expenses) from the disposal of Bedwear totalled approximately $19.0 million, resulting in an overall loss on disposal of approximately $13.0 million, which is recognised in 2005 under UK accounting standards. In addition, assets retained are expected to realise approximately $4.0 million in cash.

Interest and tax

Net interest costs fell to $14.0 million (2003 – $25.0 million), largely reflecting the reduction in net debt to $36.1 million at 31 December 2004 (2003 – $235.4 million) and the fact that from March 2004 the Group has been partly financed by non-interest bearing loans from the Group's immediate parent company, Coats plc. Such loans totalled $118.1 million (2003 – $nil) at 31 December 2004. The stated interest expense includes a non cash element of $7.0 million (2003 – $6.6 million), largely arising from the unwinding of the discount on future pension liabilities.

A loss before tax of $186.1 million (2003 – $15.0 million) was recorded, reflecting the high exceptional charges mentioned above. The tax charge of $1.2 million (2003 – $6.2 million) reflects expenses not deductible for tax purposes and losses which cannot be recognised. This charge is primarily made up of tax on profits of overseas subsidiaries net of a deferred tax credit of $26.9 million (2003 – $10.8 million).

Pension arrangements

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

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

Balance sheet and cash flow

Net cash inflow from operating activities was $217.2 million (2003 – $82.5 million), including the benefit of a $96.8 million reduction (2003 – $16.9 million increase) in working capital. Stock reduced significantly over 2003 levels, resulting in a $54.7 million cash inflow (2003 – $3.9 million outflow).

$33.4 million (2003 – $25.1 million) tax was paid, broadly comparable with the Group's current tax charge of $28.1 million (2003 – $17.0 million).

The Group continues to make significant investments in its Thread business and capital expenditure was $93.6 million (2003 – $95.0 million). After adjusting for opening and closing year-end creditors, actual associated cash outflow was $92.7 million (2003 – $108.2 million). The principal project was the expansion of thread and zip capacity in China, culminating in the opening of a major new plant (80,000 sq.m) in Shenzhen just before the year-end.

The disposal of businesses and surplus assets generated $65.7 million (2003 – $56.7 million). In addition, current asset investments were realised for cash of $40.9 million (2003 – $2.0 million).

The net result of the above was a $199.3 million reduction in the Group's net debt to $36.1 million at 31 December 2004, compared to $235.4 million at the start of the year. Shareholders' funds fell from $768.5 million to $611.6 million, reflecting the $192.9 million (2003 – $33.1 million) retained loss for the year, partly offset by a $36.0 million exchange gain (2003 – $55.4 million) as shown in the statement of total recognised gains and losses. Gearing fell from 28.4% to 5.4%.

Treasury

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. As at 31 December 2004, Coats plc has $635.8 million of committed bank facilities, of which $435.6 million will expire within the next two to five years and $137.8 million will expire after five years. Of these total bank facilities, $73.0 million was unutilised at 31 December 2004.

As at 31 December 2004, $486.4 million (2003 – $nil) of Coats plc banking facilities are secured on assets of the Company and certain of its subsidiary undertakings. The security provided comprises both fixed and floating charges.

Functional currency

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

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

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

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

As at 31 December 2004, a proportion of borrowings *are drawn in sterling and euros and represent a hedge* against the impact of changes in exchange rates on the translation of sterling and euro denominated assets. The Group's translation exposure in the profit and loss account is not hedged. If 2003 overseas turnover and operating profit had been translated at 2004 average rates, reported 2003 Group sales would have been higher by $72.3 million and operating profit would have been lower by $2.2 million.

Accounting standards

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

As noted in the Chairman's statement, provisions have been made in these financial statements in respect of the European Commission investigation. 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, nor of segmental operating profit and net assets. No disclosure has been made in the profit and loss account regarding the exceptional nature of these provisions. Legal costs associated with these proceedings have been charged as an exceptional operating item as set out in Note 3 to the accounts.

All European companies listed on a European Securities market will be required to adopt International Financial Reporting Standards and International Accounting Standards as issued by the International Accounting Standards Board in the preparation of financial statements from 2005 onwards. The Company is therefore preparing to issue its consolidated financial statements for 2005 under these international standards.

Executive Director

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

Non Executive Directors

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

Anthony Gibbs (Aged 57) Appointed a Director in April 2003. He has diverse experience in mergers, acquisitions, divestments and restructuring. He is an Executive Director of Guinness Peat Group plc and Chairman of Turners & Growers Ltd, Tenon Ltd and Staveley Inc. He is a member of the Remuneration Committee.

Blake Nixon (Aged 44) Appointed a Director in January 2001. He has a wide experience of corporate finance in both the UK and Australia. He is UK Executive Director of Guinness Peat Group plc and Chairman of Staveley Industries plc. He is Chairman of the Audit Committee and a member of the Remuneration Committee.

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

Company Secretary: Gemma Aldridge
Auditors: Deloitte & Touche LLP

Directors' report

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

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

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

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

Major shareholdings The Company is a wholly owned subsidiary of Coats plc.

Acquisitions and disposals Details of acquisitions and disposals during the year are set out in the Operating and financial review on pages 4 to 8.

Review of the business A review of the business during the year and of prospective future developments is contained within the Chairman's statement and the Operating and financial review set out on pages 2 to 8 which constitute an integral part of this Report.

Results and dividends The results of the Group for the year appear in detail on page 13. The preference dividends, amounting to £715,863 or $1,310,029 (2003 – £715,863 or $1,174,015) were paid on their due dates. No ordinary dividends were declared during the year (2003 – nil).

Directors Michael Smithyman, Gary Weiss, Tony Gibbs, Blake Nixon and Rex Wood-Ward served as Directors throughout the year. Martin Flower retired from the Board on 31 May 2004 and Jonathan Lea and Don La Vigne on 30 June 2004.

Directors' interests None of the Directors who held office at 31 December 2004 had any interests in the shares of the Company or of any of its subsidiaries. Michael Smithyman's interests in the shares of the ultimate parent company, Guinness Peat Group plc, and its subsidiaries, are declared in the statutory accounts of Coats plc, and the interests of Gary Weiss, Tony Gibbs and Blake Nixon are declared in the statutory accounts of Guinness Peat Group plc. Rex Wood-Ward had no interests in the shares of Guinness Peat Group plc or of any of its subsidiaries.

Employment practices The Group is committed to ensuring that employment practices and policies continue to match best practice in every market where we operate. Effective employee communications play a key role in ensuring that changes within the Group are understood and wherever possible anticipated. A gathering of Coats Business Leaders was held to this effect in April 2004.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

By Order of the Board
Gemma Aldridge
Gemma Aldridge
Company Secretary
13 July 2005

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

We have audited the financial statements of Coats Holdings Ltd for the year ended 31 December 2004 which comprise the profit and loss account, the balance sheets, the cash flow statement, the reconciliation of net cash flow to movement in net debt, the analysis of free cash flow, the statement of total recognised gains and losses, the reconciliation of movements in shareholders' funds, the statement of accounting policies and the related notes 1 to 33. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of Directors and auditors

As described in the statement of Directors' responsibilities, the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

They are also responsible for the preparation of the other information contained in the Annual Report.

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements, auditing standards, and the Listing Rules of the Financial Services Authority.

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

We read the Directors' report 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 financial statements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

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

Opinion

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

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Manchester
13 July 2005

Consolidated profit and loss account

For the year ended 31 December 2004	Notes	2004 \$m	2003 (Restated) \$m
Turnover	1&2		
Continuing operations		**1,587.5**	1,509.4
Discontinued operations		**124.4**	136.9
		1,711.9	1,646.3
Cost of sales	1	**(1,355.6)**	(1,096.2)
Gross profit		**356.3**	550.1
Distribution costs	1	**(350.1)**	(342.3)
Administrative expenses	1	**(189.3)**	(162.7)
Other operating income	1	**2.4**	1.6
Operating (loss)/profit	1&3	**(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	1	**(1.7)**	3.7
Losses on sale or termination of discontinued operations	1	**(5.8)**	(75.3)
(Loss)/profit on ordinary activities before interest		**(168.1)**	11.0
Amounts written off investments	13	**(4.0)**	(1.0)
Interest receivable and similar income	6	**7.8**	8.2
Interest payable and similar charges	7	**(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	8	**(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	10	**(1.3)**	(1.2)
Loss attributable to ordinary shareholders	24	**(192.9)**	(33.1)
Basic loss per Ordinary share of 20p	11	**(27.2)c**	(4.7)c

Movements in reserves appear on page 37.

