CONTENTS

It will be recalled that last year's Annual Report stated "we are all striving to make 1997 an exceptional year for GPG."

In the event, this expectation did not translate to the bottom line, where, for various reasons, net profit fell from £19.1 million to £17.4 million but in most other respects it was, indeed, an exceptional year for GPG.

The main causes of the reduction in profit were:

- Adverse exchange rate movements
- Fewer major investment realisations than anticipated
- A possible excess of conservatism in writing off the value of our **Tooth & Co** shares (but which is justified by the continuing uncertainty as to the ultimate value of the company and the relative unmarketability of our 25% shareholding).

In the past, we have always maintained an unhedged currency exposure, which generated a useful surplus in earlier years but, as reported in the interim statement, the trend reversed in 1997 (basically the strength of Sterling in relation to our Australian and New Zealand denominated investments) and continued to worsen in the second half. This resulted in a profit reduction of approximately £3.8 million although it is emphasised that this is largely academic for non UK shareholders, as the Sterling figures produce a correspondingly higher amount in local currencies (eg at current exchange rates the net profit of £17.4m = NZ$49.3m whereas a year ago it would have been equivalent to only NZ$42.1m). In the longer run, we still believe exchange rate fluctuations will largely equalise in the basket of currencies in which our investments are held.

The sale of our **Colonial Motors** shares was timely and was a substantial contributor to overall profitability. So was the sale of the major interest in **Metals Exploration Ltd** which proved to be a very rewarding investment for GPG. Other successful realised investments, but of a lesser scale, included **Gibson Chemical, Iceland Foods, GIO, Ballarat Brewing, Ropner, DB Group and Gazal Industries.**

Perhaps the outstanding feature of the year was the enhancement of GPG's already strong financial position. The simplified balance sheet (which is more relevant for practical purposes than the published balance sheet) must be close to the ideal for an entrepreneurial investment company embarking on new challenges.

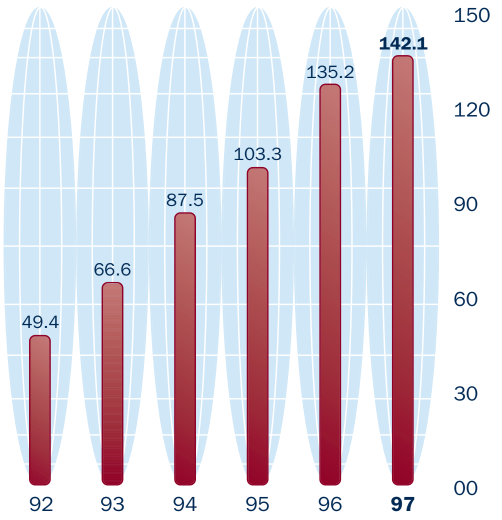
Restated Group Balance Sheet at 31 December 1997
(listed subsidiaries at GPG's net underlying book values)

	£m		£m
Creditors	4	Cash at bank	28
Provisions	5	Current assets	4
Shareholders' Funds	142	Canberra Investment Corp.	4
		Mid East Minerals	8
		PICO Holdings	6
		Turners & Growers	7
		Tyndall Australia	31
		Share Portfolio	63
	£151		**£151**

The market value of investments (including the subsidiaries and associates) is more than £100 million in excess of book value so there is obviously a large reservoir of potential profit for the future. A good example is our 22% of **Premier Investments Ltd** which is not of strategic significance but does provide a very efficient leveraged exposure to Coles Myer Ltd. The increase in market value of our Premier shares during 1997 was £10 million and we decided to hold in anticipation of further gains.

The commercial settlement of the litigation with Burns Philip and others in respect of **Meridian Investment Trust** was a notable achievement, not necessarily in profit terms, but important for the image and

SHAREHOLDERS' FUNDS (£ million)



The published figure for 1995 is adjusted for a change in accounting policy in 1996.

professionalism of Tyndall/GPG in retrieving value for thousands of small investors who had been seriously disadvantaged by their previous managers.

The proposal to merge **Tyndall Australia Ltd** with Tower Corporation (the former NZ Government Life Insurance Office) is the product of many months of top level planning and research. Although the proposal has not been welcomed by Tower, it is, in fact, a very sound concept for both organisations which are similar in size, location and industry. Tower is under pressure to demutualise but is effectively unable to do so without the introduction of new investors. GPG's offer fulfils this need and protects the equity value of New Zealand policy holders which might otherwise be endangered by conflicting alternative agendas.

