

Registered No: 2591134

Coats Statutory Company No: 05

COATS FINANCE CO LTD

REPORT AND ACCOUNTS FOR THE YEAR ENDED

31 DECEMBER 2005

COUNTRY OF REGISTRATION: ENGLAND

REGISTERED OFFICE: 1 THE SQUARE
STOCKLEY PARK
UXBRIDGE
MIDDLESEX
UB11 1TD

DIRECTORS: G J C ALDRIDGE
R BEVAN
M J SMITHYMAN

SECRETARY: G J C ALDRIDGE
C A GIBSON

AUDITORS: DELOITTE & TOUCHE LLP
LONDON



COATS FINANCE CO LTD

DIRECTORS' REPORT

The directors present their report and accounts for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The company acted as a financial trading company during the year ended 31 December 2005.

**REVIEW OF BUSINESS
RESULTS AND FUTURE
PROSPECTS**

Results for the year are shown in the profit and loss account on page 6.

Preference dividends of \$4.0m (2004: \$4.1m) have been paid. No interim dividends were paid on the ordinary shares during the year (2004: Nil). The directors do not recommend the payment of a final dividend on the ordinary shares (2004: \$Nil). The retained profit of \$11.6m (2004: \$10.5m) has been transferred to reserves.

No changes in the business are expected in the foreseeable future.

DIRECTORS

The following persons served as directors of the company throughout the year:

G J C Aldridge
R Bevan
M J Smithyman

DIRECTORS' INTERESTS

None of the directors have any beneficial interest in the shares of this company. Mr Smithyman holds 'B' shares in the immediate parent company, Coats plc and has an interest in the shares of the ultimate parent company, Guinness Peat Group plc, and its subsidiaries, details of which are shown in the accounts of Coats plc. Mr Bevan holds 'A' shares in the immediate parent, Coats plc, which were allotted to him on 22 March 2005, details of which are shown in the accounts of J. & P. Coats Limited, a fellow subsidiary undertaking.

AUDITORS

Elective resolutions to dispense with holding annual general meetings, the laying of accounts before the company in general meeting and the appointment of auditors annually are currently in force. The auditors, Deloitte and Touche LLP, will therefore be deemed to have been reappointed at the end of the period of 28 days beginning with the day on which copies of this report and accounts are sent to members unless a resolution as passed under section 393 of the Companies Act 1985 to the effect that their appointment is brought to an end.

COATS FINANCE CO LTD**DIRECTORS' REPORT (Continued)****DIRECTORS'
RESPONSIBILITIES**

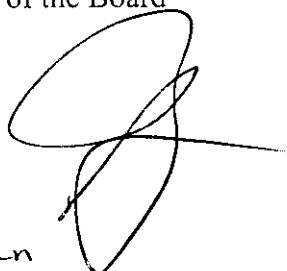
United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, 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; and
- 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 1985. They are also responsible for the system of internal control, 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

Director
R. Bevan



28 APRIL 2006

COATS FINANCE CO LTD**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF COATS FINANCE CO LIMITED**

We have audited the financial statements of Coats Finance Co Limited for the year ended 31 December 2005 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses, the reconciliation of movements in shareholders' funds and the related notes 1 to 16. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

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 United Kingdom Accounting Standards (Generally Accepted Accounting Practice).

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

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with the relevant financial reporting framework and are properly prepared in accordance with the Companies Act 1985. We also report to you 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 the information specified by law regarding directors' remuneration and transactions with the Company is not disclosed.

We read the directors' report for the above year 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 International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the 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 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.