The notes on pages 21 to 47 form part of these accounts.

14 Balance sheets

At 31 December 2004	Notes	Group 2004 $m	Group 2003 $m	Company 2004 $m	Company 2003 $m
Fixed assets					
Goodwill	21	**82.0**	87.5	–	–
Negative goodwill	21	**(17.4)**	(20.3)	–	–
		64.6	67.2	–	–
Tangible assets	12	**553.1**	622.2	–	–
Investments	13	**0.3**	7.5	**1,147.6**	2,005.2
		618.0	696.9	**1,147.6**	2,005.2
Current assets					
Stocks	14	**337.7**	408.1	–	–
Debtors due within one year	15	**365.4**	369.8	**0.6**	3.7
Debtors due in more than one year	15	**94.7**	87.7	–	–
Investments	16	**3.7**	42.8	–	–
Cash at bank and in hand	19	**138.4**	111.7	**3.9**	15.3
		939.9	1,020.1	**4.5**	19.0
Creditors – amounts falling due within one year					
Bank overdrafts	19	**(23.0)**	(32.5)	–	–
Other creditors	17	**(388.2)**	(652.3)	**(24.1)**	(280.8)
		(411.2)	(684.8)	**(24.1)**	(280.8)
Net current assets/(liabilities)		**528.7**	335.3	**(19.6)**	(261.8)
Total assets less current liabilities		**1,146.7**	1,032.2	**1,128.0**	1,743.4
Creditors – amounts falling due after more than one year	18	**(123.1)**	(5.5)	**(281.8)**	(793.0)
Provisions for liabilities and charges	20	**(360.4)**	(197.6)	**(41.4)**	(0.6)
Net assets		**663.2**	829.1	**804.8**	949.8
Capital and reserves					
Equity share capital	22	**253.7**	253.7	**253.7**	253.7
Non-equity share capital	22	**26.1**	26.1	**26.1**	26.1
Called up share capital		**279.8**	279.8	**279.8**	279.8
Share premium account	23	**371.1**	371.1	**371.1**	371.1
Other reserves	23	**61.1**	61.1	**63.9**	63.9
Profit and loss account	24	**(100.4)**	56.5	**90.0**	235.0
Shareholders' funds		**611.6**	768.5	**804.8**	949.8
Equity minority interests	25	**51.6**	60.6	–	–
Total capital employed		**663.2**	829.1	**804.8**	949.8

Approved by the Board on 13 July 2005
Blake Nixon, Director
Michael Smithyman, Director

The notes on pages 21 to 47 form part of these accounts.

Consolidated profit and loss account

For the year ended 31 December 2004	Notes	2004 $m	2003 (Restated) $m
Turnover	1&2		
Continuing operations		**1,587.5**	1,509.4
Discontinued operations		**124.4**	136.9
		1,711.9	1,646.3
Cost of sales	1	**(1,355.6)**	(1,096.2)
Gross profit		**356.3**	550.1
Distribution costs	1	**(350.1)**	(342.3)
Administrative expenses	1	**(189.3)**	(162.7)
Other operating income	1	**2.4**	1.6
Operating (loss)/profit	1&3	**(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	1	**(1.7)**	3.7
Losses on sale or termination of discontinued operations	1	**(5.8)**	(75.3)
(Loss)/profit on ordinary activities before interest		**(168.1)**	11.0
Amounts written off investments	13	**(4.0)**	(1.0)
Interest receivable and similar income	6	**7.8**	8.2
Interest payable and similar charges	7	**(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	8	**(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	10	**(1.3)**	(1.2)
Loss attributable to ordinary shareholders	24	**(192.9)**	(33.1)
Basic loss per Ordinary share of 20p	11	**(27.2)c**	(4.7)c

Movements in reserves appear on page 37.

The notes on pages 21 to 47 form part of these accounts.

For the year ended 31 December 2004	Notes	2004 $m	2003 $m
Net cash inflow from operating activities	31	**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	31	**(1.6)**	(15.4)
Sale of subsidiary undertakings	31	**2.9**	(6.6)
Net cash disposed with subsidiaries	31	**(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	31	**(159.2)**	71.0
Net cash (outflow)/inflow from financing		**(159.2)**	71.8
Increase/(decrease) in cash	31	**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	31	**(36.1)**	(235.4)

Analysis of free cash flow

For the year ended 31 December 2004	2004 $m	2003 $m
Net cash inflow from operating activities	**217.2**	82.5
Returns on investments and servicing of finance	**(17.9)**	(25.8)
Tax paid	**(33.4)**	(25.1)
Capital expenditure and financial investment	**(29.9)**	(44.9)
Free cash flow	**136.0**	(13.3)

Statement of total recognised gains and losses

For the year ended 31 December 2004	Note	2004 $m	2003 $m
Loss for the financial year		**(191.6)**	(31.9)
Currency translation differences on foreign currency net investments	24	**36.0**	55.4
Total recognised gains and losses relating to the year		**(155.6)**	23.5

Reconciliation of movements in shareholders' funds

For the year ended 31 December 2004	2004 $m	2003 (Restated) $m
Loss for the financial year	**(191.6)**	(31.9)
Dividends	**(1.3)**	(1.2)
	(192.9)	(33.1)
Other recognised gains and losses relating to the year	**36.0**	55.4
New share capital subscribed	**–**	0.5
Net (reduction)/increase in shareholders' funds	**(156.9)**	22.8
Opening shareholders' funds	**768.5**	745.7
Closing shareholders' funds	**611.6**	768.5
Equity shareholders' funds	**585.5**	742.4
Non-equity shareholders' funds	**26.1**	26.1
	611.6	768.5

Basis of accounting

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

Change of functional and reporting currency

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

The 2003 comparative figures have been translated from the sterling reported figures to US dollars by applying the 2003 US dollar average exchange rate of 1.64 to profit and loss account and cash flow items, and by applying the 2003 US dollar year end exchange rate of 1.79 to balance sheet items. The impact of translating the profit and loss account and balance sheet at different exchange rates means that the 2003 currency translation differences on foreign currency net investments recognised in the statement of total recognised gains and losses are restated as a gain of $55.4 million.

Consolidation and results

For all subsidiary undertakings the accounts include the results for those companies controlled throughout the year or to the date of disposal or from the date of acquisition as appropriate.

Where local fiscal and company legislation prevents foreign subsidiaries and associated companies from complying with the Group's accounting policies, adjustments are made on consolidation to present the Group accounts on a consistent basis.

Acquisitions and disposals

In accordance with FRS6 and 7, on the acquisition of a business, including an interest in an associated company, fair values are attributed to the Group's share of the identifiable assets and liabilities of the business existing at the date of acquisition and reflecting the conditions at that date.

Where the cost of acquisition exceeds the values attributable to such net assets, the difference is treated as purchased goodwill and, prior to 1 January 1998, was written off direct to reserves in the year of acquisition.

Following the issue of FRS10 – Goodwill and Intangible Assets, purchased goodwill arising after 1 January 1998 is capitalised and amortised to the profit and loss account over its estimated useful life which will not exceed 20 years.

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

In accordance with FRS11 – Impairment of Fixed Assets and Goodwill, any impairment of capitalised goodwill will be written off to the profit and loss account in the period in which the impairment is recognised.