CAPITAL

In 1997, we showed uncharacteristic restraint in foregoing a rights issue in favour of working within existing resources. This year we have reverted to form in making a 1 for 10 issue at 20p per share, to be followed by the usual 1 for 10 bonus issue.

There is good reason for the rights issue insofar as the scope of opportunity currently available and the necessity to make more sizeable commitments to achieve the required financial impact means we are well placed to utilise the additional funds.

A cash dividend of 6% (0.3p per share) has been declared, with a scrip alternative in the ratio of 1 for 100.

After completion of the new issues, there will be approximately 836 million shares outstanding. It is proposed to halve this number to 418 million by consolidating the existing 5p shares into 10p units. Although purely cosmetic, the perception of a smaller number of issued shares which will trade at a level more consistent with the higher unit prices of most other well regarded listed companies, should be welcome in the market.

OUTLOOK

The 1998 year has already been full of activity which is expected to continue for some time ahead. We recently made a take-over offer for **Bluebird Toys PLC** which, if successful, will be a significant acquisition in the UK. This is consistent with the upgrading of an emphasis on UK investments.

In Australia, one of our original core holdings, **Allgas Energy Ltd** seems likely to be sold on favourable terms as a consequence of a recommended offer from a large US utility group.

We have also made a number of interesting new investments which have not yet reached the public disclosure level.

Notwithstanding some of the more volatile economic factors (especially the Asian effect) the outlook seems reasonably assured for the 1998 year.

Ron Brierley,
CHAIRMAN
11 March 1998

FINANCIAL PROFILE OF OPERATIONS

SUBSIDIARIES

Australia	GPG Holding 31 December 1997	Consolidated Figures: Year ended 31 December 97 — Net profit/(loss) before Minority Interests £000	Turnover £000	At 31 December 97 — Total Assets £000	Shareholders' Funds £000
Tyndall Australia Ltd *Life assurance and funds management*	50.24%	8,982	112,768	414,905	60,980
Canberra Investment Corp Ltd *Property developer*	68.30%	(875)	3,183	10,050	5,221
Mid-East Minerals Ltd *Investment company*	89.75%	3,982	207	8,712	8,631

ASSOCIATES

New Zealand	GPG Holding 31 December 1997	GPG Share of Income Year ended 31 December 1997 £000	GPG Book Value at 31 December 1997 £000	Latest Published Shareholders' Funds* at 30 June 1997 £000
Turners & Growers Ltd *Fresh produce wholesaler and auctioneer*	42.43%	419	6,753	19,986

*At 20 March 1998 rates of exchange

SUMMARY OF PRINCIPAL INVESTMENTS

As at 20 March 1998

DISCLOSED LISTED SHAREHOLDINGS

	Shareholding
Subsidiaries	
Mid-East Minerals Ltd	89.7%
Canberra Investment Corporation Ltd	68.3%
Tyndall Australia Ltd	49.8%

Other Shareholdings

United Kingdom/Europe	
Bluebird Toys PLC	22.8%
Villa D'Este SpA	14.9%
Young & Co's Brewery P.L.C. ('A' Shares)	15.3%
Gowrings plc	14.6%
Staveley Industries plc	12.2%
GR (Holdings) plc	5.7%
Australia	
Tooth & Co. Ltd	24.9%
Premier Investments Ltd	23.5%
Allgas Energy Ltd	12.4%
The Adelaide Steamship Co Ltd	9.4%
Club Crocodile Ltd	6.7%
Tasmanian Trustees Ltd	6.0%
Perpetual Trustees Tasmania Ltd	5.9%
United States of America	
PICO Holdings Inc.	17.8%
Santa Fe Financial Corporation	6.4%

ANALYSIS OF SHAREHOLDINGS

	Cost £000	Market Value £000
Subsidiaries	37,779	126,519
Other	52,971	84,528
Total	90,750	211,047

BOARD OF DIRECTORS

SIR RON BRIERLEY
(Chairman)

Sir Ron Brierley (60) founded Brierley Investments Ltd in 1961 and as Chairman implemented his investment approach successfully over the next 30 years. His other directorships include The Australian Gas Light Company, Tyndall Australia Ltd and Mid-East Minerals Ltd.

