

Registered No: 2591134

Coats Statutory Company No: 05

COATS FINANCE CO LTD

REPORT AND ACCOUNTS FOR THE YEAR ENDED

31 DECEMBER 2002

COUNTRY OF REGISTRATION:

ENGLAND

REGISTERED OFFICE:

1 THE SQUARE
STOCKLEY PARK
UXBRIDGE
MIDDLESEX
UB11 1TD

DIRECTORS:

M C FLOWER
C W HEALY
J D LEA

SECRETARY:

G J C ALDRIDGE

AUDITORS:

DELOITTE & TOUCHE
MANCHESTER



COATS FINANCE CO LTD

DIRECTORS' REPORT

The Directors present their report and accounts for the year ended 31 December 2002.

PRINCIPAL ACTIVITIES

The Company acted as a financial trading company during the year ended 31 December, 2002.

**REVIEW OF BUSINESS
AND RESULTS**

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

Preference dividends of £2.3m (2001 - £2.9m) have been paid. Dividends totalling £Nil (2001 - Nil) were paid on the ordinary shares during the year. The directors do not recommend the payment of a final dividend on the ordinary shares (2001 - Nil). The retained profit of £0.7m (2001 - £6.4m loss) has been transferred to reserves.

DIRECTORS

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

M C Flower
C W Healy
J D Lea

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

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

The following were directors of Coats plc during the year and their interests are therefore shown in the Directors' Report of that company:

Mr M C Flower

Mr J D Lea

Details of the other director's interest in the ordinary shares of Coats plc are shown below:

| | 31/12/02 | 31/12/01 |
|-------------------|----------|----------|
| Christopher Healy | 4,000 | 4,000 |

The following share options in Coats plc have been granted to Mr Healy and not exercised:

| | Options Granted | Price per Share | Period of Option | Number of Shares |
|--|--------------------|-----------------------|------------------------|------------------------|
| 1984 Executive Share Option Scheme | 1994 | 251.50p | 2003 to 2004 | 5,000 |
| 1994 Executive Share Option Scheme | 1994 to 2001 | 42p to 214.50p | 2003 to 2011 | 445,000 |

Other than the foregoing, the directors have no beneficial interest in the shares of Coats plc.

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 & Touche 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 is passed under section 393 of the Companies Act 1985 to the effect that their appointment be brought to an end.

COATS FINANCE CO LTD

DIRECTORS' REPORT (Continued)

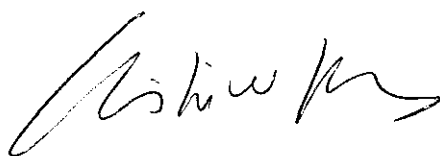
**DIRECTORS'
RESPONSIBILITIES**

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;
- 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

31 July

2003

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 Ltd for the year ended 31 December 2002 which comprise the profit and loss account, the balance sheet and the related notes 1 to 15 together with the reconciliation of movement in shareholders' funds. 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 set out on page 4, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are 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 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.


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 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 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche
Chartered Accountants and Registered Auditors
Manchester

31 July 2003

COATS FINANCE CO LTD**PROFIT AND LOSS ACCOUNT****Year ended 31 December 2002**

| | Notes | 2002 £'000 | 2001 £'000 |
|---|-------|---------------|----------------|
| Other operating (expense)/income | | (2) | 2,133 |
| Interest receivable and similar income | 4 | 11,693 | 12,735 |
| Interest payable and similar charges | 5 | (8,664) | (11,532) |
| Amounts written off loans to group companies | | <u>-</u> | <u>(6,850)</u> |
| PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION | 2 | 3,027 | (3,514) |
| Tax on profit/(loss) on ordinary activities | 6 | <u>(17)</u> | <u>(3)</u> |
| PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION | | 3,010 | (3,517) |
| Preference Dividends payable on non-equity shares | 7 | (2,336) | (2,906) |
| Ordinary Dividends payable on equity shares | 8 | <u>-</u> | <u>-</u> |
| RETAINED PROFIT/(LOSS) FOR THE FINANCIAL YEAR | 13 | 674 | (6,423) |

The above results derive solely from continuing operations.