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

A business is classified as a discontinued operation if it is clearly distinguishable, has a material effect on the nature and focus of the Group's activities, represents a material reduction in the Group's operating facilities and either its sale is completed or, if a termination, its former activities have ceased permanently prior to the approval of these financial statements.

Foreign currencies
Assets and liabilities in foreign currencies are translated into US dollars at the rates of exchange ruling at the year end or related forward contract rates. Trading results are translated at the average rates of exchange for the year after eliminating the effects of hyper-inflation in certain countries by using an appropriate stable currency as the functional currency for operations in these countries.

Profits and losses on exchange arising in the normal course of trading and realised exchange differences arising on the conversion or repayment of foreign currency borrowings are dealt with in the profit and loss account. Unrealised exchange differences arising on the translation of overseas net assets and matched long term foreign currency borrowings or forward exchange contracts are taken direct to reserves.

Turnover
All turnover and profit figures relate to external transactions and turnover represents the value of goods and services supplied net of returns.

Exceptional items
Exceptional items are those that need to be disclosed by virtue of their size or incidence. Such items are included within operating profit unless they represent profits or losses on the sale or termination of an operation, costs of a fundamental reorganisation or restructuring having a material effect on the nature and focus of the Group, or profits and losses on the disposal of fixed assets. In these cases, separate disclosure is provided on the face of the profit and loss account after operating profit.

Grants
Revenue based grants are credited against related expenditure.

Operating lease rentals
Rentals on operating leases are charged to the profit and loss account in the year to which they relate.

Research and development expenditure
Expenditure is charged to the profit and loss account in the year it is incurred.

Pensions and other post retirement benefits
It is the policy of the Group to comply with legal requirements and established practice in the various countries in which there are employees or former employees.

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

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

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

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

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

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation and, where appropriate, provision for impairment. Depreciation is provided to write off the cost of the assets by equal instalments over their expected useful lives.

The rates used are:

Freehold and long leasehold land	Nil
Freehold and long leasehold buildings	2%
Short leasehold property	Over period of lease
Motor vehicles	20%
Electronic office equipment	25%
All other plant and machinery	5 to 25%

Assets held under finance leases are included in tangible fixed assets at a value equal to the original cost incurred by the lessor less depreciation, and obligations to the lessor are shown as part of creditors. The interest element is charged to profit and loss account under the reducing balance method.

Investments

Fixed asset investments are stated at cost unless, in the opinion of the Directors, there has been an impairment, in which case an appropriate adjustment is made.

Listed current asset investments are stated at the lower of cost or market value, and other current asset investments are stated at the lower of cost and estimated net realisable value.

Associated companies

Investments, excluding those classified as subsidiaries, are regarded as associated companies where the Group has a long term interest in more than 20% of the equity and exercises a significant influence over their affairs on a continuing basis. These are stated in the Consolidated Balance Sheet at the Group's share of net assets after adjustment for goodwill or discount on acquisition.

In accordance with FRS9 – Associates and Joint Ventures, the Group's share of associated companies' operating profits or losses, net interest and exceptional items are shown separately in the financial statements.

Stocks

Stocks are valued on bases consistent with those used in previous years at the lower of cost and net realisable value. Cost is the invoiced value of materials plus, in the case of work in progress and finished goods, labour and factory overheads based on a normal level of production.

Restructuring provisions

In accordance with FRS12, provisions are only made for losses arising as a result of restructuring when the Group is constructively obligated to implement the restructuring.

Deferred taxation

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

Deferred tax is not recognised on timing differences arising on property revaluation surpluses where there is no commitment to sell the asset nor on gains on asset sales that are rolled over into replacement assets for tax purposes. In addition, no provision is made for taxation that would arise on the remittance of retained profits by overseas subsidiaries and associated companies subsequent to the balance sheet date as there is no present intention to remit these retained profits.

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

Capital instruments

Capital instruments are accounted for in accordance with the principles of FRS4 and are classified as equity share capital, non-equity share capital, minority interest or debt as appropriate. Convertible debt is separately disclosed and is regarded as debt unless conversion actually occurs. Provision is made for any accrued premium payable on redemption of redeemable debt or non-equity interests.

Capital instruments are initially carried at the amount of the net proceeds. The finance costs and issue expenses are allocated to the profit and loss account over the life of the debt at a constant rate on the carrying amount.

Reporting the substance of transactions

In accordance with FRS5, transactions entered into by the Group are recorded in the financial statements taking into account their full commercial substance.

Liquid resources

The Group defines liquid resources as short term deposits and current asset investments maturing or capable of being realised within one year.

1 Continuing and discontinued operations and acquisitions

	2004			2003 (Restated)		
	Continuing $m	Discontinued $m	Total $m	Continuing $m	Discontinued $m	Total $m
Turnover	**1,587.5**	**124.4**	**1,711.9**	1,509.4	136.9	1,646.3
Cost of sales	**1,280.2**	**75.4**	**1,355.6**	1,012.6	83.6	1,096.2
Net operating expenses						
Distribution costs	**303.0**	**47.1**	**350.1**	288.7	53.6	342.3
Administrative expenses	**182.1**	**7.2**	**189.3**	150.5	12.2	162.7
Other operating income (note 3)	**(2.4)**	**–**	**(2.4)**	(1.6)	–	(1.6)
Total	**482.7**	**54.3**	**537.0**	437.6	65.8	503.4
Operating (loss)/profit	**(175.4)**	**(5.3)**	**(180.7)**	59.2	(12.5)	46.7
Profit on sale of fixed assets	**6.3**	**12.3**	**18.6**	8.0	26.4	34.4
Sale or termination of operations						
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.

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

2 (a) Analysis of turnover

	2004 $m	2003 (Restated) $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

(b) Geographical analysis of turnover

	Turnover	
	2004 $m	2003 (Restated) $m
United Kingdom	**75.3**	70.2
Rest of Europe	**504.6**	477.8
North America	**412.6**	401.5
South America	**169.1**	141.0
Asia, Australasia and Africa	**425.9**	418.9
Total continuing operations	**1,587.5**	1,509.4
Discontinued operations	**124.4**	136.9
	1,711.9	1,646.3
The geographical analysis of discontinued operations by location was:		
United Kingdom	**124.3**	130.8
Rest of Europe	**0.1**	0.8
North America	**–**	5.3
	124.4	136.9

Note

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

As set out in the Operating and financial review on pages 4 to 8, provisions have been made during the year ended 31 December 2004 in respect of the European Commission investigation, which have impacted operating profit and net assets. As permitted by both the Companies Act 1985 and SSAP 25 – Segmental Reporting, segmental profits, losses and net assets have not been disclosed as the Directors consider that their disclosure could seriously prejudice the outcome of that investigation. Similarly, no disclosure is made in the profit and loss account regarding the exceptional nature of the provisions made in respect of that investigation.

3 Operating (loss)/profit

	2004 $m	2003 (Restated) $m
Operating (loss)/profit is stated after charging:		
Depreciation – Owned assets	**62.2**	59.2
– Leased assets	**0.1**	0.3
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
Hire of plant and machinery	**9.9**	9.0
Other operating lease rentals	**18.1**	19.5
Research and development expenditure	**2.1**	2.5
Auditors' remuneration (see note) – Audit fees	**2.7**	2.8
– Non audit related fees – UK	**0.3**	0.2
– Overseas	**0.6**	1.1
and after crediting other operating income:		
Rental income net of expenses	**0.2**	1.1
Royalties and licensing income	**0.5**	0.5
Other	**1.7**	–
	2.4	1.6

Note

Non audit related fees include $0.8 million (2003 – $0.7 million) for tax services and $0.1 million (2003 – $0.6 million) for other services.

Product category analysis of 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, as set out in the Operating and financial review on pages 4 to 8. 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).