M.W. LOOMES
(Executive Director)

Mr Loomes (50) has had over twenty five years experience in the Australian securities industry, principally as an investment analyst and research manager. Other directorships include Tyndall Australia Ltd, Turners & Growers Ltd and Canberra Investment Corporation Ltd.

T.J.N. BEYER
(Non-Executive Director)

Mr Beyer (61) was a director of Brierley Investments Ltd from 1971 to 1994 and has extensive experience on the board of many public companies. Other directorships include Alvis plc, Waterfall Holdings plc and Avimo Group Ltd.

Chairman of the Audit Committee and of the Remuneration Committee

B.A. NIXON
(Executive Director)

Mr Nixon (37) has wide experience of corporate finance in both the UK and Australia. Other directorships include The Groucho Club London plc and Hampshire Company PLC and he is also an alternate director of Tyndall Australia Ltd.

Member of the Audit Committee and of the Remuneration Committee

A.I. GIBBS
(Executive Director)

Mr Gibbs (50) has been involved with public company boards for many years. His experience includes mergers, acquisitions and divestments. He is Chairman of Turners & Growers Ltd and director of The New Zealand Guardian Trust Company Ltd and Tyndall Australia Ltd.

DR G.H. WEISS
(Executive Director)

Dr Weiss (44) has considerable experience in the Australian business sector. Dr Weiss is Deputy Chairman of Tyndall Australia Ltd and Mid-East Minerals Ltd and is a director of various other public companies outside the UK.

Member of the Remuneration Committee

FINANCIAL STATEMENTS

DIRECTORS' REPORT

The directors present their annual report and audited accounts for the year ended 31 December 1997.

REVIEW OF ACTIVITIES

The Company is an investment holding company. During the year subsidiaries were involved in life assurance, funds management, property development and investment. During the period the Group acquired one principal subsidiary being Oceanic Capital Holdings Ltd ("Oceanic") and disposed of two principal subsidiaries being ASC Ltd and Metals Exploration Ltd. Further details of activities during the period are set out in the accompanying Chairman's Statement.

RESULTS AND DIVIDENDS

The results of the Group are shown on page 10 and movements on reserves are set out in note 24. No interim dividend was paid during the year (1996: nil). A final net dividend of 0.24 pence (0.30 pence gross) is recommended (1996: 0.184 pence net, adjusted) and further details are given in note 13.

FIXED ASSETS

Details of fixed assets are set out in note 15 to the accounts.

SHARE CAPITAL

As a result of the 1997 Capitalisation and Scrip Dividend issues, an aggregate of 66,134,382 ordinary shares of the Company were allotted and issued. Details of these and other changes to the Company's share capital and options during the year are set out in note 23 to the accounts.

A special resolution will be put to the 1998 Annual General Meeting to increase the authorised share capital of the Company to £60 million by the creation of 300 million ordinary shares of 5p each (amounting to an increase of approximately 33% of the existing authorised share capital). This is to allow the directors flexibility in future activities following the 1998 Rights issue, the issue of ordinary shares to shareholders who elect to receive the Scrip Dividend Alternative and the 1998 Capitalisation issue referred to in the Chairman's statement.

A special resolution will also be put to the 1998 Annual General Meeting to enable the directors to allot all the authorised but unissued share capital of the Company being £16,278,843 in nominal value pursuant to section 80 of the Companies Act 1985 ("the Act"). Such authority will expire at the end of 5 years from the date of the passing of the resolution. The directors have no present intention of issuing any shares subsequent to the 1998 Annual General Meeting other than in connection with the Scrip Dividend Alternative and the 1998 Rights and Capitalisation issues and on the exercise of any options under the Company's share option schemes.

