

Registered No.: 166534

CV Statuutory Company No. 143

PATONS & BALDWINS LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1998

COUNTRY OF REGISTRATION:

ENGLAND

REGISTERED OFFICE:

P O BOX 31
LEES STREET
SWINTON
MANCHESTER
M27 6DA

DIRECTORS:

C.R. HAVERCROFT
C.W. HEALY
C.J. MERCER
J. STEPHENS

AUDITORS:

DELOITTE & TOUCHE
201 DEANS GATE
MANCHESTER
M60 2AT



SECRETARY:

J. STEPHENS

PATONS & BALDWINS LIMITED

DIRECTORS' REPORT

The Directors present their report and accounts for the year ended 31 December 1998.

RESULTS

The company transferred its business, assets and liabilities to Coats Limited, a Group company, on 1 January 1998.

DIRECTORS

The following persons served as Directors of the Company during the year or were appointed after the year end:-

C.R. Havercroft	
C.W. Healy	(appointed 1 April 1998)
R. Lucherini	(resigned 13 March 1998)
C.J. Mercer	(appointed 9 January 1999)
J. Stephens	(appointed 31 March 1999)
R.M. Swann	(resigned 30 April 1998)
C.J.D. Taylor	(appointed 1 April 1998, resigned 30 October 1998)
K.A. Whittaker	(appointed 1 April 1998, resigned 31 March 1999)

DIRECTORS'
INTERESTS

The Directors have no beneficial interest in the shares of the Company.

The following share options in Coats Viyella Plc have been granted to directors and not exercised:

	Options Granted	Price per Share	Period of Option	Number of Shares
1984 Executive Share Option Scheme	1988 to 1994	103.57p to 256.09p	1999 to 2004	88,951
1994 Executive Share Option Scheme	1994 to 1998	33.75p to 214.50p	1999 to 2008	110,500
Overseas Executive Share Option Scheme	1989 to 1994	103.57p to 256.09p	1999 to 2004	14,962
Coats Viyella Sharesave Scheme	1994 to 1997	110.00p to 183.00p	1999 to 2002	25,360

PATONS & BALDWIN LIMITED

DIRECTORS' REPORT (Continued)

YEAR 2000

The directors have considered the potential effects of Year 2000 issues on the company. As the company has no computer systems and no suppliers, the impact is expected to be negligible and no costs have been, or are expected to be, incurred in order to achieve Year 2000 compliance.

AUDITORS

A resolution for the reappointment of Deloitte & Touche as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

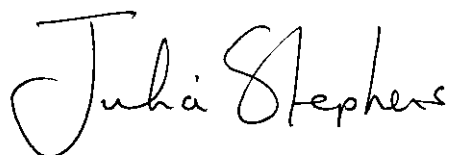
DIRECTORS'
RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company as at the end of the financial period and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time, the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board



PATONS & BALDWINS LIMITED

AUDITORS' REPORT TO THE MEMBERS OF PATONS & BALDWINS LIMITED.

We have audited the financial statements on pages 4 to 19 which have been prepared under the accounting policies set out on pages 7 to 10.

Respective responsibilities of directors and auditors

As described on page 3, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

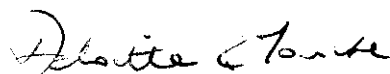
Basis of opinion

We conducted our audit in accordance with 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the 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 the company's affairs as at 31 December 1998 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche
Chartered Accountants and Registered Auditors

23 February 1999

201 Deansgate
Manchester
M60 2AT

1999

PATONS & BALDWIN LIMITED

PROFIT AND LOSS ACCOUNT

For the year ended 31 December 1998

	<u>Notes</u>	31 Dec 1998 £'000	31 Dec 1997 £'000
TURNOVER	1	-	34,252
Cost of Sales		<u>-</u>	<u>(23,088)</u>
Gross profit		-	11,164
Distribution costs		-	(8,177)
Administration expenses		-	(4,397)
Other operating income		<u>-</u>	<u>360</u>
Operating loss		<u>-</u>	<u>(1,050)</u>
Profit on sale of fixed assets		-	164
Loss on ordinary activities before interest		-	(886)
Interest receivable and similar income	5	-	33
Interest payable and similar charges	6	<u>-</u>	<u>(566)</u>
Loss on ordinary activities before taxation		-	(1,419)
Tax on loss on ordinary activities	7	<u>-</u>	<u>(28)</u>
Loss for the financial year transferred to reserves		<u>-</u>	<u>(1,447)</u>

The above results all derive from a discontinued operation.


