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COPY
CNL-010/5:

10 June 1991

Mr Neville C B.
Group Chief Executive
Coats Viyella
28 Savile Row
London W1X 2DD

Hi Adrian

Copy for your retention as requested.

Dear Neville

I have ordered a loan copy of the Phillips
and Drew report from the library (not worth

I did want to
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saw some quite
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buying at £250 for 16 pages!)
N

the success of the bid is good news. You have plenty of
experience of what to do next!

What is particularly helpful about your letter is that you
have put forward specific points. I go along with all of your
comments under the first heading, although I do not, as yet,
know where the sympathies of my fellow members of the Working
Party lie.

Your points on the Annual Report were just what I had hoped
for. We need that kind of informed criticism if we are to
make any progress with those who would rather leave matters
as they are. I have a feeling that we will have more support
over reforming the Report and Accounts than over your
suggested rules for non-executive directors.

It will not be until I get the Committee together next month
that I will know precisely what our scope will be and how
much will there be to bring about change. I may well
take you up on your offer of a talk when I have some idea how
our report will be shaping.

With very best wishes to you and to Anni.
Adrian.

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COPY
CAD-01045

10 June 1991

Mr Neville C Bain
Group Chief Executive
Coats Viyella plc
28 Savile Row
London W1X 2DD

Dear Neville,

I did want to write to say how delighted I was to have your letter. I had been meaning to write to you in any case when I saw some quite unfair personal comments which emerged during the bid. I hope that you have not let them discourage you and the success of the bid is good news. You have plenty of experience of what to do next!

What is particularly helpful about your letter is that you have put forward specific points. I go along with all of your comments under the first heading, although I do not, as yet, know where the sympathies of my fellow members of the Working Party lie.

Your points on the Annual Report were just what I had hoped for. We need that kind of informed criticism if we are to make any progress with those who would rather leave matters as they are. I have a feeling that we will have more support over reforming the Report and Accounts than over your suggested rules for non-executive directors.

It will not be until I get the Committee together next month that I will know precisely what our scope will be and how much will there be to bring about change. I may well take you up on your offer of a talk when I have some idea how our report will be shaping.

With very best wishes to you and to Ann.
Adrian.

From Neville C Bain
Group Chief Executive

3rd June 1991

COATS

VIYELLA

Personal

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Dear Adrian

I am delighted that you are chairing the Group to examine "Corporate Governance - relations and communications between Boards and Shareholders". You also have a powerful membership of your working party but, despite this, I felt I would like to make one or two points which I hope might be helpful.

1. As background it is important to emphasise again "best practice" on Board composition. I know you are well versed in this but it is important to underscore:
 - Board composition with a balance of capable non-executive directors who are competent and independent and have the time to allocate to the role.
 - Ideally ensure that Chairman and Chief Executive roles are split to ensure some counter balancing power.
 - Have mandatory Audit Committees and Compensation Committees made up of non-executive directors.
 - Balance of skills and experience are vital and recruitment of non-executive directors should be professionally carried out with outside advice (ProNed or head hunters). No grace and favour appointments to enhance the old boy network.
 - Ensure fixed terms for non-executive directors with annual counselling/reviews by the Chairman.
2. The main written regular communication with shareholders is the Annual Report, then the Interim Statement at the half year. I know you have Ron Dearing on your committee and he, along with your other specialist advisors, will have views on the detail that should be presented. I will therefore confine my comments to some more general (but equally relevant!!) points.

continued

"Accounting
for
Growth"

- i) The P&L account is in disarray through charlatan practices of accountants who bend the rules and the loopholes in UK GAAP to present rosy coloured results that in truth are neither true nor fair. This is well documented in the Phillips & Drew report in January of this year which I am sure you have seen. I can talk passionately about Tootal's improper accounting. The typical response is to blame the auditors, sue them if you can, and absolve the Board of responsibility. In fact, the Board is the primary culprit and I believe actions should be taken against individual directors, not the auditors.
 - ii) Annual Reports should give greater emphasis to cash flow statements, especially highlighting operational cash flow (OCF). A key ratio would be OCF% to sales, while movements in reserves should have explicit clarity and explanation as part of the Directors report and not buried as a note in the accounts.
 - iii) The Audit Committee should be required to review the accounts and be specifically required to confirm that the accounts reflect the "essence of results" for the year and that in their view there are no additional significant facts which should be publicised to shareholders to give them a full understanding of the results for the year. The Audit Committee should be required to interview key executive directors individually to elicit their confirmation of key, salient points.
3. Some non-executive directors cannot possibly exercise proper stewardship in their role due to age (over 70) or the number of directorships they hold (e.g. Roland Smith?!) Guidelines should be set down e.g.
- Any director with a full time executive role not to accept more than 2 non-executive posts and no chairmanships.
 - No more than 2 chairmanships or 5 non-executive appointments.
 - Then on the annual report a statement of all directorships should be given, which should be publicised when directors are reappointed at the AGM and I would suggest a maximum term of 3 years before retiring by rotation.
 - Clearly the corollary of this is that companies must pay properly and demand value for money.

I would of course be happy to discuss any of this with you if you wish but I expect you, with your wide experience, will find little of novel value here.

You will notice we have succeeded with the Tootal bid after a long and difficult battle. It is easy to buy something but more of a challenge to deliver the benefits I have promised!

I hope Jill is well and Anni and I send you both our best wishes.

Warmest best wishes,

Neville

Neville C Bain

NCB/sm