At the Annual General Meeting held on 14 May 1997 shareholders gave authority to the directors pursuant to section 95 of the Act to allot unissued shares for cash and to do so without regard to the statutory rights of pre-emption of existing shareholders. Such authority was limited to the allotment of shares in connection with a rights issue or up to an aggregate nominal value not exceeding £1,718,981. It is intended that the directors be authorised at the 1998 Annual General Meeting to allot unissued shares for cash in similar circumstances. The number of shares which may be allotted for cash will be up to an aggregate nominal value of £2,099,324 representing approximately 5% of the total enlarged issued share capital of the Company assuming maximum take-up of the 1998 Rights issue and the Scrip Dividend Alternative and full implementation of the 1998 Capitalisation issue. Such authority, unless renewed or varied by the Company in general meeting, will expire at the end of the 1998 Annual General Meeting of the Company or fifteen months after the passing of the resolution, whichever is the earlier. The special resolution relating to the increased authorised share capital and the powers of the directors to allot shares pursuant to section 80 of the Act (as described above) also provides for this section 95 related approval by shareholders. The text of the special resolution is set out in the notice of the 1998 Annual General Meeting on pages 41-43.

The Company's shares are listed on the London, Australian and New Zealand Stock Exchanges. Addresses where the main and branch share registers are maintained in the countries where the Companies shares are listed are set out on page 44.

RIGHTS ISSUE, PROPOSED SCRIP DIVIDEND ALTERNATIVE, CAPITALISATION ISSUE AND SUBSEQUENT CONSOLIDATION

Further details of the proposed dividend and Scrip Dividend Alternative (on the basis of 1 new ordinary share for every 100 existing ordinary shares), the 1998 Rights issue and the proposed Capitalisation issue (in the ratio of 1 new ordinary share for every 10 existing ordinary shares), and subsequent Consolidation (converting every 2 then existing 5p ordinary shares into one 10p ordinary share) are contained in the Circular to shareholders dated 17 April 1998. Ordinary resolutions to approve the dividend, the Scrip Dividend Alternative, the Capitalisation issue and the Consolidation will be proposed at the 1998 Annual General Meeting as set out in the above-mentioned notice. Shareholders' attention is also drawn to the Quick Reference Guide which accompanies this Document and which gives details of the effect of the 1998 Rights issue and the proposed Scrip Dividend Alternative, Capitalisation issue and Consolidation.

SUMMARY FINANCIAL STATEMENTS

Subject to having the relevant authority in their Articles of Association, listed companies are now permitted to send to those shareholders wishing to receive them summary financial statements for each financial year in lieu of full Annual Report & Accounts. The Directors consider that it would be in the interests of both shareholders and the Company that Article 136 of the Company's Articles of Association be amended so that this flexibillity can be made available to shareholders. A Special Resolution (Resolution 9) is therefore being proposed to make the necessary amendment to Article 136.

Copies of the full Annual Report & Accounts would however continue to be sent to any shareholders wishing to receive them. The Directors envisage that this new arrangement will be available in respect of the Company's 1998 Annual Report & Accounts and further details will be sent with the Company's Interim Report later this year, including a form enabling shareholders to request a copy of the full Annual Report & Accounts if they should still wish to receive it.

DIRECTORS

Information regarding the directors is set out on page 6 and also in the Corporate Governance section on pages 35-39.

PRESIDENT

It was with regret that Guinness Peat Group plc learned of the death on Saturday 22 November 1997 of The Rt. Hon. The Lord Kissin of Camden, who had been President of the Company. Lord Kissin was a member of the Board of the then Lewis & Peat Ltd from 15 November 1954 until his resignation as director and chairman on 12 November 1979, at which point he was elected Life President of the Company.

SUBSTANTIAL INTERESTS

Notification has been received by the Company and is maintained in its Register of Substantial Share Interests, as required under the Act, as at 31 March 1998 (the latest practical date before printing this report) that subsidiaries of Merrill Lynch Asset Management held 63,515,770 ordinary shares, 9.24% of the Company's issued capital and Sir Ron Brierley held 25,737,813 such shares, 3.74% of the issued capital.

CREDITOR PAYMENT POLICY

The majority of the Company's trading activity takes place on regulated exchanges and the Company abides by the terms of payment laid down by those exchanges. Otherwise, and in the absence of dispute, amounts due to trade and other suppliers are settled within their terms of payment. As at 31 December 1997, the Company's trade creditors represented 23 days' purchases.

SUBSEQUENT EVENTS

Material events which have occurred since the end of the financial period are referred to in the accompanying Chairman's Statement and described in note 27 to the accounts.