4 Directors' emoluments

	2004 \$m	2003 \$m
Aggregate emoluments	**1.7**	2.6
Compensation for loss of office	**0.5**	0.5
Aggregate gains on share options (see note)	**–**	0.5
Aggregate awards under long term incentive schemes	**–**	1.8
	2.2	5.4
Emoluments (including gains on share options and awards under long term incentive schemes) in respect of highest paid director	**1.0**	2.0
Accrued pension entitlement in respect of highest paid director	**–**	0.5

	Number	Number
Number of directors to whom retirement benefits are accruing in respect of defined benefit schemes	**1**	3

Note

During the year ended 31 December 2003, share options held by the Directors were either exercised or cancelled following the acquisition of the Group by Coats plc (formerly Coats Holdings plc). Options with an exercise price exceeding 58.5p lapsed, while options with an exercise price below 58.5p were either exercised or cancelled for cash.

5 Employees

	2004 Number	2003 Number
The average numbers employed by the Group during the year were:		
Direct	**18,006**	18,396
Indirect	**4,525**	5,476
Staff	**7,967**	8,362
	30,498	32,234
Comprising:		
UK	**1,865**	2,443
Overseas	**28,633**	29,791
	30,498	32,234
The total numbers employed at the end of the year were:		
UK	**1,700**	2,056
Overseas	**28,293**	29,079
	29,993	31,135

	\$m	\$m
The costs incurred in respect of these employees were:		
Wages and salaries	**411.0**	398.2
Social security costs	**52.9**	53.3
Other pension costs: included in operating profit (note 29)	**6.3**	6.1
	470.2	457.6

6 Interest receivable and similar income

	2004 \$m	2003 \$m
Interest receivable	**5.2**	5.2
Income from other fixed and current asset investments	**2.6**	3.0
Total interest receivable and similar income	**7.8**	8.2

7 Interest payable and similar charges

	2004 $m	2003 $m
Loans	**5.0**	10.7
Bank overdrafts and other borrowings	**8.4**	10.7
Discounting interest re onerous leasehold provisions	**0.2**	0.2
Discounting interest re pension provisions	**6.8**	6.4
Finance leases	**0.2**	0.2
	20.6	28.2
Cost of financing convertible debt	**–**	3.9
Share of net interest payable of associated companies	**1.2**	1.1
Total interest payable and similar charges	**21.8**	33.2

8 Tax on loss on ordinary activities

		2004 $m		2003 $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

8 Tax on loss on ordinary activities (continued)

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

	2004 $m	2003 $m
Loss on ordinary activities before tax	**(186.1)**	(15.0)
Tax on loss on ordinary activities at standard rate	**(55.8)**	(4.5)
Adjusted for the effects of:		
Expenses not deductible for tax purposes (including goodwill amortisation)	**52.5**	11.6
Income not liable to taxation	**(2.3)**	(4.4)
Losses not recognised	**14.6**	16.9
Utilisation of brought forward losses not previously recognised	**(2.9)**	(5.7)
Capital allowances for the year lower/(higher) than depreciation	**11.7**	(6.6)
Other short term timing differences	**12.7**	1.8
Profits on sale of fixed assets covered by reliefs	**(5.2)**	(9.2)
Losses on sales or termination of operations not eligible for relief	**2.3**	20.2
Intra-Group dividends not covered by double tax relief	**5.8**	3.8
Lower rates of tax on overseas earnings	**(6.4)**	(7.4)
Withholding tax on remittances	**5.9**	3.8
Corporation taxes not on profits	**4.1**	3.6
Local tax incentives	**(1.4)**	(2.1)
Other	**0.4**	(3.8)
UK Group relief provided by immediate parent company for nil consideration	**(6.8)**	–
Current tax charge for the year	**29.2**	18.0

9 Loss for the year

	2004 $m	2003 $m
The Company's loss for the financial year was	**(123.0)**	(46.7)

Under the provisions of Section 230 Companies Act 1985, a profit and loss account for the Company is not presented.

10 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.

11 Loss per share

	2004	2003
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

12 Tangible assets

	Land and buildings $m	Plant, machinery and vehicles $m	Total $m
Group			
Cost			
At beginning of year	**317.4**	**1,024.6**	**1,342.0**
Exchange difference	**11.4**	**31.9**	**43.3**
Subsidiaries acquired	**–**	**0.1**	**0.1**
Subsidiaries disposed	**–**	**(2.4)**	**(2.4)**
Additions	**7.1**	**86.5**	**93.6**
Disposals	**(46.1)**	**(94.2)**	**(140.3)**
At 31 December 2004	**289.8**	**1,046.5**	**1,336.3**
Depreciation			
At beginning of year	**111.6**	**608.2**	**719.8**
Exchange difference	**4.2**	**25.7**	**29.9**
Subsidiaries disposed	**–**	**(0.7)**	**(0.7)**
Charge for the year	**7.3**	**55.0**	**62.3**
Impairment of fixed assets	**19.7**	**53.4**	**73.1**
Disposals	**(25.7)**	**(75.5)**	**(101.2)**
At 31 December 2004	**117.1**	**666.1**	**783.2**
Net book value			
At 31 December 2004	**172.7**	**380.4**	**553.1**
At beginning of year	205.8	416.4	622.2

Land and buildings	2004 $m	2003 $m
Cost		
Freehold	**261.1**	293.6
Long leasehold	**11.1**	2.5
Short leasehold	**17.6**	21.3
	289.8	317.4
Accumulated depreciation		
Freehold	**106.7**	102.7
Long leasehold	**4.3**	0.2
Short leasehold	**6.1**	8.6
	117.1	111.5

Plant, machinery and vehicles

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

13 Investments

	Associated companies $m	Other $m	Total $m
Group			
Cost			
At beginning of year	**1.2**	**12.0**	**13.2**
Exchange	**0.1**	**0.6**	**0.7**
Disposals	**–**	**(4.5)**	**(4.5)**
At 31 December 2004	**1.3**	**8.1**	**9.4**
Share of profits retained			
At beginning of year	**2.7**		**2.7**
Share of profits for the year	**0.2**		**0.2**
At 31 December 2004	**2.9**		**2.9**
Provisions			
At beginning of year	**–**	**(8.4)**	**(8.4)**
Exchange	**(0.2)**	**(0.6)**	**(0.8)**
Impairment of investments	**(4.0)**	**–**	**(4.0)**
Disposals	**–**	**1.2**	**1.2**
At 31 December 2004	**(4.2)**	**(7.8)**	**(12.0)**
Net book value			
At 31 December 2004	**–**	**0.3**	**0.3**
At beginning of year	3.9	3.6	7.5
Including investments listed on a recognised Stock Exchange			
At 31 December 2004	**–**	**0.1**	**0.1**
At beginning of year	3.9	3.6	7.5

	Subsidiaries		Other fixed asset investments	
	Shares $m	Loans $m	$m	Total $m
Company				
Cost				
At beginning of year	**1,434.2**	**748.8**	**8.4**	**2,191.4**
Exchange	**–**	**–**	**0.6**	**0.6**
Additions	**67.7**	**1.0**	**–**	**68.7**
Disposals	**(78.3)**	**–**	**(1.3)**	**(79.6)**
Repaid	**–**	**(749.8)**	**–**	**(749.8)**
At 31 December 2004	**1,423.6**	**–**	**7.7**	**1,431.3**
Provisions				
At beginning of year	**(47.3)**	**(130.5)**	**(8.4)**	**(186.2)**
Exchange	**–**	**–**	**(0.5)**	**(0.5)**
Provided in the year	**(228.7)**	**–**	**–**	**(228.7)**
Released in the year	**–**	**130.5**	**–**	**130.5**
Disposals	**–**	**–**	**1.2**	**1.2**
At 31 December 2004	**(276.0)**	**–**	**(7.7)**	**(283.7)**
Net book value				
At 31 December 2004	**1,147.6**	**–**	**–**	**1,147.6**
At beginning of year	1,386.9	618.3	–	2,005.2

Principal subsidiary undertakings are listed on page 48.

