

**Registered No: 2591134**

**Coats Statutory Company No: 05**

**COATS FINANCE CO. LIMITED**  
**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

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## **COATS FINANCE CO. LIMITED**

### **DIRECTORS' REPORT**

The directors present their report and accounts for the year ended 31 December 2006.

### **PRINCIPAL ACTIVITIES**

The principal activity of the company during the year continued to be that of a financial trading company

### **BUSINESS REVIEW**

Results for the year are shown in the profit and loss account on page 7 The balance sheet of the company is shown on page 8

An interim dividend of \$50 8m was declared and paid on the ordinary shares during the year (2005. \$Nil). The directors do not recommend the payment of a final dividend on the ordinary shares (2005 \$Nil)

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

### **PRINCIPAL RISKS AND UNCERTAINTIES**

From the perspective of the company, the principal risks and uncertainties are integrated with the principal risks of the Coats plc group and are not managed separately. Accordingly, the principal risks and uncertainties of Coats plc, which include those of the company, are discussed in Coats plc's annual report which does not form part of this report.

### **DIRECTORS**

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

R Bevan  
M J Smithyman  
G J C Aldridge (resigned 16 August 2006)

### **SECRETARY**

At the date of this report, the company secretary is Coats Patons Limited.

### **DIRECTORS' INTERESTS**

None of the directors have any beneficial interest in the shares of the company Mr Smithyman holds 'B' shares in the intermediate parent company, Coats plc and has an interest in the shares of the ultimate parent company, Guinness Peat Group plc, details of which are shown in the accounts of Coats plc Mr Bevan holds 'A' shares in Coats plc, details of which are shown in the accounts of J & P. Coats Limited, a fellow subsidiary undertaking.

## **COATS FINANCE CO. LIMITED**

### **DIRECTORS' REPORT (Continued)**

#### **FINANCIAL RISK MANAGEMENT**

The company's treasury policy is determined by the Board of Directors of Coats plc who govern the management of financial risks within the Coats plc group. In accordance with this policy, the financial risk exposures are actively monitored and the use of financial instruments, such as derivatives, is permitted. However, under the treasury policy speculative transactions are not permitted.

#### **LIQUIDITY RISK**

The company is part of the Coats plc group of companies which actively maintains a mixture of long-term and short-term debt finance that is designed to ensure that the group has sufficient available funds for its operations.

#### **INTEREST RATE RISK**

The company has both interest bearing assets and interest bearing liabilities. Interest bearing assets and liabilities include cash, bank overdraft and loan balances and certain balances due to and from group undertakings, which primarily earn and bear interest at floating rates. The company did not use interest rate derivatives during the year. However, the Coats plc group of companies may from time to time use interest rate derivatives to manage the group's exposure to interest rate fluctuations.

#### **CURRENCY RISK**

The company's activities expose it to foreign exchange risk in respect of non-US\$ denominated bank and inter-company balances. Wherever possible the foreign exchange risk is minimised including through the use of foreign exchange forward contracts.

#### **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. LIMITED**

### **DIRECTORS' REPORT (Continued)**

#### **DIRECTORS' RESPONSIBILITIES**

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. 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.

**COATS FINANCE CO. LIMITED**

**DIRECTORS' REPORT (Continued)**

**DISCLOSURE OF  
INFORMATION  
TO AUDITORS**

The Directors, in office at the date of this Report, have each confirmed that

- so far as they are aware, there is no relevant audit information of which the company's auditors are unaware, and
- each Director has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of Section 234ZA of the Companies Act 1985

By order of the Board



Director

23 April 2007

Registered office

1 The Square  
Stockley Park  
Uxbridge  
Middlesex  
UB11 1TD

## **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 2006 which comprise the profit and loss account, the balance sheet, the reconciliation of movements in shareholders' funds and the related notes 1 to 13. 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**

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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 whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

### **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.

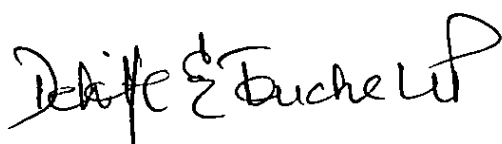
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity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

**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 2006 and of its profit for the year ended 31 December 2006,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements

A handwritten signature in black ink, appearing to read 'Deloitte & Touche LLP', is written over the printed name of the firm.

**Deloitte & Touche LLP**

Chartered Accountants and Registered Auditors

London, United Kingdom

23 April 2007

**COATS FINANCE CO. LIMITED****PROFIT AND LOSS ACCOUNT**  
**Year ended 31 December 2006**

	Notes	2006 \$'000	2005 \$'000
Other operating expense		<u>(532)</u>	<u>(381)</u>
<b>OPERATING LOSS</b>		<b>(532)</b>	<b>(381)</b>
Interest receivable and similar income	3	23,098	22,535
Interest payable and similar charges	4	<u>(20,278)</u>	<u>(9,680)</u>
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<b>2,288</b>	<b>12,474</b>
Tax on profit on ordinary activities	5	<u>(644)</u>	<u>(880)</u>
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>		<b>1,644</b>	<b>11,594</b>
Dividends paid	6	<u>(50,790)</u>	<u>-</u>
<b>RETAINED (LOSS)/PROFIT FOR THE FINANCIAL YEAR</b>	11	<u><b>(49,146)</b></u>	<u><b>11,594</b></u>

All results derive solely from continuing operations.