EMPLOYEES

Participation in the conduct and affairs of relevant employing companies is encouraged; arrangements for communication vary with each operating entity. The performance of the Group is communicated to all staff to whom copies of results and announcements are made available.

Full and fair consideration to the employment of disabled persons is given having regard to their abilities and aptitudes, and any existing employee who becomes disabled is trained to ensure that, wherever possible, continuity of employment can be maintained.

DONATIONS

During the period the Company and its subsidiaries made charitable donations of £14,000 (1996: £92,000) and no payments to political parties (1996: £nil).

Guinness Peat Group New Zealand Ltd has entered into a one year sponsorship agreement with the New Zealand Symphony Orchestra at a cost of NZ$100,000 (£35,300). Details of shareholder discounts arising in New Zealand for NZSO performances will be supplied separately to New Zealand shareholders.

CLOSE COMPANY PROVISIONS

The directors are of the opinion that the Close Company provisions of the Income and Corporation Taxes Act 1988 do not apply to the Company.

AUDITORS

The Company's auditors, Coopers & Lybrand, have indicated their willingness to continue in office. Resolutions re-appointing the auditors for the ensuing year and authorising the directors to fix their remuneration will be proposed at the Annual General Meeting.

By order of the Board
Richard Russell
Secretary
1 April 1998

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December 1997

	NOTES	Year ended 31 December 1997 £000	Year ended 31 December 1996 £000
TURNOVER			
Continuing operations		**98,384**	81,641
Acquisitions		**17,773**	–
Total turnover		**116,157**	81,641
Profit on disposal of investments and other investment income	2,3	**67,280**	56,394
Net operating expenses	2	**(155,738)**	(107,947)
OPERATING PROFIT			
Continuing operations		**29,511**	30,088
Acquisitions		**(1,812)**	–
Total operating profit	4	**27,699**	30,088
Income from interests in associated undertakings	5	**447**	3,526
Profit on disposal of businesses	6	**4,998**	224
Profit on ordinary activities before interest		**33,144**	33,838
Interest payable and similar charges	7	**(1,542)**	(931)
Profit on ordinary activities before taxation		**31,602**	32,907
Tax on profit on ordinary activities	10	**(9,969)**	(7,224)
Profit on ordinary activities after taxation		**21,633**	25,683
Minority interests		**(4,252)**	(6,545)
PROFIT FOR THE YEAR ATTRIBUTABLE TO GPG SHAREHOLDERS		**£17,381**	£19,138
Dividends	13	**(1,648)**	(1,241)
Profit retained for the year		**15,733**	17,897
Earnings per Ordinary Share (pence) - Basic	12	**2.53p**	2.84p
Dividends per Ordinary Share (pence) - Gross	13	**0.30p**	0.23p

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CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Year ended 31 December 1997

	NOTES	Year ended 31 December 1997 £000	Year ended 31 December 1996 £000
Profit attributable to ordinary shareholders		**17,381**	19,138
Currency translation differences on foreign currency net investments	24	**(7,473)**	(1,368)
Total recognised gains relating to the year		**9,908**	17,770
Prior year adjustment		**–**	(5,155)
Total gains recognised since last annual report		**9,908**	12,615

With the exception of the Life Assurance business, for which it is not practical to calculate historical cost results, there is no difference between the profit figures reported in the segmental analysis on pages 19 and 20 and their historical cost equivalents.

The prior year adjustment in 1996 relates to the introduction of the Margin on Services actuarial methodology in the Group's Life assurance business.

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	31 December 1997 £000	31 December 1996 £000
Profit attributable to Ordinary Shareholders	**17,381**	19,138
Currency translation differences	**(7,473)**	(1,368)
Total recognised gains for the year	**9,908**	17,770
Dividends proposed	**(1,648)**	(1,241)
Dividends written back	**968**	738
Goodwill written off on acquisitions	**(1,815)**	–
Release of capital reserve on disposals	**(516)**	(166)
Issue of share capital net of Capitalisation issue	**152**	2,710
Share premium on issue of shares (net of expenses of issue)	**15**	12,312
Scrip Dividend Alternative	**(186)**	(154)
Net additions to shareholders' funds	**6,878**	31,969
Opening shareholders' funds	**135,235**	103,266
Closing shareholders' funds	**142,113**	135,235

