

GPG (UK) Holdings plc



Chairman's Statement

GPG (UK) Holdings plc ("GPGUKH" or "the Company") is a wholly owned subsidiary of Guinness Peat Group plc ("GPG"). The Company has in issue Convertible Loan Notes ("CLNs") of which £6 million remains to be repaid in 2005 and which are listed on the London and New Zealand Stock Exchanges. As a result the Company produces and publishes annual and interim results.

GPG manages its operations, including those of GPGUKH and its subsidiaries, on a Group basis. As such it remains helpful and informative to reproduce here an extract from a statement made by the Chairman of GPG, Sir Ron Brierley, in his interim report for the same period.

Blake Nixon
CHAIRMAN
25 August 2004

Extract from the statement by the Chairman of Guinness Peat Group plc, in respect of the half year ended 30 June 2004.

"Another active and productive half year for GPG, although only a modest £5 million result in conventional accounting terms. As we have stated before, many of GPG's major sources of profit do not fall neatly into six or twelve month reporting periods and some volatility must be accepted. For the same reason, the half year is not necessarily indicative of the full year result when various transactions now under discussion or negotiation are likely to come to fruition.

The acquisition of 100% of **Coats plc** has also had an initial adverse profit impact. We made a policy decision to incur various upfront charges and write-offs as a cost of establishing long term benefits but, in the event, the process has been more painful than originally anticipated. This will persist through the remainder of 2004, but 1 January 2005 will be a symbolic date when Coats begins a new financial year as a reorganised and fully fledged subsidiary of GPG.

Coats' operating profit improved from £6.2 million to £11.5 million for the half year, but was eaten up by refinancing charges and, more particularly, by a geographic mismatch of taxable earnings and unused credits for past losses carried forward. These are issues which GPG can and will resolve, but which require more time to implement on a global scale.

Having completed stage 3 of the Coats exercise (Stage 1, Acquisition of strategic holding, 2. Successful takeover offer, 3. 100% ownership, 4. Full integration with GPG, 5. Deliver results) it is timely to update the profile of our other investments and activities and to define some of the opportunities and challenges on the GPG horizon:

1. Our UK and USA based operating companies are **Staveley Industries (UK)**, **Staveley Inc (USA)** and **Nationwide Accident Repair Services** (50%) with an aggregate book value of £13 million. Earnings of these companies are satisfactory on the relatively low level of invested capital, but somewhat less so in relation to true economic values. Plenty of scope for value improvement including acquisition and industry rationalisation.
2. **Dawson International plc**: After some success in the 1990's, this old established Scottish textile and cashmere manufacturer reverted to problem status several years ago and in 2003 we prudently wrote-off the value of our 30.36 million shares (29.9%). Subsequently, GPG has provided strong proprietorial support including subscribing for 81% of a £10 million convertible notes issue which has assisted to restore the company to a more even keel. In certain circumstances, the exercise of conversion rights at 5p could increase our holding well above the 50% mark. The shares are presently trading at around 8p which is probably a fair reflection of their perceived value and prospects.

