Interim Report | 2003

Guinness Peat Group plc

GPG

Chairman's Statement

Another 6 months of steady progress, of which the outstanding feature was the successful conclusion to the takeover offer for **Coats plc**. As a consequence, GPG now holds 64% of the joint venture company which, in turn, holds 100% of Coats ordinary shares.

The joint venture acquisition cost approximately £400 million, which was partly financed by an advance of £248 million from Bank of Scotland. Subsequently, this is being consolidated with Coats own borrowings so that the financial profile will be – Shareholders' Funds £149 million and various bank loans £483 million (£446 million net of cash). It is intended to reduce borrowings to a more permanent lower level and in the first instance various surplus properties will be sold and the UK bedwear manufacturing business is in negotiations for sale. After a series of disposals in recent years, Dorma bedwear is the last remaining "non core" division and Coats is now otherwise, for the first time in decades, exclusively focussed on its traditional thread business in which it is the clear world leader.

Coats has a proud history, having been listed on the Stock Exchange since 1909 and, in its prime, was reputed to be the largest company in the UK. It has always been synonymous with the best of British industry, although the changed economics of textile manufacture means that much of the company's overall production is now located in developing countries around the world (operating with 31,000 employees in 63 countries, including manufacturing plants in 40 of those).

The future performance of Coats will obviously be an important component of GPG's results and we are confident it will be a worthy contributor. In conjunction with the takeover offer, GPG received a pre acquisition dividend of £4.5 million less a preliminary accounting loss of £1.3 million, both of which are included in the half year accounts.

GPG's cash balance at 30 June was £156 million which is slightly at the higher end of our normal desired operating range. As we have stated before, there is a cost involved in maintaining a high level of liquidity but, in our view, it is more than compensated by advantages of flexibility, safety and the capacity to act quickly when required.

Consistent with our cash philosophy, we are currently making another issue of capital notes in New Zealand which also facilitates an increased level of investment in New Zealand companies, notably to date, **Turners & Growers, Rubicon** and **Tower**.

GPG provided strong support for Tower's "rights" offer and now holds 17% of the issued capital. The original proposal to subscribe for 30% of Tower was not well received by other major shareholders, possibly due to a failure to recognise that the NZ$200 million capital injection is only the first of a number of measures requiring strong and experienced proprietorial input to redress what has emerged as very poor management and direction since demutualisation.

Since GPG's previous NZ$250 million capital notes issue in 2001, the NZ$ has appreciated quite considerably but GPG's liability is fully hedged against a payment of £70 million (=NZ$195 million at current exchange rates) in 2006 and interest accruals well below the initial 9% coupon rate.

The half year result includes profits on the sales of shares in **Abelle** (which we received as consideration in a takeover offer for our previous 42% holding in **Aurora Gold**), **Turners Auctions, Brickworks** and **Caltex**. There was also an exchange gain of £27 million on the value of Australian and New Zealand assets of which £14 million is recorded in the revenue accounts and £13 million transferred direct to reserves. This effectively reverses corresponding losses in past years' accounts and reinforces the view that GPG's diverse currency exposure is neutral in the long run.

A big disappointment, particularly after earlier success, has been the recent performance of **Dawson International**, the Scottish textile and "Ballantyne" cashmere manufacturer. As a consequence, we have written down the book value of the shares to 10p each, closer to the anticipated level at which GPG will have the option to subscribe for more shares. This results in a charge to profits of £9 million, of which some is so called "equity accounting" and the balance correctly denominated. GPG is now taking a much stronger role in Dawson's management and direction.

GPG was a somewhat reluctant seller of the residual 5% holding in Brickworks which had been a very good investment over a 3 year period, (partly due to our own agitation for change). However, Brickworks has paid a very full price for the acquisition of Bristile which, although undoubtedly the right industry move in the longer term, loads an additional A$600 million of debt on an already distorted capital structure, so GPG prefers to watch from the sidelines, at least for the time being.

The updated "simplified" Balance Sheet provides a useful snapshot of GPG's investment profile as distinct from a conventional group balance sheet. Since 30 June, there has been increased investment in Tower, various UK portfolio stocks and the sale of part of Staveley USA but otherwise no material change.