There are no recognised gains and losses other than those shown above and consequently no statement of recognised gains and losses has been presented

The notes on page 10 to 15 form part of these accounts



**COATS FINANCE CO. LIMITED****BALANCE SHEET at 31 December 2006**

	Notes	2006 \$'000	2005 \$'000
<b>CURRENT ASSETS</b>			
Debtors – Amounts falling due within one year	7	128,251	351,184
– Amounts falling due after more than one year	7	791,759	428,900
Cash at bank and in hand		<u>1,205</u>	<u>6,567</u>
		921,215	786,651
<b>CURRENT LIABILITIES</b>			
Creditors – Amounts falling due within one year	8	<u>(125,864)</u>	<u>(314,914)</u>
		795,351	471,737
<b>NET CURRENT ASSETS</b>			
Creditors – Amounts falling due after more than one year	9	<u>(667,512)</u>	<u>(420,052)</u>
		<u>127,839</u>	<u>51,685</u>
<b>NET ASSETS</b>			
<b>CAPITAL AND RESERVES</b>			
Share capital	10	126,195	895
Profit and loss account	11	<u>1,644</u>	<u>50,790</u>
		<u>127,839</u>	<u>51,685</u>
<b>TOTAL SHAREHOLDERS' FUNDS</b>			

These financial statements were approved by the Directors on 23 April 2007



Director

The notes on pages 10 to 15 form part of these accounts

**COATS FINANCE CO. LIMITED****RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS****Year ended 31 December 2006**

	Notes	<b>2006</b> <b>\$'000</b>	<b>2005</b> <b>\$'000</b>
Profit for the financial year		<b>1,644</b>	11,594
Dividends paid		<b>(50,790)</b>	-
Ordinary shares issued during the year	10	<b><u>125,300</u></b>	<u>-</u>
Net addition to shareholders' funds		<b>76,154</b>	11,594
Opening shareholders' funds		<b><u>51,685</u></b>	<u>40,091</u>
Closing shareholders' funds		<b><u>127,839</u></b>	<u>51,685</u>

The notes on pages 10 to 15 form part of these accounts

**COATS FINANCE CO. LIMITED**  
**YEAR ENDED 31 DECEMBER 2006**

**NOTES TO THE ACCOUNTS**

**1. STATEMENT OF ACCOUNTING POLICIES**

<b>BASIS OF ACCOUNTING</b>	The accounts are prepared on the basis of historical cost and in accordance with applicable United Kingdom accounting standards. The principal accounting policies which have been applied consistently in the current and prior year are set out below.
<b>TAXATION</b>	<p>Coats Holdings Ltd, a fellow group company, 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</p> <ul style="list-style-type: none"><li>(i) there is no intention to revoke the undertaking to discharge the taxation liabilities of the company for those periods, and</li><li>(ii) full provision for deferred taxation has been made by Coats Holdings Ltd in respect of the company</li></ul>
<b>CASH FLOW STATEMENT AND RELATED PARTY TRANSACTIONS</b>	The company is a wholly owned subsidiary of Guinness Peat Group plc and is included in the consolidated financial statements of Guinness Peat Group plc which are publicly available. Consequently the company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (Revised 1996). The company is also exempt under the terms of Financial Reporting Standard 8 from disclosing related party transactions (but not balances) with entities that are part of the Guinness Peat Group or investees of the Guinness Peat Group.
<b>PREFERENCE SHARES</b>	Preference shares are presented wholly as debt due after more than one year and preference share dividends are presented as interest payable.

**COATS FINANCE CO. LIMITED**  
**YEAR ENDED 31 DECEMBER 2006**

**NOTES TO THE ACCOUNTS (Continued)**

**1. STATEMENT OF ACCOUNTING POLICIES (continued)**

**FOREIGN CURRENCIES**

The Directors consider US dollars (\$) to be the company's functional currency. Accordingly, these financial statements are presented in \$. At 31 December 2006, the closing exchange rate to sterling was \$1/£0 51 (2005 \$1/£0 58) and the average exchange rate to sterling for the year ended 31 December 2006 was \$1/£0 54 (2005 \$1/£0 55).

Transactions denominated in foreign currencies are translated into US dollars at the rates of exchange ruling at the date of the transaction. Assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rate of exchange ruling at the balance sheet date. Exchange gains or losses are included in the profit and loss account.

**2. DIRECTORS, EMPLOYEES  
AND AUDITORS'  
REMUNERATION**

No director received any remuneration for their services to the company (2005 \$Nil). There were no other employees (2005 Nil).

Auditors' remuneration of \$15,000 (2005 \$15,000) was borne by a fellow group company.

