

Registered No: 2591134

Coats Statutory Company No: 05

COATS FINANCE CO LTD

REPORT AND ACCOUNTS FOR THE YEAR ENDED

31 DECEMBER 2003

COUNTRY OF REGISTRATION:

ENGLAND

REGISTERED OFFICE:

1 THE SQUARE
STOCKLEY PARK
UXBRIDGE
MIDDLESEX
UB11 1TD

DIRECTORS:

C W HEALY
J D LEA

SECRETARY:

G J C ALDRIDGE

AUDITORS:

DELOITTE & TOUCHE LLP
MANCHESTER



COATS FINANCE CO LTD

DIRECTORS' REPORT

The directors present their report and accounts for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES

The company acted as a financial trading company during the year ended 31 December 2003.

**REVIEW OF BUSINESS
RESULTS AND FUTURE
PROSPECTS**

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

Preference dividends of £1.6m (2002: £2.3m) have been paid. Dividends totalling £Nil (2002: 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 (2002: Nil). The retained profit of £0.5m (2002: £0.7m) 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 during the year:

M C Flower (resigned 31 December 2003)
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 Ltd during the year and their interests are therefore shown in the Directors' Report of that company:

Mr M C Flower
Mr J D Lea

C W Healy held 4,000 shares in Coats Ltd at 31 December 2002. These were sold during the year.

Any share options held by the directors were either exercised or cancelled following the acquisition of the Group by Coats Holdings plc (formerly Avenue Acquisition plc). Options with an exercise price exceeding 58.5p lapsed, while options with an exercise price below 58.5p were either exercised or cancelled for cash.

The directors have no beneficial interest in the shares of this or any other group company at the year end.

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)

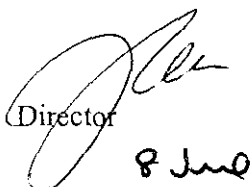
**DIRECTORS'
RESPONSIBILITIES**

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

8 June

2004

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 2003 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes 1 to 14 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, 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.

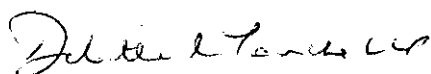
Basis of audit opinion

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 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Manchester

8 June 2004

COATS FINANCE CO LTD**PROFIT AND LOSS ACCOUNT**
Year ended 31 December 2003

	Notes	2003 £'000	2002 £'000
Other operating expense		—	(2)
OPERATING LOSS		-	(2)
Interest receivable and similar income	4	9,957	11,693
Interest payable and similar charges	5	(7,822)	(8,664)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2	2,135	3,027
Tax on profit on ordinary activities	6	(12)	(17)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		2,123	3,010
Preference dividends payable on non-equity shares	7	(1,607)	(2,336)
RETAINED PROFIT FOR THE FINANCIAL YEAR	12	516	674

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 2003**

	Notes	2003 £'000	2002 £'000
CURRENT ASSETS			
DEBTORS - due within one year	8	218,715	226,225
- due after more than one year	8	22,631	12,776
CASH AT BANK AND IN HAND		5,319	2,648
		<u>246,665</u>	<u>241,649</u>
CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR	9	(162,261)	(115,670)
NET CURRENT ASSETS		84,404	125,979
CREDITORS - AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	10	(4,018)	(46,109)
NET ASSETS		<u>80,386</u>	<u>79,870</u>
CAPITAL AND RESERVES			
SHARE CAPITAL	11	70,500	70,500
PROFIT AND LOSS ACCOUNT	12	9,886	9,370
TOTAL SHAREHOLDERS' FUNDS		<u>80,386</u>	<u>79,870</u>
EQUITY SHAREHOLDERS' FUNDS		10,386	9,870
NON-EQUITY SHAREHOLDERS' FUNDS		70,000	70,000
		<u>80,386</u>	<u>79,870</u>

These financial statements were approved the Directors on

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 2003**

	Notes	2003 £'000	2002 £'000
Profit for the financial year		2,123	3,010
Dividends	7	(1,607)	(2,336)
Net movement in shareholders' funds		<u>516</u>	<u>674</u>
Opening shareholders' funds		<u>79,870</u>	<u>79,196</u>
Closing shareholders' funds		<u><u>80,386</u></u>	<u><u>79,870</u></u>

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

COATS FINANCE CO LTD
YEAR ENDED 31 DECEMBER 2003

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.