14 Stocks

	Group		Company	
	2004 $m	2003 $m	2004 $m	2003 $m
Raw materials and consumables	**68.4**	76.8	**–**	–
Work in progress	**102.9**	128.9	**–**	–
Finished goods and goods for resale	**166.4**	202.4	**–**	–
	337.7	408.1	**–**	–

15 Debtors

	Group		Company	
	2004 $m	2003 $m	2004 $m	2003 $m
Debtors due within one year:				
Trade debtors	**290.5**	288.7	**–**	–
Amounts owed by parent company	**–**	3.0	**0.5**	3.0
Amounts owed by subsidiaries	**–**	–	**–**	0.7
Amounts owed by associated companies	**0.2**	0.4	**–**	–
Corporation and overseas tax recoverable	**7.4**	15.4	**–**	–
Deferred tax recoverable (see note)	**11.2**	–	**–**	–
Other debtors	**41.0**	44.6	**0.1**	–
Prepayments and accrued income	**15.1**	16.6	**–**	–
Pension fund prepayments	**–**	1.1	**–**	–
	365.4	369.8	**0.6**	3.7
Debtors due in more than one year:				
Trade debtors	**0.3**	0.7	**–**	–
Amounts owed by associated companies	**1.2**	1.3	**–**	–
Corporation and overseas tax recoverable	**4.2**	–	**–**	–
Other debtors	**15.6**	17.8	**–**	–
Prepayments and accrued income	**–**	0.4	**–**	–
Pension fund prepayments	**73.4**	67.5	**–**	–
	94.7	87.7	**–**	–

Note

Analysis of Group deferred tax asset/(liability)	2004 $m	2003 $m
Capital allowances in excess of depreciation	**(25.4)**	(43.0)
Pension assets	**(10.8)**	(10.7)
Pension provisions	**2.9**	7.7
Other timing differences	**9.1**	8.7
Losses carried forward	**35.4**	16.5
	11.2	(20.8)

The Group has unrecognised deferred tax assets relating to unutilised tax losses of $305.6 million (2003 – $250.6 million) and unrecovered advance corporation tax of $110.9 million (2003 – $108.5 million). These have not been recognised since it is more likely than not that there will be no suitable future taxable profits against which they may be offset.

16 Current asset investments

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

17 Other creditors (amounts falling due within one year)

	Group 2004 $m	Group 2003 $m	Company 2004 $m	Company 2003 $m
Trade creditors	**172.4**	171.5	–	0.2
Loans (note 19)	**30.9**	311.9	**3.5**	259.4
Amounts owed to subsidiaries	–	–	**0.7**	0.7
Amounts owed to associated companies	**1.3**	0.5	–	–
Bills of exchange	**20.9**	9.7	–	–
Corporation tax and overseas taxation	**37.1**	41.0	**19.2**	17.9
Other taxation and social security	**21.3**	17.9	–	–
Payments in advance	**3.0**	0.2	–	–
Other creditors	**38.1**	52.9	**0.5**	0.7
Accruals and deferred income	**57.9**	38.1	**0.2**	1.2
Finance lease obligations (note 18)	**0.1**	1.1	–	0.7
Leaving indemnities	**5.2**	7.5	–	–
	388.2	652.3	**24.1**	280.8

18 Creditors (amounts falling due after more than one year)

	Group 2004 $m	Group 2003 $m	Company 2004 $m	Company 2003 $m
Loans (note 19)	**2.2**	1.1	–	–
Amounts owed to parent company (note 19)	**118.1**	–	–	–
Amounts owed to subsidiaries	–	–	**281.8**	793.0
Other creditors	**2.6**	2.5	–	–
Accruals and deferred income	–	1.4	–	–
Finance lease obligations	**0.2**	0.5	–	–
	123.1	5.5	**281.8**	793.0

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

Finance lease obligations are repayable as follows:

Within one year	**0.1**	1.1	–	0.7
Between one and two years	**0.1**	0.3	–	–
Between two and five years inclusive	**0.1**	0.2	–	–
	0.3	1.6	–	0.7

19 Borrowings and financial instruments

(a) Borrowings

	Group 2004 $m	Group 2003 $m	Company 2004 $m	Company 2003 $m
Bank loans	**29.5**	309.2	–	256.2
Other loans	**3.6**	3.8	**3.5**	3.2
Loans from parent company	**118.1**	–	–	–
	151.2	313.0	**3.5**	259.4
Repayable within one year	**(30.9)**	(311.9)	**(3.5)**	(259.4)
Amounts falling due after more than one year	**120.3**	1.1	–	–
Repayable as follows:				
Between one and two years – Other loans	–	0.4	–	–
– Bank loans	**0.7**	–	–	–
Between two and five years – Other loans	–	0.7	–	–
– Bank loans	**1.5**	–	–	–
After five years – Other loans	**118.1**	–	–	–
	120.3	1.1	–	–

The rates of interest paid on the above loans, other than loans from the parent company of $118.1 million, conform to the terms ruling in each country and the repayment dates extend to 2009. The loans from the parent company of $118.1 million are non-interest bearing and repayable in 2011.

	Group 2004 $m	Group 2003 $m	Company 2004 $m	Company 2003 $m
Net debt				
Loans	**33.1**	313.0	**3.5**	259.4
Loans from parent company	**118.1**	–	–	–
Bank overdrafts	**23.0**	32.5	–	–
Lease finance	**0.3**	1.6	–	0.7
Total borrowings	**174.5**	347.1	**3.5**	260.1
Cash and short term deposits	**(138.4)**	(111.7)	**(3.9)**	(15.3)
Net debt	**36.1**	235.4	**(0.4)**	244.8

	Group 2004 $m	Group 2003 $m
Maturity of debt		
Total borrowings are repayable as follows:		
Within one year	**54.0**	345.5
Between one and two years	**0.8**	0.7
Between two and five years	**1.6**	0.9
After five years	**118.1**	–
	174.5	347.1
Total secured indebtedness	**11.8**	15.0
Total indebtedness guaranteed by Coats Holdings Ltd as parent company	**10.6**	36.5

Group

The Group's policies as regards derivatives and other financial information are set out in the Operating and financial review on pages 4 to 8 and the Statement of accounting policies on pages 17 to 20. The Group does not trade in financial instruments.

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

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

19 Borrowings and financial instruments (continued)

(b) Financial instruments

Maturity profile of financial liabilities

The maturity profile of the Group's total borrowings is stated in note 19(a). Total borrowings include the Group's finance lease obligations, the payment profile of which is analysed in note 18.

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

Undrawn committed borrowing facilities

At 31 December 2004, the Group had committed borrowing facilities of US$300.0 million from its parent company (Coats plc) which expire after more than five years, of which $118.1 million has been utilised (see note 19a). As at 31 December 2003, all of the Group's undrawn committed borrowing facilities expired within one year.

Interest rate and currency profile

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

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

Financial liabilities

31 December 2004	Fixed rate $m	Floating rate $m	Non-interest bearing $m	Total $m
Sterling	–	**18.6**	–	**18.6**
US Dollar and related	–	**(23.7)**	**90.6**	**66.9**
Euro	**0.2**	**8.6**	**27.7**	**36.5**
Other	**0.1**	**52.4**	–	**52.5**
Gross financial liabilities	**0.3**	**55.9**	**118.3**	**174.5**

	Fixed rate		Non-interest bearing
31 December 2004	Weighted average interest rate %	Weighted average period for which the rate is fixed Years	Weighted average period until maturity Years
Sterling	–	–	–
US Dollar and related	–	–	**6.2**
Euro	**4.0**	**1.9**	**6.2**
Other	**10.5**	**1.4**	–

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

19 Borrowings and financial instruments (continued)

(b) Financial instruments (continued)

31 December 2003	Fixed rate $m	Floating rate $m	Non-interest bearing $m	Total $m
Sterling	–	0.4	–	0.4
US Dollar and related	100.1	152.3	–	252.4
Euro	0.4	11.8	0.2	12.4
Other	0.5	81.4	–	81.9
Gross financial liabilities	101.0	245.9	0.2	347.1