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CONSOLIDATED BALANCE SHEET

As at 31 December 1997

	NOTES	31 December 1997 £000	31 December 1996 £000
Commercial and investment activities			
Fixed assets			
Tangible assets	15a)	**4,001**	3,679
Royalties	15b)	**–**	1,942
Land for development	15c)	**3,417**	5,129
Investments	15d)	**83,048**	84,287
		90,466	95,037
Current assets			
Debtors: amounts falling due within one year	16	**25,662**	11,429
Development work in progress		**3,314**	4,622
Investments	17	**20,320**	11,062
Cash at bank and in hand		**37,313**	46,989
		177,075	169,139
Life assurance business			
Investments and linked assets	36b)	**273,103**	172,685
Life business at acquisition	36c)	**13,474**	4,421
Debtors and prepayments	36d)	**47,018**	45,146
Cash at bank and in hand		**30,632**	31,479
		364,227	253,731
TOTAL ASSETS		**£541,302**	£422,870

	NOTES	31 December 1997 £000	31 December 1996 £000
Capital and reserves			
Share capital	23	**34,326**	31,016
Share premium account	24	**20,140**	23,469
Other reserves	24	**(782)**	1,549
Profit and loss account	24	**88,429**	79,201
EQUITY SHAREHOLDERS' FUNDS		**142,113**	135,235
Minority interests	31	**32,883**	38,173
Net assets		**174,996**	173,408
Commercial and investment activities			
Creditors: amounts falling due within one year			
Trade and other creditors	18	**23,315**	17,580
Borrowings	19	**10,060**	4,511
Creditors: amounts falling due after one year			
Trade and other creditors	18	**903**	800
Borrowings	19	**12,814**	7,073
Provisions for liabilities and charges	20	**6,672**	5,030
		53,764	34,994
Life assurance business			
Policyholders' liabilities	36e)	**283,821**	194,810
Other liabilities	36f)	**28,721**	19,658
		312,542	214,468
TOTAL FUNDS EMPLOYED		**£541,302**	£422,870

Blake Nixon
Director

Approved by the Board on 1 April 1998

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COMPANY BALANCE SHEET

As at 31 December 1997

	NOTES	31 December 1997 £000	31 December 1996 £000
Fixed assets			
Tangible assets	15a)	**119**	178
Investments	15d)	**96,352**	82,229
		96,471	82,407
Current assets			
Debtors: amounts falling due within one year	16	**19,598**	20,394
Cash at bank and in hand		**27,372**	28,266
		46,970	48,660
Creditors: amounts falling due within one year			
Trade and other creditors	18	**(31,802)**	(27,752)
Net current assets		**15,168**	20,908
Total assets less current liabilities		**111,639**	103,315
Provisions for liabilities and charges			
Other provisions	20	**(470)**	(559)
Net assets		**111,169**	102,756
Capital and reserves			
Share capital	23	**34,326**	31,016
Share premium account	24	**20,140**	23,469
Profit and loss account	24	**56,703**	48,271
		111,169	102,756

Blake Nixon
Director

Approved by the Board on 1 April 1998

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CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 1997

	NOTES	Year ended 31 December 1997 £000	Year ended 31 December 1996 £000
Net cash flow from operating activities	29a)	**11,441**	23,043
Returns on investments and servicing of finance	29b)	**(1,056)**	(1,246)
Taxation	29c)	**303**	(1,943)
Capital expenditure and financial investment	29d)	**(17,709)**	(28,016)
Acquisitions and disposals	29e)	**(16,679)**	6,725
Equity dividends paid	29f)	**(273)**	(281)
Cash outflow before management of liquid resources and financing		**(23,973)**	(1,718)
Management of liquid resources	29g)	**(1,341)**	(22,170)
Financing			
Issue of ordinary shares	29h)	**5,307**	18,978
Increase in debt	29h)	**10,890**	52
Decrease in cash in the year		**(9,117)**	(4,858)

