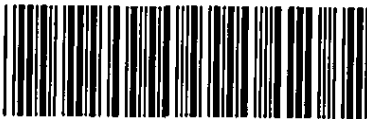


Registered No: 52019
Coats Statutory Company No: 133

COATS HOLDING COMPANY (NO. 2) LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

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COATS HOLDING COMPANY (NO. 2) LIMITED

DIRECTORS' REPORT

The directors present their annual report and financial statements for the year ended 31 December 2006

PRINCIPAL ACTIVITIES

The company's principal activity was previously that of a holding company. During the year the company disposed of its investments in group companies to a fellow group company and ceased to be a holding company.

BUSINESS REVIEW

Results for the year are shown in the profit and loss account on page 6. The balance sheet of the company is shown on page 7.

The directors do not recommend the payment of a final dividend on the ordinary shares (2005 £Nil).

The directors expect that the company will become a dormant company.

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 served as directors of the company throughout the year.

R Bevan	(resigned 11 September 2006)
G Meredith	(resigned 11 September 2006)
G J C Aldridge	(resigned 16 August 2006)
I P Clarke & Co Limited	(appointed 11 September 2006)
Coats Patons Limited	(appointed 11 September 2006)

SECRETARY

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

DIRECTORS' INTERESTS

The company is wholly owned by I P. Clarke & Co. Limited. The other director at 31 December 2006 had no beneficial interest in the shares of the company.

COATS HOLDING COMPANY (NO. 2) 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 AND CURRENCY RISK

The company has no interest bearing assets or interest bearing liabilities and is not exposed to foreign exchange risk.

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' 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.

COATS HOLDING COMPANY (NO. 2) LIMITED

DIRECTORS' REPORT (Continued)

DIRECTORS' RESPONSIBILITIES (Continued)

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.

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



Coats Patons Limited
Director

14 June 2007

Registered office:

1 The Square
Stockley Park
Uxbridge
Middlesex
UB11 1TD

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF COATS HOLDING COMPANY (NO. 2) LIMITED

We have audited the financial statements of Coats Holding Company (No 2) Limited for the year ended 31 December 2006 which comprise the profit and loss account, the balance sheet and the related notes 1 to 10. 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 HOLDING COMPANY (NO. 2) LIMITED (Continued)

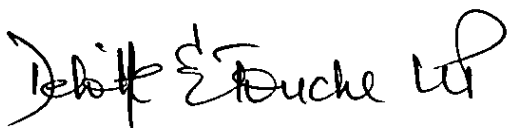
Opinion

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

Emphasis of matter – Financial statements prepared on a basis other than that of a going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 1 to the financial statements, which explains that the financial statements have been prepared on a basis other than that of a going concern

A handwritten signature in black ink, appearing to read 'Deloitte & Touche' followed by a stylized flourish.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

London, United Kingdom

19 June 2007

COATS HOLDING COMPANY (NO. 2) LIMITED

**PROFIT AND LOSS ACCOUNT
YEAR ENDED 31 DECEMBER 2006**

	Notes	2006 £	2005 £
Other income		-	14
Profit on dissolution of subsidiary undertakings	4	1,103,515	-
Profit on disposal of subsidiary undertakings	4	1,866,657	-
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		2,970,172	14
Tax on profit on ordinary activities	3	-	-
PROFIT FOR THE FINANCIAL YEAR	8	2,970,172	14

The results above all derive from discontinued 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 pages 8 to 11 form part of these financial statements

COATS HOLDING COMPANY (NO. 2) LIMITED

BALANCE SHEET 31 DECEMBER 2006

	Notes	2006 £	2005 £
FIXED ASSETS			
Investments	4	-	6,628,259
DEBTORS: AMOUNTS DUE IN MORE THAN ONE YEAR	5	<u>6,997,365</u>	<u>6,997,365</u>
NET CURRENT ASSETS		<u>6,997,365</u>	<u>6,997,365</u>
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	6	<u>-</u>	<u>(9,598,431)</u>
NET ASSETS		<u><u>6,997,365</u></u>	<u><u>4,027,193</u></u>
SHARE CAPITAL AND RESERVES			
Called up share capital	7	2,688,307	2,688,307
Share premium account		1,230,545	1,230,545
Capital redemption reserve		838,850	838,850
Profit and loss account	8	<u>2,239,663</u>	<u>(730,509)</u>
SHAREHOLDERS' FUNDS	9	<u><u>6,997,365</u></u>	<u><u>4,027,193</u></u>

Approved by the Board of Directors on 14 June 2007 and signed on their behalf



Coats Patons Limited
Director

The notes on pages 8 to 11 form part of these financial statements

COATS HOLDING COMPANY (NO. 2) LIMITED

NOTES TO THE ACCOUNTS YEAR ENDED 31 DECEMBER 2006

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 law and accounting standards. These policies have been applied consistently in the current and prior year.