		Fixed rate	Non-interest bearing
Financial liabilities at 31 December 2003	Weighted average interest rate %	Weighted average period for which the rate is fixed Years	Weighted average period until maturity Years
Sterling	–	–	–
US Dollar and related	4.4	6.0	–
Euro	4.0	2.6	1.8
Other	10.5	2.8	–

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

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

Financial assets

31 December 2004	Fixed rate $m	Floating rate $m	Non-interest bearing $m	Total $m
Sterling	–	**3.5**	**19.8**	**23.3**
US Dollar and related	–	**3.7**	**17.3**	**21.0**
Euro	–	**2.6**	**8.8**	**11.4**
Other	–	**71.2**	**11.5**	**82.7**
Gross financial assets	–	**81.0**	**57.4**	**138.4**

31 December 2003	Fixed rate $m	Floating rate $m	Non-interest bearing $m	Total $m
Sterling	–	6.3	1.4	7.7
US Dollar and related	–	12.0	17.9	29.9
Euro	–	14.0	5.4	19.4
Other	–	35.6	19.2	54.8
Gross financial assets	–	67.9	43.9	111.8

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

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

In addition to the financial assets included in the tables above, which represent cash at bank and in hand, $3.7 million (2003 – $38.8 million) of the current asset investments at 31 December 2004 represent financial assets. $nil (2003 – $38.8 million) of this is hedged and represents a sterling financial asset, with the balance being in other currencies.

19 Borrowings and financial instruments (continued)

(b) Financial instruments (continued)

Fair values of financial assets and liabilities

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

	2004 Book value $m	2004 Estimated fair value $m	2003 Book value $m	2003 Estimated fair value $m
Primary financial instruments held or issued to finance the Group's operations:				
Cash and short term deposits	**(138.4)**	**(138.4)**	(111.7)	(111.7)
Loans	**33.1**	**33.1**	313.0	313.0
Loans from parent company	**118.1**	**118.1**	–	–
Lease finance	**0.3**	**0.3**	1.6	1.6
Bank overdrafts	**23.0**	**23.0**	32.5	32.5
	174.5	**174.5**	347.1	347.1
Derivative financial instruments held to manage the Group's interest rate and currency profile:				
Forward foreign exchange contracts	**1.3**	**1.7**	(3.0)	(3.0)
Interest rate swaps	–	–	–	3.4
	1.3	**1.7**	(3.0)	0.4
Coats Holdings Ltd (formerly Coats Ltd) 4.9% Cumulative Preference Shares	**26.1**	**17.5**	26.1	17.7
Current asset investments which represent financial assets	**(3.7)**	**(3.7)**	(38.8)	(38.8)

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

Hedging

The aggregate unrecognised loss at 31 December 2004, being the difference between book value and estimated fair value of the above derivative financial instruments, is $0.4 million (2003 – $3.4 million). The whole of this loss (2003 – approximately $1.4 million loss) will be recognised in the profit and loss account for the year ending 31 December 2005.

Currency exposures

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

31 December 2004	Sterling $m	US Dollar $m	Euro $m	Other $m	Total $m
Sterling	–	**0.1**	**1.7**	**0.4**	**2.2**
US Dollar	**(0.5)**	–	**0.8**	**3.0**	**3.3**
Euro	**(0.1)**	**0.1**	–	**1.1**	**1.1**
Other	**0.3**	**13.3**	**8.8**	**6.7**	**29.1**
	(0.3)	**13.5**	**11.3**	**11.2**	**35.7**

31 December 2003	Sterling $m	US Dollar $m	Euro $m	Other $m	Total $m
Sterling	–	3.2	0.7	0.2	4.1
US Dollar	0.2	–	(0.2)	–	–
Euro	(0.2)	(0.2)	–	–	(0.4)
Other	–	22.4	8.1	–	30.5
	–	25.4	8.6	0.2	34.2

( ) represents uncovered monetary liabilities.

20 Provisions for liabilities and charges

	Group		Company	
	2004 $m	2003 $m	2004 $m	2003 $m
Provisions for liabilities and charges	**360.4**	197.6	**41.4**	0.6

As set out in the Operating and financial review on pages 4 to 8, provisions have been made during the year ended 31 December 2004 in respect of the European Commission investigation. In accordance with paragraph 97 of FRS12 – Provisions, Contingent Liabilities and Assets, the disclosures usually required by FRS12 are not given as the Directors consider that their disclosure could seriously prejudice the outcome of that investigation. Similarly, no disclosure is made in the profit and loss account regarding the exceptional nature of the provisions made in respect of that investigation.

21 Goodwill

The net tangible assets acquired during the year were:

	Book value and fair value to the Group $m
Fixed assets	**0.1**
Current assets	**0.4**
	0.5
Fair value of cash consideration	**0.5**
Goodwill arising during the year	–

No fair value adjustments were required in respect of acquisitions made during the year – primarily the purchase in June 2004 of Westminster Fibers Inc, a USA Thread business.

The goodwill capitalised in the balance sheet is as follows:

Positive goodwill	Cost $m	Amortisation and impairment $m	Net $m
At beginning of year	**111.3**	**23.8**	**87.5**
Exchange	–	**0.1**	**(0.1)**
Amortised in the year	–	**5.4**	**(5.4)**
Carried forward at 31 December 2004	**111.3**	**29.3**	**82.0**
Negative goodwill			
At beginning of year	**36.6**	**16.3**	**20.3**
Amortised in the year	–	**2.9**	**(2.9)**
Carried forward at 31 December 2004	**36.6**	**19.2**	**17.4**

Negative goodwill is capitalised in accordance with FRS10 and is being amortised over the expected useful economic life of the non-monetary assets acquired, which is considered by the Directors to be ten years.

As at 31 December 2004, the cumulative amount of goodwill on acquisitions made prior to 1 January 1998 charged to reserves is $344 million (2003 – $344 million).

22 Called up share capital

	Number of shares	2004 \$m	Number of shares	2003 \$m
Authorised:				
Ordinary shares of 20p each	**876,952,750**	**314.0**	876,952,750	314.0
4.9% Cumulative Preference shares of £1 each	**14,609,450**	**26.1**	14,609,450	26.1
		340.1		340.1
Allotted and fully paid:				
Ordinary shares of 20p each – equity shares	**708,574,026**	**253.7**	708,574,026	253.7
4.9% Cumulative Preference shares of £1 each – non equity shares	**14,609,449**	**26.1**	14,609,449	26.1
		279.8		279.8

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

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

(i) at the date of the meeting, the fixed dividend on the Preference Shares is six months in arrears, and so that for this purpose such dividend shall be deemed to be payable half-yearly on the 31 March and the 30 September in every year; or

(ii) the business of the meeting includes the consideration of a resolution for winding up or reducing the capital of the Company or directly and adversely affecting any of the special rights or privileges for the time being attached to the Preference Shares.

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

23 Other reserves

	Share premium account \$m	Other capital reserve \$m	Total \$m
Group			
At 1 January and 31 December 2004	**371.1**	**61.1**	**432.2**
Company			
At 1 January and 31 December 2004	**371.1**	**63.9**	**435.0**

24 Profit and loss account

		Group $m		Company $m
At beginning of year		**56.5**		**235.0**
Foreign currency translation gains/(losses)				
– overseas net assets	**38.0**		–	
– related hedging	**(2.0)**		–	
– other	–		(20.7)	
		36.0		**(20.7)**
Retained loss for the year		**(192.9)**		**(124.3)**
At 31 December 2004		**(100.4)**		**90.0**

The Company's foreign currency translation losses of $20.7 million arise as a result of the change in the year ended 31 December 2004 of its functional currency to US dollars.