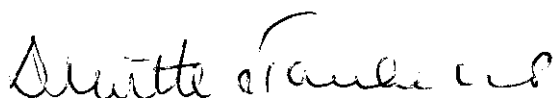
COATS FINANCE CO LTD

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF COATS FINANCE
CO LIMITED (continued)**

Opinion

In our opinion:

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



Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
London

28 APRIL 2006

COATS FINANCE CO LTD**PROFIT AND LOSS ACCOUNT**
Year ended 31 December 2005

	Notes	2005 \$'000	2004 \$'000
Other operating expense		<u>(381)</u>	<u>(456)</u>
OPERATING LOSS		(381)	(456)
Interest receivable and similar income	5	22,535	22,868
Interest payable and similar charges	6	<u>(9,680)</u>	<u>(6,950)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	3	12,474	15,462
Tax on profit on ordinary activities	7	<u>(880)</u>	<u>(871)</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		11,594	14,591
Preference dividends payable on non-equity shares	8	<u>-</u>	<u>(4,059)</u>
RETAINED PROFIT FOR THE FINANCIAL YEAR	13	<u>11,594</u>	<u>10,532</u>

The above results derive solely from continuing operations.

The notes on page 8 to 14 form part of these accounts.

COATS FINANCE CO LTD**BALANCE SHEET at 31 December 2005**

	Notes	2005 \$'000	2004 \$'000
CURRENT ASSETS			
DEBTORS - due within one year	9	351,184	237,187
- due after more than one year	9	428,900	558,152
CASH AT BANK AND IN HAND		6,567	10
		<u>786,651</u>	<u>795,349</u>
CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR	10	<u>(314,914)</u>	<u>(206,037)</u>
NET CURRENT ASSETS		471,737	589,312
CREDITORS - AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	11	<u>(420,052)</u>	<u>(423,921)</u>
NET ASSETS		<u>51,685</u>	<u>165,391</u>
CAPITAL AND RESERVES			
SHARE CAPITAL	12	895	126,195
PROFIT AND LOSS ACCOUNT	13	<u>50,790</u>	<u>39,196</u>
TOTAL SHAREHOLDERS' FUNDS		<u>51,685</u>	<u>165,391</u>
EQUITY SHAREHOLDERS' FUNDS		51,685	40,091
NON-EQUITY SHAREHOLDERS' FUNDS		<u>-</u>	<u>125,300</u>
		<u>51,685</u>	<u>165,391</u>

These financial statements were approved by the Directors on 28 APRIL 2006

Director

R. Bevan

The notes on pages 9 to 15 form part of these accounts.

COATS FINANCE CO LTD**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**
Year ended 31 December 2005

	Notes	2005 \$'000	2004 \$'000
Profit for the financial year	13	11,594	10,532
Foreign exchange difference	13	-	10,968
Total recognised gains relating to the year		<u>11,594</u>	<u>21,500</u>

RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS
Year ended 31 December 2005

	Notes	2005 \$'000	2004 \$'000
Profit for the financial year	13	11,594	10,532
Other recognised gains	13	-	10,968
Net movement in shareholders' funds		<u>11,594</u>	<u>21,500</u>
Opening shareholders' funds as restated (see below)		<u>40,091</u>	<u>143,891</u>
Closing shareholders' funds		<u>51,685</u>	<u>165,391</u>

Note:

Opening shareholders' funds previously reported	165,391
Transitional adjustment on adoption of FRS25 at 1 January 2005	(125,300)
Opening shareholders' funds as restated at 1 January 2005	<u>40,091</u>

The notes on pages 8 to 14 form part of these accounts.

COATS FINANCE CO LTD
YEAR ENDED 31 DECEMBER 2005

NOTES TO THE ACCOUNTS

1. STATEMENT OF ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The accounts are prepared on the basis of historical cost and in accordance with applicable United Kingdom accounting standards.

The Company's accounting policies are unchanged from the year ended 31 December 2004, except for:

The presentation of certain financial liabilities in accordance with FRS25 "Financial Instruments: Disclosure and Presentation", which the Company adopted from 1 January 2005. The Company has used the exemption available under FRS25, not to restate the comparative information. The main changes would be to reclassify preference share capital as debt, and to reclassify preference share dividend as interest payable.

TAXATION

Coats Holdings Limited has assumed the responsibility for discharging any liability for United Kingdom corporation tax, current or deferred, for accounting periods during which the company remains a member of the Coats Group. The directors have received assurances that:

- (i) there is no intention to revoke the undertaking to discharge the taxation liabilities of the company for those periods, and
- (ii) full provision for deferred taxation has been made by Coats Holdings Limited in respect of the company.