Reconciliation of net cash flow to movement in net funds			
Decrease in cash in the year		**(9,117)**	(4,858)
Cash outflow from increase in liquid resources		**1,341**	22,170
Cash inflow from increase in debt and lease financing		**(10,890)**	(52)
Change in net funds resulting from cash flows		**(18,666)**	17,260
Loans acquired with subsidiary		**(101)**	–
Convertible Loan Notes issued as purchase consideration		**(1,980)**	–
Translation difference		**(219)**	(284)
Movement in net funds in the year	29i)	**(20,966)**	16,976
Net funds at 1 January 1997		**35,405**	18,429
Net funds at 31 December 1997		**14,439**	35,405

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NOTES TO THE ACCOUNTS

1 PRINCIPAL ACCOUNTING POLICIES

The following are the principal policies adopted in arriving at the financial information set out in this report. The policies have been consistently applied.

a) Accounting Convention and Format

The Group accounts comply with applicable UK accounting standards. They have been prepared on an historical cost basis as modified to include certain insurance assets at market value.

The format of the cash flow statement has been modified to implement the revised version of Financial Reporting Standard No.1 (“FRS1”) which was issued in October 1996.

The Group is not an insurance group, as defined by UK regulations, and therefore prepares its accounts in accordance with Schedule 4 of the Companies Act 1985. However, financial information on the Group’s long term insurance business activities is presented in a manner consistent with the provisions of that Act applicable to insurance companies and with the draft guidance on “Accounting for Insurance Business” issued by the Association of British Insurers on 18 December 1995, including revisions made on 22 January 1997 (“the ABI Guidance”). This is necessary to present the Group’s activities in a meaningful way.

b) Basis of Preparation

The Group accounts consolidate the accounts of the Company and its subsidiaries. The principal subsidiaries are listed in note 35. The results of subsidiaries acquired or disposed of are consolidated in the Group accounts from and to the dates of acquisition and disposal respectively. Associates are accounted for using the equity method.

c) Foreign Currencies

Assets and liabilities in foreign currencies are translated at the exchange rates ruling at the balance sheet date, unless hedged through foreign currency transactions. Revenues and expenses arising in foreign currency have been translated either at the rate applicable when incurred or, in the case of foreign subsidiaries and associates, at the year end rate.

Differences on exchange arising from the retranslation of opening net investments in subsidiaries are taken to reserves. All other foreign exchange differences are taken to the profit and loss account in the period in which they arise.

d) Fixed Assets

Fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated using accelerated or straight line methods over the expected useful life of the asset. The principal annual rates used are:

– Leasehold improvements and buildings: shorter of the estimated useful life of the improvement or the remaining term of the lease.
– Furniture and equipment: 10-50 per cent.
– Motor vehicles: 20-33½ per cent.
– Land is not depreciated.

e) Investments

Investments held for the long term are stated at cost or, where there has been a permanent diminution in value, at directors’ valuation. For this purpose art investments are professionally valued as at each balance sheet date.

In Tyndall’s Life operations, quoted shares and other securities held in the long term funds are recorded at market value. Government, local and semi-government securities, company debentures and mortgage-backed securities held in the long term funds are valued by applying the redemption yield for each security as quoted by an independent valuer. Realised and unrealised gains or losses in the long term funds are taken into account in full as income or expense each period.

Land held for development is valued at cost or, where there has been a permanent diminution in value, at directors’ valuation. Land for resale and work in progress is valued at the lower of cost and net realisable value. Cost includes capitalised interest and those costs necessary to prepare land for sale.

Investments held as current assets are stated at the lower of cost and market value.

f) Leases

Leased assets classified as finance leases are capitalised as fixed assets. The amount initially brought to account is the present value of minimum lease payments. Finance lease payments are allocated between interest expense and reduction of lease liability over the term of the lease.

Operating lease payments are charged as an expense in the period in which they are incurred.

g) Goodwill

Goodwill, representing the excess of the cost of shares in subsidiaries and associates over the fair value of their assets, is written off directly to reserves in the Group balance sheet as at the acquisition date or as the amounts become payable. In the event of a permanent diminution in value of a fixed asset investment which is a subsidiary or associate, goodwill is written off through the profit and loss account at the time the diminution is identified.

Any discount paid to fair value of net assets acquired is taken directly to reserves. This discount is released through the profit and loss account when the business, or underlying asset, to which it related is sold.

h) Turnover

Turnover consists of the net invoiced value of sales to third parties, premiums, commissions, brokerage and fees, before charging VAT (or other sales taxes), and other miscellaneous trading income.