25 Equity minority interests

	Group 2004 $m	Group 2003 $m
Equity minority interests	**51.6**	60.6

26 Future capital expenditure

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

27 Contingent liabilities

	Group		Company	
	2004 $m	2003 $m	2004 $m	2003 $m
Loan and overdraft guarantees in respect of certain subsidiaries (note 19)	**–**	–	**10.6**	36.5
Others including overseas documentary credits and trade facility guarantees	**4.1**	25.4	**15.0**	13.4

As at 31 December 2004, $486.4 million (2003 – $nil) of Coats plc (immediate parent company) banking facilities are secured on assets of Coats Holdings Ltd and certain of its subsidiary undertakings. The security provided comprises both fixed and floating charges.

28 Operating lease rentals

	Group		Company	
	2004 $m	2003 $m	2004 £m	2003 £m
The committed amounts payable during 2005 are:				
Leases of land and buildings expiring:				
Within one year	**1.9**	2.9	**–**	–
Within two to five years inclusive	**7.1**	10.2	**–**	–
Over five years	**9.3**	10.6	**–**	–
	18.3	23.7	**–**	–
Other operating leases expiring:				
Within one year	**1.3**	1.8	**–**	–
Within two to five years inclusive	**5.5**	5.3	**–**	–
	6.8	7.1	**–**	–

29 Pensions

(a) Retirement benefit schemes

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

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

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

(b) Accounting and disclosures

Pensions and other post-retirement benefits are accounted for in accordance with SSAP 24 – Accounting for Pension Costs.

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

(c) SSAP 24 disclosures

Pension costs for the year were:

	2004 $m	2004 $m	2003 $m	2003 $m
Included in operating profit:				
Defined contribution schemes		**5.4**		4.7
Defined benefit schemes – United Kingdom (i)	**(0.4)**		0.7	
North America (ii)	**(0.5)**		(0.3)	
Other schemes	**1.8**		1.0	
		0.9		1.4
		6.3		6.1

(i) United Kingdom

Pension costs for the year were:

	2004 $m	2003 $m
Regular pension cost	**6.5**	6.9
Spreading of surplus	**(3.8)**	(3.6)
Interest	**(3.1)**	(2.6)
Net (credit)/charge	**(0.4)**	0.7

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

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

29 Pensions (continued)

(ii) North America

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

Pension costs for the year were:

	2004 $m	2003 $m
Regular cost	**2.7**	3.0
Spreading of surplus	**(1.2)**	(2.0)
Interest	**(2.0)**	(1.3)
Net credit	**(0.5)**	(0.3)

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

(d) FRS17 retirement benefits

The information provided below for defined benefit plans has been prepared by independent qualified actuaries based on the most recent actuarial valuations of the schemes concerned, updated to take account of the valuations of assets and liabilities as at 31 December 2004.

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

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

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

Long term rate of return expected at 31 December 2004	UK %	North America %	Other %
Equities	**8.20**	**8.50**	**8.15**
Corporate bonds and gilts	**4.75**	**5.50**	**7.25**
Other	**n/a**	**3.50**	**3.65**

29 Pensions (continued)

(d) FRS17 retirement benefits (continued)

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

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

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

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

The movements in the UK and North America schemes during the year ended 31 December 2003 were:

	Gross surplus			Recoverable surplus		
	UK $m	North America $m	Group $m	UK $m	North America $m	Group $m
Net assets of the schemes at the beginning of the year	26.6	51.0	77.6	26.6	50.2	76.8
Movement in year:						
Current service cost	(7.9)	(3.3)	(11.2)	(7.9)	(3.3)	(11.2)
Past service cost	(0.5)	–	(0.5)	(0.5)	–	(0.5)
Contributions	0.2	–	0.2	0.2	–	0.2
Other finance income	(3.8)	3.3	(0.5)	(3.8)	3.3	(0.5)
Actuarial gain/(loss)	22.1	9.5	31.6	15.5	(21.6)	(6.1)
Exchange difference	3.9	3.2	7.1	3.3	0.2	3.5
Net assets of the schemes at the end of the year	40.6	63.7	104.3	33.4	28.8	62.2

29 Pensions (continued)

(d) FRS17 retirement benefits (continued)

The movements in the other schemes during the year were:

	2004 $m	2003 $m
Net liabilities of the schemes at the beginning of the year	**(120.6)**	(105.6)
Movement in year:		
Current service cost	**(2.2)**	(2.5)
Past service cost	**(0.2)**	0.2
Settlements and curtailments	**(1.3)**	0.3
Contributions	**14.5**	17.1
Other finance income	**(6.2)**	(5.9)
Actuarial loss	**(2.2)**	(6.5)
Transfer from creditors and provisions	**(2.8)**	–
Exchange difference	**(9.2)**	(17.7)
Net liabilities of the schemes at the end of the year	**(130.2)**	(120.6)

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

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

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

	UK $m	North America $m	Other $m
Difference between the expected and actual return on pension scheme assets	118.7	26.6	2.3
Percentage of scheme assets	5%	11%	15%
Experience gains and losses on scheme liabilities	61.7	(6.2)	(5.2)
Percentage of scheme liabilities	3%	(3)%	(4)%
Total actuarial gain or loss	15.5	(21.6)	(6.5)
Percentage of scheme liabilities	1%	(12)%	(5)%

29 Pensions (continued)

(d) FRS17 retirement benefits (continued)

The experience gains and losses for the year ended 31 December 2002 were:

	UK $m	North America $m	Other $m
Difference between the expected and actual return on pension scheme assets	(240.2)	(33.2)	(1.5)
Percentage of scheme assets	(12)%	(15)%	(14)%
Experience gains and losses on scheme liabilities	(15.0)	3.3	(5.3)
Percentage of scheme liabilities	(1)%	2%	(5)%
Total actuarial gain or loss	(36.0)	(14.1)	(11.1)
Percentage of scheme liabilities	(2)%	(8)%	(10)%

Amounts that would be charged to operating profit under FRS17

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

For the year ended 31 December 2003	UK $m	North America $m	Other $m	Group $m
Current service cost	7.9	3.3	2.5	13.7
Past service cost/(credit)	0.5	–	(0.2)	0.3
Settlements and curtailments	–	–	(0.3)	(0.3)
Total operating charge	8.4	3.3	2.0	13.7

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

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

For the year ended 31 December 2003	UK $m	North America $m	Other $m	Group $m
Expected return on pension scheme assets	110.0	14.6	0.8	125.4
Interest on pension scheme liabilities	(113.8)	(11.3)	(6.7)	(131.8)
Net (cost)/return	(3.8)	3.3	(5.9)	(6.4)

29 Pensions (continued)

(d) FRS17 retirement benefits (continued)

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

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

For the year ended 31 December 2003	UK $m	North America $m	Other $m	Group $m
Difference between the actual return less expected return on pension scheme assets	118.7	26.6	2.3	147.6
Experience gains and losses arising	61.7	(6.2)	(5.2)	50.3
Changes in assumptions	(158.3)	(7.9)	(3.1)	(169.3)
Adjustment due to surplus cap	(6.6)	(34.1)	(0.5)	(41.2)
Total actuarial gain/(loss)	15.5	(21.6)	(6.5)	(12.6)
Related deferred tax movement	(4.8)	8.0	2.1	5.3
Actuarial gain/(loss) to recognise in the statement of total recognised gains and losses	10.7	(13.6)	(4.4)	(7.3)

Financial impact of FRS17

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

	2004 $m	2003 $m
As reported under current accounting policies	**663.2**	829.1
Adjust for amounts stated under current accounting policies:		
Pension fund prepayments (note 15)	**(73.4)**	(68.6)
Pension provision	**125.0**	119.4
Related deferred tax liability	**8.0**	3.0
	722.8	882.9
Adjust for amounts calculated in accordance with FRS17:		
Recoverable surplus less deficits in the schemes	**(176.4)**	(58.4)
Related deferred tax	**(6.3)**	(11.8)
As stated in accordance with FRS17	**540.1**	812.7

The $123.1 million (2003 – $16.4 million) reduction in the Group's net assets would have been reflected in the Group's reserves. The Group's profit and loss account reserve would have been in deficit to $40.8 million (2003 – $110.3 million surplus), instead of $100.4 million (2003 – $56.5 million surplus), and there would have been a deficit on a pension reserve of $182.7 million (2003 – $70.2 million).