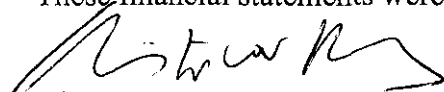
There are no recognised gains and losses for the current financial year and preceding financial year other than as stated in the profit and loss account.

The notes on page 9 to 13 form part of these accounts.

COATS FINANCE CO LTD**BALANCE SHEET At 31 December 2002**

| | Notes | 31 December 2002 £'000 | 31 December 2001 £'000 |
|---|-------|------------------------------|------------------------------|
| CURRENT ASSETS | | | |
| DEBTORS - due within one year | 9 | 226,225 | 260,317 |
| - due after more than one year | 9 | 12,776 | 71,850 |
| CASH AT BANK AND IN HAND | | <u>2,648</u> | <u>2,800</u> |
| | | 241,649 | 334,967 |
| CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR | 10 | <u>(115,670)</u> | <u>(135,974)</u> |
| NET CURRENT ASSETS | | 125,979 | 198,993 |
| CREDITORS - AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR | 11 | <u>(46,109)</u> | <u>(119,797)</u> |
| NET ASSETS | | <u>79,870</u> | <u>79,196</u> |
| CAPITAL AND RESERVES | | | |
| SHARE CAPITAL | 12 | 70,500 | 70,500 |
| PROFIT AND LOSS ACCOUNT | 13 | <u>9,370</u> | <u>8,696</u> |
| TOTAL SHAREHOLDERS' FUNDS | | <u>79,870</u> | <u>79,196</u> |
| EQUITY SHAREHOLDERS' FUNDS | | 9,870 | 9,196 |
| NON-EQUITY SHAREHOLDERS' FUNDS | | <u>70,000</u> | <u>70,000</u> |
| | | <u>79,870</u> | <u>79,196</u> |

These financial statements were approved the Directors on 31 July 2003


Director

The notes on pages 9 to 13 form part of these accounts.

COATS FINANCE CO LTD**RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS****Year ended 31 December 2002**

| | Notes | 2002 £'000 | 2001 £'000 |
|--------------------------------------|-------|---------------|---------------|
| Profit/(Loss) for the financial year | | 3,010 | (3,517) |
| Dividends | 7,8 | (2,336) | (2,906) |
| Net movement in shareholders' funds | | 674 | (6,423) |
| Opening shareholders' funds | | 79,196 | 85,619 |
| Closing shareholders' funds | | 79,870 | 79,196 |

The notes on pages 9 to 13 form part of these accounts.

COATS FINANCE CO LTD
YEAR ENDED 31 DECEMBER 2002

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 accounting standards.

TAXATION

Coats plc 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 plc in respect of the Company.

FOREIGN CURRENCIES

Assets and liabilities in foreign currencies are translated into sterling 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.

COATS FINANCE CO LTD
YEAR ENDED 31 DECEMBER 2002

NOTES TO THE ACCOUNTS (Continued)

**2. PROFIT/(LOSS) ON
ORDINARY ACTIVITIES**

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

**3. DIRECTORS'
REMUNERATION**

No directors received any remuneration for their services to the Company (2001 - £Nil). Other than the directors, the company had no employees during the year (2001 : Nil).

| | | 2002 £'000 | 2001 £'000 |
|---|--------------------------------------|---------------|---------------|
| 4. INTEREST RECEIVABLE AND SIMILAR INCOME | | | |
| | Group undertakings | 10,927 | 12,639 |
| | Bank interest | 5 | 96 |
| | Foreign currency translation profits | <u>761</u> | <u>-</u> |
| | | <u>11,693</u> | <u>12,735</u> |
| 5. INTEREST PAYABLE AND SIMILAR CHARGES | | | |
| | Group undertakings | 6,837 | 7,120 |
| | Bank and loan interest | 884 | 1,904 |
| | Swap/FRA terminations | 943 | 1,090 |
| | Foreign currency translation losses | <u>-</u> | <u>1,418</u> |
| | | <u>8,664</u> | <u>11,532</u> |
| 6. TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES | | | |
| | Corporation tax - Current Year | - | - |
| | Overseas taxation | 17 | 3 |
| | Double tax relief | <u>-</u> | <u>-</u> |
| | | <u>17</u> | <u>3</u> |

Any United Kingdom liability which may arise and is not eliminated by the offset of group relief and/or advance corporation tax, for neither of which payment will be made, will be discharged by Coats plc. No overseas tax has been provided on overseas income other than withholding tax shown above on the remittance of dividends.

