

COATS PATONS LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

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DIRECTORS' REPORT (Continued)

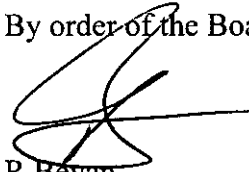
**DISCLOSURE OF
INFORMATION
TO AUDITORS**

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



R Bevan
Director

19 March 2008

Registered office

Pacific House
70 Wellington Street
Glasgow
G2 6UB

DIRECTORS' REPORT

The directors present their report and accounts for the year ended 31 December 2007

PRINCIPAL ACTIVITY

During the year the Company continued to receive interest on amounts due from fellow group undertakings

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

During the year an interim dividend on ordinary shares of \$18,668,000 was paid (2006 \$349,981,000) The Directors do not recommend the payment of a final dividend on the ordinary shares (2006 \$Nil)

The directors do not anticipate any change in the Company's activities 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, except as follows

R Bevan
M J Smithyman
G Fitch
R McDermott (Resigned 10 December 2007)
G C Meredith
T P Saunt

SECRETARY

At the date of this report, the company secretary was R Bevan

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 from time to time both interest bearing assets and interest bearing liabilities. Interest bearing assets and liabilities include 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.

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

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, 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF COATS PATONS LIMITED

We have audited the financial statements of Coats Patons Limited for the year ended 31 December 2007 which comprise the profit and loss account, the balance sheet, the reconciliation of movements in shareholders' funds and the related notes 1 to 12. 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.

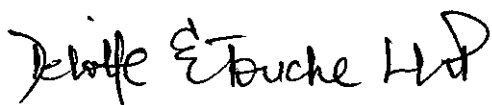
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity 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 PATONS 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 2007 and of its profit for the year ended 31 December 2007,
- 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

19 March 2008

PROFIT AND LOSS ACCOUNT
YEAR ENDED 31 DECEMBER 2007

	Notes	2007 \$'000	2006 \$'000
Profit on disposal of subsidiary undertaking	3		309,289
Profit on ordinary activities before interest			<u>309,289</u>
Interest receivable and similar income	4	14,982	3,687
Profit on ordinary activities before taxation		<u>14,982</u>	<u>312,976</u>
Taxation	5		
Profit on ordinary activities after taxation		<u>14,982</u>	<u>312,976</u>
Dividends paid	6	(18,668)	(349,981)
Retained loss for the financial year	10	<u><u>(3,686)</u></u>	<u><u>(37,005)</u></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 is presented

The notes on pages 10 to 13 form part of these accounts

BALANCE SHEET
At 31 DECEMBER 2007

	Notes	2007 \$'000	2006 \$'000
CURRENT ASSETS			
Debtors – Amounts falling due within one year	7	1,144	41
– Amounts falling due after more than one year	7	276,612	281,401
TOTAL ASSETS		277,756	281,442
CAPITAL AND RESERVES			
Share capital	9	255,832	255,832
Share premium account		21,924	21,924
Profit and loss account	10	-	3,686
TOTAL SHAREHOLDERS' FUNDS		277,756	281,442

Approved by the Board of Directors on 19 March 2008 and signed on their behalf



R Bevan
Director

The notes on pages 10 to 13 form part of these accounts.

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
YEAR ENDED 31 DECEMBER 2007

	2007 \$'000	2006 \$'000
Profit for the financial year	14,982	312,976
Dividends paid	(18,668)	(349,981)
Net decrease in shareholders' funds	<u>(3,686)</u>	<u>(37,005)</u>
Opening shareholders' funds	281,442	318,447
Closing shareholders' funds	<u>277,756</u>	<u>281,442</u>

The notes on pages 10 to 13 form part of these accounts

NOTES TO THE ACCOUNTS
Year ended 31 December 2007**1. STATEMENT OF ACCOUNTING POLICIES**

Basis of Accounting	The financial 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.
Investments	Fixed asset investments are stated at cost unless, in the opinion of the directors, there has been an impairment in value, in which case an appropriate provision is made.
Taxation	<p>Coats Holdings 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</p> <ul style="list-style-type: none">(i) there is no intention to revoke the undertaking to discharge the taxation liabilities of the Company for those periods, and(ii) if applicable, full provision for deferred taxation has been made by Coats Holdings Ltd in respect of the Company.
Cash flow statement and related party transactions	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 with 90% or more voting rights controlled within the Guinness Peat Group or investees of the Guinness Peat Group.
Foreign currencies	The Directors consider US dollars (\$) to be the company's functional currency. Accordingly, these financial statements are presented in US dollars. At 31 December 2007, the closing exchange rate to sterling was \$1/£0.50 (2006 \$1/£0.51) and the average exchange rate to sterling for the year ended 31 December 2007 was \$1/£0.50 (2006 \$1/£0.54).