The company has no recognised gains or losses other than the result for the financial year and the preceding financial year. Accordingly a statement of total recognised gains and losses has not been prepared. Similarly, other than the result for the two years there are no other movements in shareholders' funds.

The notes on pages 10 to 19 form part of these accounts.

PATONS & BALDWINS LIMITED
BALANCE SHEET
At 31 December 1998

	<u>Notes</u>	31 Dec 1998 £'000	31 Dec 1997 £'000
FIXED ASSETS			
Tanbigle assets	8	-	2,511
Investments	9	<u>1,034</u>	<u>1,034</u>
		<u>1,034</u>	<u>3,545</u>
CURRENT ASSETS			
Stocks	10	-	6,070
Debtors	11	7,713	6,600
Cash at bank and in hand		<u>-</u>	<u>181</u>
		<u>8,747</u>	<u>12,851</u>
Less:			
CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR			
Trade creditors		-	2,687
Sundry creditors	12	<u>-</u>	<u>1,328</u>
NET CURRENT ASSETS		7,713	8,836
TOTAL ASSETS LESS CURRENT LIABILITIES		-	12,381
CREDITORS - AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR			
	13	-	(3,426)
PROVISIONS FOR LIABILITIES AND CHARGES	14	<u>-</u>	<u>(208)</u>
NET ASSETS		<u>8,747</u>	<u>8,747</u>
CAPITAL AND RESERVES			
EQUITY SHARE CAPITAL	15	10,768	10,768
SHARE PREMIUM ACCOUNT	16	2,601	2,601
OTHER CAPITAL RESERVE	17	191	191
PROFIT AND LOSS ACCOUNT	18	<u>(4,813)</u>	<u>(4,813)</u>
EQUITY SHAREHOLDERS' FUNDS AND TOTAL SHAREHOLDERS' FUNDS		<u>8,747</u>	<u>8,747</u>

Approved by the Board of Directors on 21/2/2000 and signed on their behalf.


Director

The notes on pages 10 to 19 form part of these accounts.

PATONS & BALDWIN LIMITED

STATEMENT OF ACCOUNTING POLICIES

BASIS OF ACCOUNTING The financial statements are prepared on the basis of historical cost and in accordance with applicable accounting standards.

FOREIGN CURRENCIES Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the period end. Profits and losses on exchange arising in the normal course of trading and realised exchange differences arising on the conversion 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 are taken direct to reserves.

GRANTS Revenue based grants are credited against related expenditure. Investment and development grants receivable are credited to the profit and loss account over the useful lives of the related fixed assets.

TAXATION Coats Viyella Plc has assumed the responsibility for discharging any liability for United Kingdom corporation tax, current or deferred, for account periods during which the Company remains a member of the Coats Viyella Group. The Directors have received assurances that:

- 1) there is no intention to revoke the undertaking to discharge the taxation liabilities of the Company for those periods, and
- 2) full provision for deferred taxation has been made by Coats Viyella Plc in respect of the Company.

**TANGIBLE FIXED ASSETS
AND DEPRECIATION**

Tangible fixed assets are stated at cost less accumulated depreciation and, where appropriate, provision for estimated losses on disposal.

Depreciation is provided to write off the cost of the assets by equal instalments over their expected useful lives.

The rates used are:

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

PATONS & BALDWINS LIMITED

STATEMENT OF ACCOUNTING POLICIES (Continued)

INVESTMENTS IN
SUBSIDIARY
UNDERTAKINGS

Investments in subsidiary undertakings are stated at cost of acquisition together with the amount of any loans advanced to those undertakings.

Where, in the opinion of the directors, there has been an impairment in the value of the investments, appropriate provisions are made and charged to the profit and loss account.

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.

RESEARCH AND
DEVELOPMENT
EXPENDITURE

Expenditure is charged to profit and loss account in the year in which it is incurred.

FINANCE LEASES

Assets held under finance leases are capitalised at their fair values on the inception of the lease and depreciated over their useful economic lives. The finance charges are allocated over the period of the lease in proportion to the capital amount outstanding.