Simplified Balance Sheet at 30 June 2003	£m
Cash at Bank	156
Debtors	6
Coats	80
Nationwide	9
Staveley (UK & USA)	16
Canberra Investment Corp	11
De Vere	34
Turners & Growers	39
Future tax benefit	3
Share portfolio	151
Total Assets	**505**
Creditors	(19)
Note issues	(75)
SHAREHOLDERS' FUNDS	**£411**

So far, there has been plenty of activity in the second half, which, hopefully, will convert to another satisfactory result for the full year to 31 December 2003.

Ron Brierley
Chairman
28 August 2003

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Consolidated Profit and Loss Account

	6 months ended 30 June 2003 Unaudited £000	6 months ended 30 June 2002 Unaudited £000	Year ended 31 December 2002 Audited £000
Group turnover	**281,856**	254,505	514,836
Group operating profit	**45,395**	31,539	46,863
Share of operating profit of joint ventures and associates	**4,810**	1,376	2,534
	50,205	32,915	49,397
Profit on sale of subsidiary – discontinued operations	**-**	-	12,238
Profit before interest payable	**50,205**	32,915	61,635
Interest payable and similar charges	**(10,884)**	(4,244)	(10,546)
Profit before taxation	**39,321**	28,671	51,089
Taxation	**(14,380)**	(7,199)	(5,203)
Profit after taxation	**24,941**	21,472	45,886
Minority interests	**(1,199)**	(1,451)	(3,425)
PROFIT ATTRIBUTABLE TO ORDINARY SHAREHOLDERS	**23,742**	**20,021**	**42,461**
Dividends proposed	**-**	-	(6,252)
PROFIT RETAINED FOR THE PERIOD	**23,742**	20,021	36,209
Earnings per Ordinary Share – Basic (pence)	**3.44p**	3.04p	6.36p
Dividends per Ordinary Share (pence)	**-**	-	0.91p

Consolidated Balance Sheet

	30 June 2003 Unaudited £000	30 June 2002 Unaudited £000	31 December 2002 Audited £000
FIXED ASSETS			
Intangible assets	**(8,779)**	(5,309)	(10,734)
Tangible assets	**75,641**	69,481	74,349
Investments	**251,951**	226,452	256,189
TOTAL FIXED ASSETS	**318,813**	**290,624**	**319,804**
CURRENT ASSETS			
Debtors	**140,468**	124,745	128,727
Stocks/Development work in progress	**43,512**	53,637	13,981
Investments	**21,347**	34,887	36,874
Cash at bank	**178,318**	161,035	113,827
TOTAL CURRENT ASSETS	**383,645**	**374,304**	**293,409**
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
Trade and other creditors	**(137,946)**	(143,722)	(116,131)
Convertible subordinated loan notes	**(3,425)**	(3,863)	(3,863)
Other borrowings	**(35,873)**	(54,461)	(5,404)
TOTAL CURRENT LIABILITIES	**(177,244)**	**(202,046)**	**(125,398)**
Net current assets	**206,401**	172,258	168,011
TOTAL ASSETS LESS CURRENT LIABILITIES	**525,214**	**462,882**	**487,815**
CREDITORS: AMOUNTS FALLING DUE AFTER 1 YEAR			
Trade and other creditors	**(792)**	(1,344)	(306)
Convertible subordinated loan notes	**(3,425)**	(7,724)	(7,725)
Capital notes	**(67,887)**	(67,511)	(67,765)
Other borrowings	**(15,504)**	(8,207)	(13,672)
TOTAL LONG-TERM CREDITORS	**(87,608)**	**(84,786)**	**(89,468)**
PROVISIONS FOR LIABILITIES AND CHARGES	**(10,107)**	**(10,567)**	**(15,784)**
NET ASSETS	**427,499**	**367,529**	**382,563**
CAPITAL AND RESERVES			
Share capital	**34,823**	60,704	31,094
Share premium account	**2,162**	7,312	1,344
Capital redemption reserve	**-**	3,863	-
Other reserve	**260,596**	-	263,761
Profit and loss account	**113,056**	276,048	71,966
EQUITY SHAREHOLDERS' FUNDS	**410,637**	**347,927**	**368,165**
Minority interest (equity)	**16,862**	19,602	14,398
CAPITAL EMPLOYED	**427,499**	**367,529**	**382,563**
Net assets per share * - (pence)	**58.96**	52.10	53.82
- (Australian cents)	**145.07**	141.49	153.87
- (New Zealand cents)	**166.19**	163.53	165.65

* The net assets per share for June 2002 and December 2002 have been adjusted for the 2003 Capitalisation Issue.