NOTES TO THE ACCOUNTS (continued)
YEAR ENDED 31 DECEMBER 2007

1. STATEMENT OF ACCOUNTING POLICIES (continued)

**Foreign currencies
(continued)**

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

The directors received no remuneration for their services to the company (2006 \$Nil). There were no other employees (2006 Nil) and consequently employee costs for the year were \$Nil (2006. \$Nil).

Auditors' remuneration for the audit of the Company's annual accounts of \$4,000 (2006 \$4,000) was borne by a fellow group company.

3. PROFIT ON DISPOSAL OF SUBSIDIARY UNDERTAKINGS

During the year ended 31 December 2006 the company disposed of its subsidiary undertaking, J&P Coats Limited, to a fellow group company for a consideration of \$800,000,000. The cost of the investment in J&P Coats Limited was \$490,711,000 and as a result the profit on disposal was \$309,289,000.

4. INTEREST RECEIVABLE AND SIMILAR INCOME

	2007 \$'000	2006 \$'000
Interest due from a fellow group undertaking	<u>14,982</u>	<u>3,687</u>

5. TAX ON PROFIT ON ORDINARY ACTIVITIES

The standard rate of current tax for the year, based on UK standard rate of corporation tax, is 30% (2006 – 30%). The current tax charge for the year is lower than 30% for the reasons set out in the following reconciliation:

	2007 \$'000	2006 \$'000
Profit on ordinary activities before tax	<u>14,982</u>	<u>312,976</u>
Tax on profit on ordinary activities at standard rate	4,495	93,893
Adjusted for the effects of:		
Non taxable profit on sale of shares in subsidiary company		(92,787)
Utilisation of losses brought forward	<u>(4,495)</u>	<u>(1,106)</u>
Current tax charge for the year	<u> </u>	<u> </u>

NOTES TO THE ACCOUNTS (continued)
YEAR ENDED 31 DECEMBER 2007

5. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

No charge for UK tax has been provided on the results for the year. Any UK tax liability which may arise and which is not eliminated by trading losses brought forward or the offset of group relief (surrendered without payment) will be discharged by Coats Holdings Ltd.

6. DIVIDENDS

	2007 \$'000	2006 \$'000
Interim dividend paid	<u>18,668</u>	<u>349,981</u>

7. DEBTORS

	2007 \$'000	2006 \$'000
Debtors due within one year		
Amounts owed by a fellow subsidiary undertaking	<u>1,144</u>	<u>41</u>
Debtors due after one year		
Amounts owed by a fellow subsidiary undertaking	<u>276,612</u>	<u>281,401</u>

8. DEFERRED TAXATION

In the opinion of the Directors, any deferred taxation liability is either so remote or immaterial that it is unnecessary to provide for such deferred tax. If, however, such a liability were to arise then it would be discharged by Coats Holdings Ltd, the intermediate parent company.

The amount of deferred tax assets unrecognised at 28% (2006: 30%) was as follows:

	2007 \$'000	2006 \$'000
Trading losses	1,379	4,148
Capital losses	<u>8,465</u>	<u>12,174</u>
Unprovided deferred tax asset	<u>9,844</u>	<u>16,322</u>

The Company had unrecovered ACT of \$7,093,000 at 31 December 2007 (2006: \$6,238,000) available for offset against future UK profits. No deferred tax has been recognised in respect of this due to the uncertainty of recoverability.

NOTES TO THE ACCOUNTS (continued)
YEAR ENDED 31 DECEMBER 2007

9. CALLED UP SHARE CAPITAL

	AUTHORISED		CALLED UP, ALLOTTED AND FULLY PAID	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
590,000,000 Ordinary shares of 25p each	264,000	264,000	255,832	255,832
55,361,585 Unclassified shares of 25p each	<u>24,700</u>	<u>24,700</u>	<u>—</u>	<u>—</u>
	<u>288,700</u>	<u>288,700</u>	<u>255,832</u>	<u>255,832</u>

10. PROFIT AND LOSS ACCOUNT

	\$'000
At 1 January 2007	3,686
Retained loss for the year	<u>(3,686)</u>
At 31 December 2007	<u>—</u>

11. CONTINGENT LIABILITIES

As at 31 December 2007, \$202.3m (2006 \$260.7m) of banking facilities of the company's intermediate parent company, Coats plc are secured on the assets of certain of its subsidiaries including Coats Patons Limited. The security provided comprises both fixed and floating charges.

12. ULTIMATE PARENT COMPANY

The company's ultimate parent company and controlling party is Guinness Peat Group plc, a company incorporated in Great Britain and registered 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 J & P Coats Limited. The smallest group for which consolidated accounts are prepared is Coats plc, a company registered 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.