OPERATING LEASE
RENTALS

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

TURNOVER

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

PATONS AND BALDWIN LIMITED

STATEMENT OF ACCOUNTING POLICIES (Continued)

PENSIONS

The company is a member of the Coats Viyella group pension scheme. The Coats Viyella Group operates contributory defined benefit pension schemes covering a large proportion of its permanent staff employees. The schemes' funds are administered by trustees and are independent of the Group's finances. Contributions are paid to the schemes in accordance with the recommendations of independent actuaries whose reports are compiled every three years. The company's contributions are charged against profits for the period to which they relate.

Details of the actuarial valuation of the group scheme at 31 December 1998 are included in the accounts of Coats Viyella Plc.

REPORTING THE
SUBSTANCE OF
TRANSACTIONS

In accordance with FRS 5, transactions entered into by the Group are recorded in the financial statements, taking into account their full commercial substance.

PATONS AND BALDWINS LIMITED

NOTES TO THE ACCOUNTS

1. TURNOVER AND LOSS

The turnover, loss before taxation and net assets arise in the United Kingdom from the company's principal activity of production and sale of handknitting yarns and handicrafts products and the sale of sewing and haberdashery products.

The analysis of turnover by geographical destination is:-

	31 Dec 1998 £'000	31 Dec 1997 £'000
United Kingdom	-	23,951
Europe	-	8,649
North America	-	399
South America	-	19
Africa, Asia & Australia	-	<u>1,234</u>
	-	<u>34,252</u>

31 Dec 1998 £'000	31 Dec 1997 £'000
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2. OPERATING LOSS

is stated after charging:

Depreciation on owned assets	-	486
Depreciation on assets held under finance leases	-	135
Hire of plant and machinery	-	12
Other operating lease rentals	-	1,063
Directors' remuneration (Note 3)	-	181
Auditors' remuneration - Audit fees	-	26
Research and development expenditure	-	222
Reorganisation costs	-	<u>936</u>

after crediting other
operating income:

Royalties and licensing income	-	360
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PATONS & BALDWIN LIMITED

NOTES TO THE ACCOUNTS (Continued)

		31 Dec 1998 £'000	31 Dec 1997 £'000
3. DIRECTORS' EMOLUMENTS	Aggregate emoluments	<u>-</u>	<u>150</u>
	Number of directors accruing benefits under:-	No.	No.
	Defined benefit schemes	-	3
4. EMPLOYEES		31 Dec 1998 <u>Number</u>	31 Dec 1997 <u>Number</u>
	The average numbers employed by the company during the year were:		
	Direct	-	242
	Indirect	-	130
	Staff	<u>-</u>	<u>319</u>
		<u>-</u>	<u>691</u>
	The costs incurred in respect of these employees were:	£'000	£'000
	Wages and salaries	-	8,244
	Social security costs	-	524
	Other pension costs (Note 22)	<u>-</u>	<u>504</u>
		<u>-</u>	<u>9,272</u>

PATONS & BALDWINS LIMITED

NOTES TO THE ACCOUNTS (Continued)

	31 Dec 1998 £'000	31 Dec 1997 £'000
5. INTEREST RECEIVABLE AND SIMILAR INCOME		
Interest receivable	-	13
Release of Government Grants	<u>-</u>	<u>20</u>
	<u>-</u>	<u>33</u>
6. INTEREST PAYABLE AND SIMILAR CHARGES		
Bank overdraft and other borrowings	-	81
Finance leases	-	76
Group companies	<u>-</u>	<u>409</u>
	<u>-</u>	<u>566</u>
The above includes interest on borrowings not repayable in full within five years of	<u>-</u>	<u>409</u>
7. TAX ON PROFIT ON ORDINARY ACTIVITIES		
UK taxation based on loss for the year:		
Overseas taxation	<u>-</u>	<u>28</u>

No charge to United Kingdom taxation has been provided in the results of the year. No overseas taxation has been provided on overseas income other than withholding taxes shown above suffered on remittance of dividends, etc. Any United Kingdom corporation tax liability which may arise and is not eliminated by the offset of double taxation relief and the receipt of group relief and/or advance corporation tax, for neither of which payment will be made, will be discharged by Coats Viyella Plc.