Consolidated Cash Flow Statement

	6 months ended 30 June 2003 Unaudited £000	6 months ended 30 June 2002 Unaudited £000	Year ended 31 December 2002 Audited £000
Net cash inflow from operating activities	**33,827**	28,441	76,149
Dividends received from associates and joint ventures	**1,915**	1,362	2,955
Returns on investments and servicing of finance	**(5,706)**	(4,037)	(10,148)
Taxation	**(4,846)**	(1,950)	(4,093)
Capital expenditure and financial investment	**(16,038)**	(26,948)	(59,134)
Acquisitions and disposals	**16,781**	(14,179)	(19,229)
Equity dividends paid	**(2,113)**	(1,845)	(1,924)
CASH INFLOW/(OUTFLOW) BEFORE MANAGEMENT OF LIQUID RESOURCES AND FINANCING	**23,820**	(19,156)	(15,422)
Management of liquid resources	**(67,103)**	19,302	85,866
Financing			
Issue of ordinary shares	**372**	1,481	1,670
Increase/(decrease) in debt	**30,083**	4,522	(44,355)
(DECREASE)/INCREASE IN CASH FOR THE PERIOD	**(12,828)**	**6,149**	**27,759**

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

(Decrease)/increase in cash for the period	**(12,828)**	6,149	27,759
Cash outflow/(inflow) from decrease/increase in liquid resources	**67,103**	(19,302)	(85,866)
Cash (inflow)/outflow from increase/decrease in debt	**(30,083)**	(4,522)	44,355
Change in net funds resulting from cash flows	**24,192**	(17,675)	(13,752)
Acquisition of subsidiaries	**-**	(45,682)	(49,889)
Disposal of subsidiaries	**-**	-	2,491
Currency translation differences	**11,301**	3,633	(1,448)
Other non-cash movements (see note below)	**1,313**	-	2,866
Movement in net funds for the period	**36,806**	(59,724)	(59,732)
Net funds as at 1 January	**15,398**	75,130	75,130
CLOSING NET FUNDS	**52,204**	**15,406**	**15,398**

Non-cash transactions:

i) On 13 December 2002 the shares in the former Guinness Peat Group plc were acquired by the former Brunel Holdings plc, as part of a reverse acquisition takeover, in exchange for an issue of shares in that company.

ii) On 31 December 2002 the Group in effect sold a 19.96% interest in ENZA Ltd, formerly a 100% subsidiary, in return for an additional 34.12% of Turners & Growers Ltd, formerly a 45.92% associated undertaking.

iii) On 14 February 2003 the Group redeemed 4,378,034 convertible subordinated loan notes, amounting to £1,313,000, satisfied by the issue of Ordinary Shares.

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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 2002.

2. Abridged accounts (Companies Act 1985) – The information for the year ended 31 December 2002 is based on the latest published accounts which have been delivered to the Registrar of Companies.

3. Coats Group Ltd ("Coats Group"), a joint venture company in which GPG holds a 64% economic interest and a 50% voting interest, became the parent company of Coats plc ("Coats") when its offer for Coats was declared unconditional on 7 April 2003. Coats Group contributed a loss of £1,274,000 before taxation during the period.

4. Having regard to the timing of the acquisition of Coats, it has not been possible to complete detailed investigations of the fair values of its assets at acquisition, which are therefore considered to be provisional.

5. The Group's significant associate and joint venture entities are as follows:

	30 June 2003	30 June 2002	31 December 2002
Coats Group	63.97%	n/a	n/a
Nationwide Accident Repair Services	50.00%	50.00%	50.00%
Harcourt Hill Estate	50.00%	50.00%	50.00%
Dawson International	29.91%	n/a	29.91%
Capral Aluminium	31.63%	30.04%	31.26%
Green's Foods	25.93%	n/a	22.93%
Turners Auctions	n/a	45.67%	38.78%
Turners & Growers	n/a	45.67%	n/a

6. Earnings per share – The calculation of earnings per Ordinary share is based on profit after taxation attributable to shareholders and the weighted average number of 689,566,792 Ordinary shares in issue during the six months. The comparatives for the six months to 30 June 2002 and the year to 31 December 2002 have been adjusted for the Capitalisation Issue which took place in May 2003.