COATS FINANCE CO LTD
YEAR ENDED 31 DECEMBER 2002

NOTES TO THE ACCOUNTS (Continued)

| | | 2002 £'000 | 2001 £'000 |
|--|---|----------------|----------------|
| 7. PREFERENCE DIVIDENDS | 1997 Redeemable Preference shares | <u>2,336</u> | <u>2,906</u> |
| 8. ORDINARY DIVIDENDS | Interim dividends paid at £Nil per share (2001 : £nil per share). | <u>-</u> | <u>-</u> |
| 9. DEBTORS | Debtors due within one year: | | |
| | Other debtors | 1,082 | 204 |
| | Amounts owed by the parent company and fellow subsidiary undertakings | <u>225,143</u> | <u>260,113</u> |
| | | <u>226,225</u> | <u>260,317</u> |
| | Debtors due after one year: | | |
| | Amounts owed by other group undertakings | <u>12,776</u> | <u>71,850</u> |
| 10. CREDITORS (Amounts falling due within one year) | Bank loans and overdrafts | 36,040 | 29,710 |
| | Amounts owed to the parent company and fellow subsidiary undertakings | 77,020 | 104,857 |
| | Other creditors | <u>2,610</u> | <u>1,407</u> |
| | | <u>115,670</u> | <u>135,974</u> |
| 11. CREDITORS (Amounts falling due after more than one year) | Amounts owed to the parent company and fellow subsidiary undertakings | <u>46,109</u> | <u>119,797</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. | | |

COATS FINANCE CO LTD
YEAR ENDED 31 DECEMBER 2002

NOTES TO THE ACCOUNTS (Continued)

12. SHARE CAPITAL

| | AUTHORISED | | ALLOTTED CALLED UP AND FULLY PAID | |
|---|-----------------------|-----------------------|--|----------------------|
| | 2002 | 2001 | 2002 | 2001 |
| | £'000 | £'000 | £'000 | £'000 |
| <u>Equity share capital</u> | | | | |
| Ordinary shares of £1 each | 500 | 500 | 500 | 500 |
| <u>Non-equity share capital</u> | | | | |
| 1995 6.058% Redeemable Preference Shares of £1 each | 50,000 | 50,000 | - | - |
| 1996 4.447% Redeemable Preference Shares of £1 each | 50,000 | 50,000 | - | - |
| 1997 Redeemable Preference Shares of £500,000 each | 70,000 | 70,000 | 70,000 | 70,000 |
| Fixed Rate Redeemable Preference Shares of £1 each | <u>150,000</u> | <u>150,000</u> | <u>-</u> | <u>-</u> |
| | <u>320,500</u> | <u>320,500</u> | <u>70,500</u> | <u>70,500</u> |

COATS FINANCE CO LTD
YEAR ENDED 31 DECEMBER 2002

NOTES TO THE ACCOUNTS (Continued)

12. SHARE CAPITAL

(Continued)

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.

| | | £'000 |
|------------------------------------|------------------------------|--------------|
| 13. PROFIT AND LOSS ACCOUNT | At 1 January 2002 | 8,696 |
| | Retained profit for the year | <u>674</u> |
| | | |
| | At 31 December 2002 | <u>9,370</u> |

14. ULTIMATE PARENT COMPANY

At the year end the company's ultimate parent company was Coats plc, a company incorporated in England and Wales and for which group accounts are prepared. Copies of the Group financial statements are available from the parent company's registered office at 1 The Square, Stockley Park Uxbridge, Middlesex UB11 1TD

As at 7th April 2003, Coats Holdings plc (formerly Avenue Acquisition plc) acquired Coats plc, and Coats Group Limited, a company incorporated in the British Virgin Islands, became the ultimate parent company.

15. RELATED PARTY TRANSACTIONS

The company is a wholly-owned subsidiary undertaking of Coats plc and has taken advantage of the exemption in FRS 8 "Related Party Disclosures" in not separately disclosing details of transactions with other group companies.