3. The balance of the UK share portfolio has a market value of £118 million. The largest components are **De Vere Group** £50 million, **Charter** £25 million and **Young & Co's Brewery** £17 million. GPG has long been agitating for structural changes in all of these companies but, so far, with little success.
4. **Canberra Investment Corporation** (66%) Book value A\$31 million. An excellent, conservatively managed, asset oriented business, well established as a land and housing developer in the Australian Capital Territory.
5. **Capral Aluminium** (37%) Book value A\$65 million. There are parallels with Coats insofar as a major relocation of the main manufacturing operations from NSW to a new modern facility in Queensland has required a recapitalisation of the balance sheet and has adversely affected current profitability. A short term cost for clear long term advantage. GPG's confidence in the future is reflected in the size of its investment in Capral.
6. **Solution 6 Holdings** (19%) Book value A\$26 million. Solution 7! – since 30 June, the merger with **MYOB Ltd** has been concluded, producing a surplus of A\$22 million for GPG (mainly in the form of MYOB shares of which we now hold 7.37%).
7. **Green's Foods** (29%) Book value A\$12 million. Has experienced an impressive revival under the direction of GPG and several other major shareholders. Specialises in niche areas of food manufacture in an industry in Australia otherwise dominated by multinationals.
8. **ABB Grain** (8%) (formerly the Australian Barley Board) Market value A\$25 million. Proposes an agreed merger with Ausbulk Ltd to create a powerful new force in the important Australian rural servicing area. GPG will be a supportive cornerstone shareholder in the new Adelaide based group. Reminiscent of **Southern Farmers Group**, a very successful investment for IEL in the 1970's and 1980's.
9. **Intellect Holdings** (20%) Book value A\$14 million, Market value A\$5 million. Obviously, an unsatisfactory investment as the company has experienced losses and a management upheaval and the market value of our shares is less than half cost. GPG has since underwritten a new issue of shares in conjunction with a capital reconstruction which appears to have a reasonable chance of restoring value. If not, a writedown will be necessary in the second half.
10. The balance of the Australian share portfolio has a market value of A\$155 million. The largest holdings are **Premier Investments** \$50 million, **Australian Pharmaceutical Industries** \$23 million, **AV Jennings** \$21 million and **Reinsurance Australia** \$18 million.
11. **Turners & Growers** (79%) Book value NZ\$114 million. A Stock Exchange listing is imminent and thereafter it is intended to "spin off" the **Enza Foods** business in the same manner as the earlier successful divestment of **Turners Auctions**. This should prove beneficial to Turners & Growers' shareholders without diminishing the strong commitment to its core operations in fruit and produce marketing.
12. The New Zealand share portfolio largely comprises **Rubicon**, **Tenon** and **Tower** with an aggregate market value of NZ\$188 million. All are considered to be sound value, but we are not budgeting more than nominal returns in the current year.

The Directors look forward to reporting good progress in all areas for the full year to 31 December 2004."

Ron Brierley
CHAIRMAN
25 August 2004

Consolidated Profit and Loss Account

	6 months ended 30 June 2004 Unaudited £000	6 months ended 30 June 2003 Unaudited £000	Year ended 31 December 2003 Audited £000
Group turnover	478,613	281,856	552,988
Group operating profit	13,936	45,728	68,192
Share of operating profit of joint ventures and associates	3,379	4,810	24,570
	17,315	50,538	92,762
Profit on sale of business – continuing operations	–	–	19,056
Profit before interest payable	17,315	50,538	111,818
Interest payable and similar charges	(19,059)	(10,883)	(23,358)
(Loss)/profit before taxation	(1,744)	39,655	88,460
Taxation	(7,071)	(14,380)	(21,113)
(Loss)/profit after taxation	(8,815)	25,275	67,347
Minority interests	(986)	(1,199)	(2,641)
(LOSS)/PROFIT ATTRIBUTABLE TO ORDINARY SHAREHOLDERS	(9,801)	24,076	64,706

Consolidated Balance Sheet

	30 June 2004 Unaudited £000	30 June 2003 Unaudited £000	31 December 2003 Audited £000
FIXED ASSETS			
Intangible assets	2,716	(8,779)	(8,283)
Tangible assets	404,876	75,049	76,524
Investments	203,133	251,951	284,491
TOTAL FIXED ASSETS	610,725	318,221	352,732
CURRENT ASSETS			
Debtors	380,456	135,253	90,918
Stocks/Development work in progress	260,275	43,512	28,235
Investments	50,294	21,347	17,426
Cash at bank	211,293	178,091	289,371
TOTAL CURRENT ASSETS	902,318	378,203	425,950
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
Trade and other creditors	(337,397)	(235,597)	(204,864)
Convertible subordinated loan notes	(5,964)	(3,425)	(5,963)
Other borrowings	(82,495)	(35,873)	(838)
TOTAL CURRENT LIABILITIES	(425,856)	(274,895)	(211,665)
Net current assets	476,462	103,308	214,285
TOTAL ASSETS LESS CURRENT LIABILITIES	1,087,187	421,529	567,017
CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR			
Trade and other creditors	(1,249)	(792)	(1,588)
Convertible subordinated loan notes	-	(3,425)	(5,964)
Capital notes	(159,531)	(67,887)	(166,513)
Other borrowings	(309,909)	(15,504)	(22,584)
TOTAL LONG-TERM CREDITORS	(470,689)	(87,608)	(196,649)
PROVISIONS FOR LIABILITIES AND CHARGES	(131,099)	(13,970)	(16,900)
NET ASSETS	485,399	319,951	353,468
CAPITAL AND RESERVES			
Share capital	69,254	61,630	68,137
Share premium account	7,152	10,590	5,458
Capital redemption reserve	3,863	3,863	3,863
Profit and loss account	236,969	227,001	258,173
EQUITY SHAREHOLDERS' FUNDS	317,238	303,084	335,631
Minority interests (equity)	168,161	16,867	17,837
CAPITAL EMPLOYED	485,399	319,951	353,468