COATS FINANCE CO LTD
YEAR ENDED 31 DECEMBER 2005

NOTES TO THE ACCOUNTS (Continued)

1. STATEMENT OF ACCOUNTING POLICIES (continued)

CASH FLOW STATEMENT The company is a wholly owned subsidiary undertaking of Guinness Peat Group plc. The company has therefore taken the advantage of the exemption under FRS1 of not producing its own cash flow statement as a consolidated cash flow statement has been included in the consolidated financial statements of Guinness Peat Group plc.

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. 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.

**2. TRANSITIONAL
ADJUSTMENT ON
ADOPTION OF FRS25**

In accordance with UK accounting standards as at 31 December 2004, the Company's preference shares were classified as part of equity shareholder's funds in the Company's balance sheet.

The Company adopted FRS25 "Financial Instruments: Disclosure and Presentation" as at 1 January 2005, in accordance with which the preference shares have been presented wholly as debt due after more than one year and the preference share dividends presented as interest payable.

The current year impact of the change in accounting policy is to increase net liabilities due after more than one year by \$125,300,000 and to reduce the non-equity share capital by an equal and opposite amount. The impact on the profit and loss account for the year ended 31 December 2005 is to increase interest payable by \$3,995,000 and to decrease the dividends paid to non-equity shareholders by the same amount.

COATS FINANCE CO LTD
YEAR ENDED 31 DECEMBER 2005

NOTES TO THE ACCOUNTS (Continued)

**3. PROFIT ON ORDINARY
ACTIVITIES**

The profit and net assets arise in the United Kingdom from the principal activity of financial trading.

**4. DIRECTORS' AND
AUDITOR'S
REMUNERATION**

No director received any remuneration for their services to the company (2004: \$Nil). The company had no employees during the year (2004: \$Nil).

The audit fee was borne by J & P Coats Limited, a fellow subsidiary undertaking in the current and prior year.

		2005	2004
		\$'000	\$'000
5. INTEREST RECEIVABLE AND SIMILAR INCOME			
	Group undertakings	20,398	22,747
	Bank interest	62	121
	Foreign currency gains	2,075	-
		22,535	22,868
		=====	=====
6. INTEREST PAYABLE AND SIMILAR CHARGES			
	Group undertakings	8,585	3,645
	Bank and loan interest	1,095	1,943
	Swap/FRA terminations	-	1,166
	Foreign currency losses	-	196
		9,680	6,950
		=====	=====

COATS FINANCE CO LTD
YEAR ENDED 31 DECEMBER 2005

NOTES TO THE ACCOUNTS (Continued)

**7. TAX ON PROFIT ON
ORDINARY ACTIVITIES**

	2005 \$'000	2004 \$'000
UK Corporation tax at 30%	880	871
Double tax relief	(880)	(871)
	<u>880</u>	<u>871</u>

The standard rate of current tax for the year, based on UK standard rate of corporation tax, is 30% (2004 – 30%). The current tax charge for the year is lower than 30% for the reasons set out in the following reconciliation:

	2005 \$'000	2004 \$'000
Profit on ordinary activities before tax	12,474	15,462
Tax on profit on ordinary activities at standard rate	3,742	4,638
Adjusted for :		
Double tax relief	(880)	(871)
Group relief received from group companies for nil consideration	(2,862)	(3,767)
Withholding tax	880	871
	<u>880</u>	<u>871</u>

Any United Kingdom liability which may arise and is not eliminated by the offset of double taxation relief nor group relief, for neither of which payment will be made, will be discharged by Coats Holdings Limited. No overseas taxation has been provided on overseas income other than withholding taxes shown above suffered on remittance of interest.