Following the disposal during the year of the company's investments in group companies to a fellow group company, the company ceased to be a holding company. As required by FRS 18 "Accounting policies", the Directors have prepared the financial statements on the basis that the company is no longer a going concern. No adjustments arise as a result of ceasing to apply the going concern basis.

TAXATION

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

- (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 Ltd in respect of the Company.

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.

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 with entities that are part of the Guinness Peat Group or investees of the Guinness Peat Group.

GROUP ACCOUNTS

Under the provisions of Section 228 of the Companies Act 1985 the company is exempt from the obligation to prepare and deliver group financial statements as it is included in the consolidated financial statements of Guinness Peat Group plc. Accordingly, these financial statements present information about the company as an individual entity and not as a group.

COATS HOLDING COMPANY (NO. 2) LIMITED

NOTES TO THE ACCOUNTS (Continued) YEAR ENDED 31 DECEMBER 2006

2. DIRECTORS, EMPLOYEES AND AUDITORS' REMUNERATION

None of the directors received any emoluments for their services to the company (2005: £nil)
During the year the company had no employees (2005: nil)

Auditors' remuneration of £1,000 (2005: £2,000) was borne by a fellow group company

3. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2006 £	2005 £
UK corporation tax at 30%	-	-

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 £	2005 £
Profit on ordinary activities before tax	2,970,172	14
Tax on profit on ordinary activities at standard rate	891,052	4
Adjusted for the effects of:		
Income not taxable	(891,052)	-
Group relief received for nil consideration	-	(4)
Current tax charge for the year	-	-

No charge to United Kingdom taxation has been provided in the results for the year. Any United Kingdom corporation tax liability which may arise and is not eliminated by offset of double taxation relief, Group relief and/or advance corporation tax for neither of which payment will be made, will be discharged by Coats Holdings Ltd.

COATS HOLDING COMPANY (NO. 2) LIMITED

NOTES TO THE ACCOUNTS (Continued) YEAR ENDED 31 DECEMBER 2006

4 FIXED ASSET INVESTMENTS

	<u>Group Companies</u>		
	<u>Shares</u>	<u>Loans</u>	<u>Total</u>
	£	£	£
COST			
At 1 January 2006	7,122,494	11,485,143	18,607,637
Disposals	<u>(7,122,494)</u>	<u>(11,485,143)</u>	<u>(18,607,637)</u>
At 31 December 2006	-	-	-
	<u> </u>	<u> </u>	<u> </u>
PROVISIONS			
At 1 January 2006	494,235	11,485,143	11,979,378
Disposals	<u>(494,235)</u>	<u>(11,485,143)</u>	<u>(11,979,378)</u>
31 December 2006	-	-	-
	<u> </u>	<u> </u>	<u> </u>
NET BOOK VALUE			
At 31 December 2006	-	-	-
	<u> </u>	<u> </u>	<u> </u>
At 31 December 2005	6,628,259	-	6,628,259
	<u> </u>	<u> </u>	<u> </u>

During the year the company disposed of certain subsidiary undertakings to a fellow group undertaking realising a profit on disposal of £1,866,657. In addition certain subsidiary undertakings were dissolved realising a profit of £1,103,515.

5 DEBTORS: amounts due in more than one year

	2006	2005
	£	£
Amounts owed by group undertakings	<u>6,997,365</u>	<u>6,997,365</u>

6 CREDITORS: amounts falling due after more than one year

	2006	2005
	£	£
Amounts owed to group undertakings	<u>-</u>	<u>9,598,431</u>

The amounts owed to group undertakings at 31 December 2005 had no specified dates of repayment and were only repayable on receipt of twelve months notice and did not bear interest.

COATS HOLDING COMPANY (NO. 2) LIMITED

NOTES TO THE ACCOUNTS (Continued) YEAR ENDED 31 DECEMBER 2006

7 CALLED UP SHARE CAPITAL

The share capital at 31 December 2006 and 31 December 2005 of the company consists of the following

	Number	Issued and Authorised £	Number	Fully paid £
Ordinary shares of 25p each	16,244,600	4,061,150	10,753,227	2,688,307

8 PROFIT AND LOSS ACCOUNT

£

At 1 January 2006	(730,509)
Profit for the financial year	2,970,172
At 31 December 2006	<u>2,239,663</u>

9 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2006 £	2005 £
Profit for the financial year	<u>2,970,172</u>	<u>14</u>
Net increase in shareholders' funds	2,970,172	14
Opening shareholders' funds	<u>4,027,193</u>	<u>4,027,179</u>
Closing shareholders' funds	<u>6,997,365</u>	<u>4,027,193</u>

10 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 I.P. Clarke & Co Limited. 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.