TAXATION Coats Ltd 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 Ltd 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 2003

NOTES TO THE ACCOUNTS (Continued)

- 2. PROFIT ON ORDINARY ACTIVITIES** The profit and net assets arise in the United Kingdom from the principal activity of financial trading.

- 3. DIRECTORS' AND AUDITOR'S REMUNERATION** No director received any remuneration for their services to the company (2002: £Nil). The company had no employees during the year (2002: Nil).

The audit fee was borne by Coats Ltd.

		2003 £'000	2002 £'000
4. INTEREST RECEIVABLE AND SIMILAR INCOME			
	Group undertakings	9,379	10,927
	Bank interest	578	5
	Foreign currency translation profits	-	761
		<u>9,957</u>	<u>11,693</u>
5. INTEREST PAYABLE AND SIMILAR CHARGES			
	Group undertakings	6,230	6,837
	Bank and loan interest	453	884
	Swap/FRA terminations	1,036	943
	Foreign currency translation losses	103	-
		<u>7,822</u>	<u>8,664</u>
6. TAX ON PROFIT ON ORDINARY ACTIVITIES			
	Corporation tax - Current Year	-	-
	Overseas taxation	12	17
		<u>12</u>	<u>17</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 Ltd. 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 2003

NOTES TO THE ACCOUNTS (Continued)

		2003 £'000	2003 £'000
7. PREFERENCE DIVIDENDS	1997 Redeemable Preference shares	<u>1,607</u>	<u>2,336</u>
8. DEBTORS	Debtors due within one year:		
	Other debtors	1,511	1,082
	Amounts owed by the parent company and fellow subsidiary undertakings	<u>217,204</u>	<u>225,143</u>
		<u>218,715</u>	<u>226,225</u>
	Debtors due after one year:		
	Amounts owed by fellow subsidiary undertakings	<u>22,631</u>	<u>12,776</u>
9. CREDITORS			
(Amounts falling due within one year)	Bank loans and overdrafts	33,267	36,040
	Amounts owed to the parent company and fellow subsidiary undertakings	128,759	77,020
	Other creditors	235	2,610
		<u>162,261</u>	<u>115,670</u>
10. CREDITORS			
(Amounts falling due after more than one year)	Amounts owed to the parent company and fellow subsidiary undertakings	<u>4,018</u>	<u>46,109</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)

11. SHARE CAPITAL

	AUTHORISED		ALLOTTED CALLED UP AND FULLY PAID	
	2003 £'000	2002 £'000	2003 £'000	2002 £'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	150,000	150,000	-	-
	320,500	320,500	70,500	70,500

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.

COATS FINANCE CO LTD
YEAR ENDED 31 DECEMBER 2003

NOTES TO THE ACCOUNTS (Continued)

12. PROFIT AND LOSS ACCOUNT	At 1 January 2003 Retained profit for the year	£'000 9,370 516
	At 31 December 2003	<hr/> 9,886 <hr/>

**13. ULTIMATE PARENT
COMPANY**

As at 7 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.

Coats plc changed its name to Coats Ltd on 4 November 2003.

The largest group for which consolidated accounts are prepared is Coats Holdings plc, a company incorporated in England and Wales. Copies of these statements will be available from the company's registered office at First Floor, Times Place, 45 Pall Mall, London SW1Y 5GP.

The smallest group for which consolidated accounts are prepared is Coats Ltd, 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.

As of 1 April 2004 Guinness Peat Group plc, a company incorporated in England and Wales, is considered by the directors to be the controlling party and the ultimate parent company.

**14. RELATED PARTY
TRANSACTIONS**

The company is a subsidiary undertaking of Coats Ltd, 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.