Consolidated Cash Flow Statement

	6 months ended 30 June 2004 Unaudited £000	6 months ended 30 June 2003 Unaudited £000	Year ended 31 December 2003 Audited £000
Net cash (outflow)/inflow from operating activities	(15,111)	31,509	91,545
Dividends received from associates and joint ventures	1,897	1,915	5,558
Returns on investments and servicing of finance	(13,500)	(5,705)	(13,247)
Taxation	(7,157)	(4,846)	(5,957)
Capital expenditure and financial investment	(7,712)	(15,984)	(44,652)
Acquisitions and disposals	(61,614)	16,779	31,924
CASH (OUTFLOW)/INFLOW BEFORE MANAGEMENT OF LIQUID RESOURCES AND FINANCING	(103,197)	23,668	65,171
Management of liquid resources	121,007	(67,103)	(157,939)
Financing			
Issue of Ordinary shares	2,370	1,621	80
Increase in debt	21,039	28,768	98,923
INCREASE/(DECREASE) IN CASH FOR THE PERIOD	41,219	(13,046)	6,235
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS			
Increase/(decrease) in cash for the period	41,219	(13,046)	6,235
Cash (inflow)/outflow from decrease/increase in liquid resources	(121,007)	67,103	157,939
Cash inflow from increase in debt	(21,039)	(28,768)	(98,923)
Change in net funds resulting from cash flows	(100,827)	25,289	65,251
Acquisition of subsidiaries	(326,251)	–	–
Currency translation differences	(7,037)	11,299	6,869
Movement in net funds for the period	(434,115)	36,588	72,120
Net funds as at 1 January	87,509	15,389	15,389
CLOSING NET (DEBT)/FUNDS	(346,605)	51,977	87,509

Non-cash transactions:

On 5 July 2004 the Company redeemed the fourth 10p tranche of the remaining convertible subordinated loan notes through the payment of £1,035,000 in cash, with the balance of £4,995,000 being satisfied by the issue of Ordinary shares in the Company.

Notes to the Financial Statements

1. The interim financial information has been prepared on a basis consistent with the accounting policies adopted in the Group's financial statements for the year ended 31 December 2003.
2. Abridged accounts (Companies Act 1985) – The information for the year ended 31 December 2003 is based on the latest published accounts which have been delivered to the Registrar of Companies.
3. Foreign exchange movements – during the six months to 30 June 2004, the Group recognised in operating profit £5.3 million of foreign exchange losses compared to £14.3 million of foreign exchange gains in the six months to 30 June 2003 (£16.2 million gains in the year to 31 December 2003).
4. Coats Group Ltd ("Coats") – a former joint venture company in which the Group held a 63.97% economic interest and a 50% voting interest became a subsidiary undertaking on 1 April 2004 when one of the directors resigned from the board of Coats. Coats contributed a loss of £77,000 before taxation during the six months.
5. The Group's significant associate and joint venture entities are as follows:

	30 June 2004	30 June 2003	31 December 2003
Coats Group (see 4 above)	n/a	63.97%	63.97%
Nationwide Accident Repair Services	50.00%	50.00%	50.00%
Harcourt Hill Estate	50.00%	50.00%	50.00%
Dawson International	29.91%	29.91%	29.91%
Capral Aluminium	36.61%	31.63%	34.26%
Green's Foods	28.99%	25.93%	28.91%

6. On 5 July 2004, those holders of Convertible Loan Notes ("CLNs") who elected to convert their Election Amounts were issued with 11,249,746 Ordinary shares of 10p each in the Company which, through the "Step-up Rights" in the Articles of Association, were converted to an equivalent number of 5p shares in GPG ("Conversion Shares"). The remaining CLN holders were repaid Redemption Amounts of £1.0 million in cash.
7. Publication – This statement is being sent to shareholders and copies will be available at the registered office of the Company, First Floor, Times Place, 45 Pall Mall, London SW1Y 5GP.

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