PATONS & BALDWINS LIMITED

NOTES TO THE ACCOUNTS (Continued)

8. TANGIBLE ASSETS

	Land and Buildings £'000	Plant Machinery & Vehicles £'000	Capitalised Finance Leases £'000	Total £'000
a) COST				
At 1 January 1998	2,000	6,476	6,797	15,273
Group transfers	<u>(2,000)</u>	<u>(6,476)</u>	<u>(6,797)</u>	<u>(15,273)</u>
At 31 December 1998	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
DEPRECIATION				
At 1 January 1998	1,187	5,008	6,567	12,762
Group transfers	<u>(1,187)</u>	<u>(5,008)</u>	<u>(6,567)</u>	<u>(12,762)</u>
At 31 December 1998	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET BOOK VALUE				
At 31 December 1998	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 31 December 1997	<u>813</u>	<u>1,468</u>	<u>230</u>	<u>2,511</u>
			1998 £'000	1997 £'000
b) LAND AND BUILDINGS				
Cost				
Freehold			-	1,888
Short Leasehold			<u>-</u>	<u>122</u>
			<u>-</u>	<u>2,000</u>
Accumulated depreciation				
Freehold			-	1,179
Short Leasehold			<u>-</u>	<u>8</u>
			<u>-</u>	<u>1,187</u>

On 1 January 1998 the company transferred its fixed assets to Coats Limited, a Group company.

PATONS & BALDWIN LIMITED

NOTES TO THE ACCOUNTS (Continued)

9. INVESTMENTS

	Total £'000
COST	
At 31 December 1998 & 31 December 1997	<u>1,136</u>
PROVISIONS	
At 31 December 1998 & 31 December 1997	<u>102</u>
NET BOOK VALUE	
At 31 December 1997	<u>1,034</u>
At 31 December 1998	<u>1,034</u>

Principal subsidiary undertakings transferred to Coats Limited, a Group company were:

	Country of Registration	Class of Share	Proportion held
Coats Patons Crafts Ltd	England	Original	100%
L. Copley-Smith & Sons Ltd	England	Original	100%
Jaeger Handknitting Ltd	England	Original	100%

		31 Dec 1998 £'000	31 Dec 1997 £'000
10. STOCKS	Raw materials and consumables	-	658
	Work in progress	-	1,308
	Finished goods and goods for sale	<u>-</u>	<u>4,104</u>
		<u>-</u>	<u>6,070</u>

PATONS AND BALDWIN LIMITED
NOTES TO THE ACCOUNTS (Continued)

	31 Dec 1998 £'000	31 Dec 1997 £'000
11. DEBTORS		
Trade debtors	-	3,616
Amounts owed by parent and fellow subsidiary undertakings	-	2,179
Other debtors	-	655
Prepayments and accrued income	<u>-</u>	<u>150</u>
	<u>-</u>	<u>6,600</u>
Debtors include amounts due in more than one year of		
Amounts owed by parent and fellow subsidiary undertakings	<u>7,713</u>	<u>1,635</u>
	31 Dec 1998 £'000	31 Dec 1997 £'000
12. SUNDRY CREDITORS (Amounts falling due within one year)		
Amounts owed to parent and fellow subsidiary undertakings	-	383
Other creditors	-	2
Other taxation and social security	-	824
Accruals and deferred income	-	75
Finance lease obligations	<u>-</u>	<u>44</u>
	<u>-</u>	<u>1,328</u>
	31 Dec 1998 £'000	31 Dec 1997 £'000
13. CREDITORS (Amounts falling due after more than one year)		
Amounts owed to parent and fellow subsidiary undertakings	-	2,168
Amounts owed to subsidiary undertakings	-	1,185
Finance lease obligations	<u>-</u>	<u>73</u>
	<u>-</u>	<u>3,426</u>
The amounts owed to group companies have no specified dates of repayment.		

PATONS & BALDWIN LIMITED

NOTES TO THE ACCOUNTS (Continued)

	31 Dec 1998 £'000	31 Dec 1997 £'000
13. CREDITORS		
(Amounts falling due after more than one year)		
Continued		
Finance lease obligations are repayable as follows:-		
Under one year	-	44
Between 1 and 2 years inclusive	-	30
Between 2 and 5 years inclusive	-	43
In over 5 years	-	-
	-	<u>117</u>
	31 Dec 1998 £'000	31 Dec 1997 £'000
14. PROVISIONS FOR LIABILITIES AND CHARGES		
Deferred taxation	-	-
Other provisions	-	<u>208</u>
	-	<u>208</u>

In the opinion of the directors, any deferred taxation liability is either so remote or immaterial that it is unnecessary to provide for such deferred tax. If, however, such a liability were to arise then it would be discharged by Coats Viyella Plc the ultimate parent company.