7. Changes in the issued share capital during the six months to 30 June 2003 comprise the following:

	£000
At 31 December 2002	31,094
Employee Options exercised	9
Conversion of CLNs (14 February 2003)	144
Scrip Dividend Alternative shares issued (16 May 2003)	411
Capitalisation Issue (27 May 2003)	3,165
At 30 June 2003	34,823

8. Dividends – The directors have not recommended the payment of an interim dividend. The dividend of 1.00p per share for the year ended 31 December 2002 has been adjusted for the 2003 Capitalisation Issue.

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Notes to the Financial Statements – continued

9. On 4 July 2003, those holders of the Convertible Loan Notes ("CLNs") of GPG (UK) Holdings plc ("GPGUKH") who elected to convert their Election Amounts were issued with 2,886,806 Ordinary shares of 5p each ("Conversion Shares") and the remaining CLN holders were repaid Redemption Amounts of £2.1 million in cash. As no Interim Dividend has been declared, the Conversion Shares will, with immediate effect, rank equally with the other shares of the Company.

10. On 9 July 2003, those holders of the Company's shares who elected to accept the Company's Buyback Offer were issued with 26,047,947 GPGUKH CLNs of 20p each in exchange for their holdings of 10,419,320 Ordinary shares of 5p each, leaving 688,929,218 fully paid Ordinary Shares of 5p each then in issue.

11. Directors – The following persons were directors of GPG during the whole of the half-year and up to the date of this report:

    Sir Ron Brierley
    T N J Beyer
    G H Cureton
    A I Gibbs
    B A Nixon
    Dr G H Weiss

12. Directors' Report – The Chairman's Statement appearing in the Interim Results and signed by Sir Ron Brierley provide a comprehensive review of the operations of the Company for the six months ending 30 June 2003.

13. Directors' Declaration – In accordance with a resolution of the directors of Guinness Peat Group plc I state that:

    in the opinion of the Directors:

    a) the Interim Results of the consolidated entity;

        (i) give a true and fair view of the financial position as at 30 June 2003 and the performance for the half-year ended on that date of the consolidated entity, and

        (ii) comply with applicable UK Accounting Standards and the UK Companies Act 1985; and

    b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

    On behalf of the Board.
    T J N Beyer
    Director
    11 September 2003

14. 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. A copy will also be displayed on the Companys' website on www.gpgplc.com.

Independent Review Report

Introduction

We have been instructed by the company to review the financial information for the six months ended 30 June 2003 which comprises the consolidated profit and loss account, the consolidated balance sheet, the consolidated cash flow statement and related notes 1 to 10. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with Bulletin 1999/4 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to them in an independent review report and for not other purpose. To the fullest extent permitted by law, we do not accept or assume reponsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are reponsible for preparing the interim report in accordance with the Listings Rules of the Financial Services Authority in the United Kingdom which require that the accounting policies and presentation applied to the interim figures are consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. We did not review the comparative information presented as at and for the six months ended 30 June 2002. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom auditing standards and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information. This report, including the conclusion, has been prepared for and only only for the company for the purpose of the Listing Rules of the Financial Services Authority in the United Kingdom and for no other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2003.

Deloitte & Touche LLP
Chartered Accountants
14 September 2003

Guinness Peat Group plc

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Registered in England No. 103548

LOCATION OF SHARE REGISTERS

The Company's register of members is maintained in the UK with branch registers in Australia and New Zealand. Register enquiries may be addressed direct to the Company's share registrars named below:

Register	Telephone and postal enquiries	Inspection of Register
UK Main Register: Computershare Investor Services PLC	Owen House, 8 Bankhead Crossway North Edinburgh EH11 4BR Tel: 0870 702 0010 Facsimile: 0870 703 6143	7th Floor, Jupiter House Triton Court, 14 Finnsbury Square London EC2A 1BR
Australian Branch Register: Registries Ltd	PO Box R67 Royal Exchange, Sydney NSW 1224 Tel: 02 9279 0677 Facsimile: 02 9279 0664	Level 2, 28 Margaret Street Sydney NSW 2000
New Zealand Branch Register: Computershare Investor Services Limited	Private Bag 92119, Auckland 1020 Tel: 09 488 8777 Facsimile: 09 488 8787	Level 2, 159 Hurstmere Road Takapuna North Shore City

Guinness Peat Group plc