30 Related party transactions

There are no individual transactions with related parties which are material to the Group. Related party transactions are as follows:

	Associated companies 2004 $m	Associated companies 2003 $m
Group		
Sales to	**0.9**	0.7
Purchases from	**7.4**	4.9
Other income	**0.4**	2.0
Debtors	**1.4**	1.6
Creditors	**1.3**	0.5

Company

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

Directors

Details of Directors' emoluments and interests in shares of Group companies are included in Note 4 and the Directors' report on pages 10 and 11 respectively.

$1.5 million was lent on 13 January 2004 to the Chairman on that date of Coats Holdings Ltd, Martin 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.

In 1992, the Company, through a subsidiary, acquired a joint interest in a property with Martin Flower on his taking permanent residence in England. The subsidiary's investment was £180,000. Under the Agreement Martin Flower had the option to purchase the Group's interest at market value. The Group's investment was reduced to £75,000 in January 1994 following partial exercise of Martin Flower's option. In 1999, the Company, through a subsidiary, acquired a joint interest in properties with both Jonathan Lea and Bryan Anderson. The subsidiary's investment in both cases was £75,000 and Jonathan Lea and Bryan Anderson had an option to purchase the Group's interest at market value. During the year ended 31 December 2003, all three options were exercised.

31 Notes to the cash flow statement

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

	2004 $m	2003 $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 provisions – closures and reorganisation	**(38.6)**	(26.0)
– operating exceptional items	**(4.5)**	(13.9)
– non-cash asset write downs	**4.6**	–
	(38.5)	(39.9)
Net cash inflow from operating activities	**217.2**	82.5

(b) Analysis of financing cash flows

	2004 $m	2003 $m
Issue of ordinary share capital	**–**	0.5
Issue of shares to minorities	**–**	0.3
	–	0.8
Increase/(decrease) in borrowings: – new short term loans	**24.2**	228.9
– repayment of amounts borrowed	**(303.5)**	(155.5)
– advances from parent company	**121.0**	–
– capital element of finance lease rental payments	**(0.9)**	(2.4)
	(159.2)	71.0
Net cash (outflow)/inflow from financing	**(159.2)**	71.8

(c) Analysis of net debt

	At 1 January 2004	Cash flow	Acquisitions /disposals (excluding cash/ overdrafts)	Other non-cash changes	Exchange	At 31 December 2004
Cash at bank and in hand	**83.4**					**125.3**
Bank overdrafts	**(32.5)**					**(23.0)**
Net cash	**50.9**	**35.9**	**–**	**–**	**15.5**	**102.3**
Short term deposits	**28.3**	**(17.4)**	**–**	**–**	**2.2**	**13.1**
Loans	**(313.0)**	**279.3**	**1.3**	**(0.6)**	**(0.1)**	**(33.1)**
Loans from parent company	**–**	**(121.0)**	**–**	**–**	**2.9**	**(118.1)**
Lease finance	**(1.6)**	**0.9**	**0.4**	**–**	**–**	**(0.3)**
		159.2				
Total	**(235.4)**	**177.7**	**1.7**	**(0.6)**	**20.5**	**(36.1)**

31 Notes to the cash flow statement (continued)

(d) Purchase of subsidiary undertakings

	2004 $m	2003 $m
Tangible fixed assets	**0.1**	2.4
Stocks	**0.3**	2.0
Debtors	**0.2**	1.0
Creditors	**(0.1)**	–
Minority shareholders interests	**–**	8.9
	0.5	14.3
Goodwill	**–**	3.2
Total	**0.5**	17.5
Satisfied by:		
Cash	**1.6**	15.4
Deferred consideration	**–**	2.1
Transfer from deferred consideration	**(1.1)**	–
	0.5	17.5

(e) Sale of subsidiary undertakings

	2004 $m	2003 $m
Tangible fixed assets	**1.7**	21.0
Stock	**9.6**	36.2
Debtors	**4.9**	30.8
Cash at bank and in hand	**0.5**	–
Loans and finance lease obligations	**(1.7)**	–
Creditors	**(6.3)**	(26.9)
Provisions	**4.5**	2.4
Minority interests	**(4.2)**	–
	9.0	63.5
Loss on disposal	**(7.5)**	(71.6)
	1.5	(8.1)
Satisfied by:		
Cash	**2.9**	(6.6)
Transfer from deferred consideration	**(1.4)**	(1.5)
	1.5	(8.1)

(f) Cash flow relating to exceptional items

	2004 $m	2003 $m
Profit on sale of fixed assets	**18.6**	34.4
Book value of fixed assets sold	**24.0**	18.4
Proceeds of sale of fixed assets	**42.6**	52.8
Proceeds/(payments) of sale or termination of operations (note e)	**2.9**	(6.6)

32 Immediate and ultimate parent company

At the beginning of the year the immediate parent of the Group was Coats plc (formerly Coats Holdings plc)). The ultimate parent company was Coats Group Limited, a company incorporated in the British Virgin Islands.

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.

Coats plc prepares consolidated financial statements, which can be obtained from the Company Secretary at 1 The Square, Stockly Park, Uxbridge, Middlesex UB11 1TD.

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.

33 Post balance sheet event

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

Principal subsidiary undertakings

Holding, Finance and Property Companies		Country of incorporation or registration and principal country of operation
*Coats Finance Co. Limited		England
Coats Holdings Investments Limited		England
*Coats Property Management Limited		England
*Tootal Thread Limited		England
*Coats (VH) Limited		England
Coats Deutschland GmbH		Germany
*Coats Patons Limited		Scotland
J. & P. Coats Limited		Scotland
*Coats Invers SLU		Spain
Coats North America Consolidated Inc.		US
Thread		
Coats (UK) Limited		England
Coats Cadena SA		Argentina
Coats Australian Pty Ltd		Australia
Coats Bangladesh Ltd	80%	Bangladesh
Coats Corrente Ltda		Brazil
Coats Canada Inc		Canada
Coats Cadena SA	60%	Chile
Coats Opti Shenzhen Ltd		China
Coats Shenzhen Ltd		China
Guangzhou Coats Limited	90%	China

Thread (continued)		Country of incorporation or registration and principal country of operation
Guangying Spinning Company Limited	50%	China
Jinying Spinning Company Limited	50%	China
Coats Cadena SA		Colombia
Coats France SAS		France
Coats GmbH		Germany
China Thread Development Company Limited		Hong Kong
Coats Hong Kong Limited		Hong Kong
Coats Hungary Limited		Hungary
PT Coats Rejo Indonesia		Indonesia
Madura Coats Private Limited		India
Coats Cucirini SpA	72.8%	Italy
Coats Thread (Malaysia) Sdn Bhd	51%	Malaysia
Grupo Coats Timon SA De C.V		Mexico
Cia de Linha Coats & Clark Lda		Portugal
SC Coats Romania Impex SRL		Romania
Coats South Africa (Pty) Ltd		South Africa
Coats Fabra SA	98.9%	Spain
Coats Thread Lanka (Private) Ltd	86.8%	Sri Lanka
Coats (Turkiye) Iplik Sanayii AS	76.8%	Turkey
Coats American Inc.		US
Coats & Clark Inc.		US
Coats Phong Phu Co Ltd	75%	Vietnam

All the above companies carry on businesses, the consolidated results of which, in the opinion of the Directors, principally affect the amount of the profit or the amount of the assets of the Group. All companies are wholly owned unless otherwise stated; percentage holdings shown represent the ultimate interest of Coats Holdings Ltd.

Companies marked with an asterisk are direct subsidiaries of Coats Holdings Ltd.

Coats Holdings Ltd
1 The Square
Stockley Park
Uxbridge
Middlesex UB11 1TD
Company no. 104998
Tel: +44 (0)20 8210 5000
www.coats.com