**3. INTEREST RECEIVABLE  
AND SIMILAR INCOME**

	2006	2005
	\$'000	\$'000
Group undertakings	23,002	20,398
Bank interest	96	62
Foreign currency gains	-	2,075
	<u>23,098</u>	<u>22,535</u>

**4. INTEREST PAYABLE  
AND SIMILAR CHARGES**

	2006	2005
	\$'000	\$'000
Group undertakings	12,217	8,585
Bank and loan interest	1,131	1,095
Foreign currency losses	6,930	-
	<u>20,278</u>	<u>9,680</u>

**COATS FINANCE CO. LIMITED**  
**YEAR ENDED 31 DECEMBER 2006**

**NOTES TO THE ACCOUNTS (Continued)**

**5. TAX ON PROFIT ON  
ORDINARY ACTIVITIES**

	2006 \$'000	2005 \$'000
UK Corporation tax at 30%	644	880
Double tax relief	<u>(644)</u>	<u>(880)</u>
	-	-
Overseas taxation	<u>644</u>	<u>880</u>
	<u>644</u>	<u>880</u>

The standard rate of current tax for the year, based on UK standard rate of corporation tax, is 30% (2005 – 30%) The current tax charge for the year is lower than 30% for the reasons set out in the following reconciliation:

	2006 \$'000	2005 \$'000
Profit on ordinary activities before tax	<u>2,288</u>	<u>12,474</u>
Tax on profit on ordinary activities at standard rate	686	3,742
Adjusted for		
Expenses not deductible for tax purposes	885	-
Double tax relief	(644)	(880)
Group relief received from group companies for nil consideration	(927)	(2,862)
Withholding tax	<u>644</u>	<u>880</u>
	<u>644</u>	<u>880</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 Ltd No overseas taxation has been provided on overseas income other than withholding taxes shown above suffered on remittance of interest

**6. DIVIDENDS**

	2006 \$'000	2005 \$'000
Interim dividend paid - \$101 58 (2005 \$nil) per ordinary share	<u>50,790</u>	<u>-</u>

**COATS FINANCE CO. LIMITED**  
**YEAR ENDED 31 DECEMBER 2006**

**NOTES TO THE ACCOUNTS (Continued)**

		<b>2006</b>	<b>2005</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>7. DEBTORS</b>			
	Debtors due within one year		
	Other debtors	<b>38,714</b>	39,526
	Amounts owed by the parent company and fellow subsidiary undertakings	<b><u>89,537</u></b>	<b><u>311,658</u></b>
		<b><u>128,251</u></b>	<b><u>351,184</u></b>
	Debtors due after one year.		
	Amounts owed by fellow subsidiary undertakings	<b><u>791,759</u></b>	<b><u>428,900</u></b>
<b>8. CREDITORS</b>			
(Amounts falling due within one year)			
	Bank loans and overdrafts	<b>14,651</b>	52,779
	Amounts owed to the parent company and fellow subsidiary undertakings	<b>111,122</b>	262,135
	Other creditors	<b><u>91</u></b>	<b><u>-</u></b>
		<b><u>125,864</u></b>	<b><u>314,914</u></b>
<b>9. CREDITORS</b>			
(Amounts falling due after more than one year)			
	Amounts owed to the parent company and fellow subsidiary undertakings	<b>667,512</b>	294,752
	Preference shares held by parent company	<b><u>-</u></b>	<b><u>125,300</u></b>
		<b><u>667,512</u></b>	<b><u>420,052</u></b>

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

During the year the preference shares were re-designated as ordinary shares (see note 10)

**COATS FINANCE CO. LIMITED**  
**YEAR ENDED 31 DECEMBER 2006**

**NOTES TO THE ACCOUNTS (Continued)**

**10. SHARE CAPITAL**

	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>Number</b>	<b>Number</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Authorised</b>				
Ordinary shares				
of £1 each	<u>70,500,000</u>	<u>500,000</u>	<u>126,195</u>	<u>895</u>
<b>Issued</b>				
Ordinary shares				
of £1 each	<u>70,500,000</u>	<u>500,000</u>	<u>126,195</u>	<u>895</u>

On 23 November 2006 the authorised ordinary share capital of the company was increased from £500,000 to £70,500,000 by the creation of 70,000,000 ordinary shares of £1 each

On 23 November 2006 each of the 140 1997 Redeemable Preference Shares of £500,000 in issue were sub-divided into and re-designated as 500,000 ordinary shares of £1 each

	<b>\$'000</b>
<b>11. PROFIT AND LOSS ACCOUNT</b>	
At 1 January 2006	50,790
Retained loss for the year	<u>(49,146)</u>
At 31 December 2006	<u>1,644</u>

**12. CONTINGENT LIABILITIES**

As at 31 December 2006, \$260 7m (2005 \$344 2m) of banking facilities of the company's intermediate parent company, Coats Plc, are secured on the assets of certain of its subsidiaries including Coats Finance Co Limited The security provided comprises both fixed and floating charges

**COATS FINANCE CO. LIMITED**  
**YEAR ENDED 31 DECEMBER 2006**

**NOTES TO THE ACCOUNTS (Continued)**

**13. ULTIMATE PARENT  
COMPANY**

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

The company's immediate parent company is Coats Holdings Ltd, a company incorporated in England and Wales. 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.