	2005 \$'000	2004 \$'000
8. PREFERENCE DIVIDENDS		
1997 Redeemable Preference shares	-	4,059
	<u>-</u>	<u>4,059</u>

COATS FINANCE CO LTD
YEAR ENDED 31 DECEMBER 2005

NOTES TO THE ACCOUNTS (Continued)

		2005 \$'000	2004 \$'000
9. DEBTORS	Debtors due within one year:		
	Other debtors	39,526	47,386
	Amounts owed by the parent company and fellow subsidiary undertakings	311,658	189,801
		<u>351,184</u>	<u>237,187</u>
	Debtors due after one year:		
	Amounts owed by fellow subsidiary undertakings	428,900	558,152
		<u>428,900</u>	<u>558,152</u>
10. CREDITORS			
(Amounts falling due within one year)	Bank loans and overdrafts	52,779	71,866
	Amounts owed to the parent company and fellow subsidiary undertakings	262,135	134,008
	Other creditors	-	163
		<u>314,914</u>	<u>206,037</u>
11. CREDITORS			
(Amounts falling due after more than one year)	Amounts owed to the parent company and fellow subsidiary undertakings	294,752	423,921
	Preference shares held by parent undertaking	125,300	-
		<u>420,052</u>	<u>423,921</u>
	The amounts owing to parent company and fellow subsidiaries have no specified dates of repayment but are only repayable on receipt of twelve months' notice. See note 12 for details of repayment of preference shares.		

COATS FINANCE CO LTD
YEAR ENDED 31 DECEMBER 2005

NOTES TO THE ACCOUNTS (Continued)

12. SHARE CAPITAL

	AUTHORISED		ALLOTTED CALLED UP AND FULLY PAID	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
<u>Equity share capital</u>				
Ordinary shares of £1 each	895	895	895	895
<u>Non-equity share capital</u>				
1995 6.058% Redeemable Preference Shares of £1 each	-	89,500	-	-
1996 4.447% Redeemable Preference Shares of £1 each	-	89,500	-	-
1997 Redeemable Preference Shares of £500,000 each	-	125,300	-	125,300
Fixed Rate Redeemable Preference Shares of £1 each	-	268,500	-	-
	895	573,695	895	126,195

On a winding-up of the assets of the company there will be a repayment to the holders of the Preference Shares of the amounts paid up or credited as paid up on the Preference Shares held by them respectively and the balance of such assets belong to the holders of the Ordinary Shares.

Preference shareholders have the right to receive notice and attend but not speak or vote at the General Meetings.

The Preference Shares, at the election of any registered holder of Preference Shares in respect of the whole of the holding on any day up to the fifth anniversary of issue, may be redeemed equal to the amount paid up or credited as paid up on each share together with any accrual and unpaid dividends thereon.

In accordance with FRS25 these are presented as debt from 1 January 2005.

COATS FINANCE CO LTD
YEAR ENDED 31 DECEMBER 2005

NOTES TO THE ACCOUNTS (Continued)

		\$'000
13. PROFIT AND LOSS ACCOUNT		
	At 1 January 2005	39,196
	Retained profit for the year	11,594
		<hr/>
	At 31 December 2005	50,790
		<hr/>

14. ULTIMATE PARENT COMPANY

Guinness Peat Group plc, a company incorporated in England and Wales, is the ultimate parent company and controlling party. The consolidated accounts for this company can be obtained from its registered office at First Floor, Times Place, 45 Pall Mall, London SW1Y 5GP.

The smallest group for which consolidated accounts are prepared is Coats plc, a company incorporated in England and Wales. Copies of its accounts are available from the company's registered office, 1 The Square, Stockley Park, Uxbridge, Middlesex UB11 1TD.

15. RELATED PARTY TRANSACTIONS

The Company is a subsidiary undertaking of Guinness Peat Group plc, 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.

16. CONTINGENT LIABILITIES AND FINANCIAL OBLIGATIONS

As at 31 December 2005, \$344.2m (2004: \$486.4m) of Coats plc (intermediate parent company) banking facilities are secured on the assets of certain of its subsidiaries including Coats Finance Co Ltd. The security provided comprises both fixed and floating charges.