The potential liability deferred taxation calculated at 31% is as follows:-

	31 Dec 1998 £'000	31 Dec 1997 £'000
Capital allowances	-	97
Other timing differences less losses forward	-	<u>(6)</u>
	-	91
Advance corporation tax	-	<u>(91)</u>
	-	-
Unrecovered ACT of	-	<u>2,124</u>

PATONS AND BALDWIN LIMITED

NOTES TO THE ACCOUNTS (Continued)

		31 Dec 1998 £'000	31 Dec 1997 £'000	
14. PROVISIONS FOR LIABILITIES AND CHARGES (Continued)	OTHER PROVISIONS			
	Closures and reorganisation			
	At 1 January	208	64	
	Provided	-	936	
	Utilised	-	(792)	
	Transferred	<u>(208)</u>	<u>-</u>	
	At 31 December	<u>-</u>	<u>208</u>	
15. CALLED UP SHARE CAPITAL				
			ALLOTTED, ISSUED AND FULLY PAID	
	AUTHORISED			
	31 Dec 1998 £'000	31 Dec 1997 £'000	31 Dec 1998 £'000	31 Dec 1997 £'000
	<u>Equity share capital</u>			
	Ordinary shares			
	of £1 each			
	<u>12,000</u>	<u>12,000</u>	<u>10,768</u>	<u>10,768</u>
				£'000
16. SHARE PREMIUM ACCOUNT	At 31 December 1998 and 31 December 1997			<u>2,601</u>
17. OTHER CAPITAL RESERVE	At 31 December 1998 and 31 December 1997			<u>191</u>
18. PROFIT AND LOSS ACCOUNT	At 31 December 1998 and 31 December 1997			<u>(4,813)</u>

PATONS AND BALDWIN LIMITED

NOTES TO THE ACCOUNTS (Continued)

		31 Dec 1998 £'000	31 Dec 1997 £'000
19. FUTURE CAPITAL EXPENDITURE	Contracted but not provided for	-	-
	Authorised but not contracted for	<u>-</u>	<u>154</u>
		<u>-</u>	<u>154</u>

20. CONTINGENT
LIABILITIES AND
FINANCIAL
OBLIGATIONSOperating Lease Rentals

The committed amounts
payable during next year
are as follows:

Leases of land and
buildings expiring:-

Within one year	-	18
Within 2 to 5 years	-	510
Over 5 years	<u>-</u>	<u>44</u>
	<u>-</u>	<u>572</u>

Other operating leases expiring:-

Within one year	-	97
Within 2 to 5 years	<u>-</u>	<u>156</u>
	<u>-</u>	<u>253</u>

21. ULTIMATE PARENT
COMPANY

The company's ultimate parent company is Coats Viyella Plc, a company incorporated in England and Wales. Copies of the Group financial statements are available from the parent company's registered office at 2 Foubert's Place, London.

PATONS AND BALDWINS LIMITED

NOTES TO THE ACCOUNTS (Continued)

22. PENSIONS

The company is a member of the Coats Viyella Group pension scheme. The Coats Viyella Group operates defined benefits contributory pension schemes which cover a large proportion of the company's permanent staff employees.

The full regular cost of providing benefits to the company's members of the group pension scheme is charged in these accounts. In the opinion of the directors, variations from regular cost cannot be accurately allocated on a company by company basis and, accordingly, the group variations are dealt with on a group basis in the accounts of Vantona Viyella Limited, a wholly owned subsidiary of Coats Viyella plc.

Details of the actuarial valuation of the Group schemes and the treatment of the actuarial surplus are given in the accounts of Coats Viyella Plc.

23. RELATED PARTY
TRANSACTIONS

The company is a subsidiary undertaking within the Coats Viyella Group, 90% or more of its voting rights are controlled within the Group, and the Group's consolidated financial statements are publicly available. In accordance with FRS 8, therefore, disclosure is not required of transactions with entities that are part of the Group or investees of the Group qualifying as related parties.