Tyndall recognises fees on its investment management activities when they become billable to the client. Tyndall's Life operations' premiums on investment-linked business are recognised as revenue on a cash received basis which is not materially different from the due basis. All other premiums are recognised as premium income when due. Unpaid premiums are only recognised as revenue during the days of grace or where secured by the surrender value of the policy. Premiums are shown net of reinsurance premiums paid.

Up to the date of disposal of Metals Exploration Ltd, royalty revenues were recognised as earned based on mine production figures.

The New Zealand Guardian Trust Co. recognises all revenues on an accruals basis except that Trustees' Commissions and Special Fees are recognised on a cash receipts basis, and that Deferred Executors' Commissions are recognised on a time-weighted accrual basis.

Canberra Investment Corporation recognises income from sales only when unconditional contracts have been exchanged and 10% of the contract price received.

i) Insurance Company

(i) Basis of accounting – Margin on Services

Tyndall's Life operations' accrued earnings are determined using the Margin on Services actuarial methodology. This approach is consistent, in all material respects, with the principles outlined in the ABI Guidance. Its principal features are as follows:

- The liability to policyholders under existing life insurance policies is determined on the basis of the best estimate of future income and expenses arising from these policies using assumptions which reflect actual and expected future experience.
- Profit is recognised as it is earned through the provision of services and the receipt of related income over the life of the policies in force.
- Acquisition costs are deferred and amortised in a manner consistent with the pattern of emerging profits.
- Realised and unrealised gains and losses on investments are taken into account in full in the year in which they arise. Realised gains and losses are calculated with respect to the investments' carrying values at the previous balance sheet date.
- The principal assumptions used in valuing the policyholders' liabilities include an interest rate of 12.5% gross of tax, and mortality and morbidity rates based on local actuarial tables.

(ii) The valuation of Life business at acquisition

This represents the value attributed by the directors to the in-force business of the Life operations at the date of acquisition by the Group. The value is based on an actuarial appraisal carried out by the Appointed Actuary of the life operation at 31 December 1991 and of the additional life business acquired in January 1997. This asset is not amortised, but each year the directors review the carrying value and any permanent diminution in its value is reflected by a writedown to the value of Life business at acquisition.

(iii) The fund for future appropriations

This represents amounts which have yet to be allocated to either participating policyholders or to shareholders. Transfers to, or from, the fund reflect the accrued earnings on participating business to the extent that these have not been allocated to participating policyholders or to shareholders.

(iv) Policyholders' liabilities

Policyholders' liabilities in respect of linked business represent the value of the outstanding units in force at the balance sheet date.

j) Pensions

Pensions costs in respect of defined contribution schemes are charged to the profit and loss account in the year to which they relate.

k) Taxation

Provision has been made in the accounts for domestic and foreign taxation assessable on the profit for the period as adjusted for disallowable and non-taxable items. Deferred taxation is provided on the liability method on timing differences and revaluation surpluses, including unrealised investment gains, where the liability is expected to arise within the foreseeable future.

l) Investment Income

The Directors regard the Group's investment activities as an integral component of its continuing operations. Therefore interest receivable and the profit on disposal of investments and other investment income have been classified as part of the operating profit of continuing operations. Income from investments (other than that attributable to long term funds of Tyndall's Life operations) is recognised when declared. Investment income attributable to the long term funds of Tyndall's Life operations is recognised when earned.

m) Claims Recognition

Claims under Tyndall's investment-linked business are recognised when the policy ceases to participate in the earnings of the fund. Claims on all other business are recorded, depending on the nature of the policy, when the insured event occurs or is notified.

n) Employee Entitlements

Provision is made by Australian and New Zealand subsidiaries for long service leave and annual leave to be payable to employees on the basis of statutory and contractual requirements.

o) Amortisation

The fair value of the Kambalda nickel royalty was amortised up to the date of disposal of Metals Exploration Ltd on 8 April 1997 (see note 15b)).

2 ANALYSIS OF OPERATING PROFIT

	Year ended 31 December 1997 Investment income £000	Year ended 31 December 1997 Net operating expenses £000	Year ended 31 December 1996 Investment income £000	Year ended 31 December 1996 Net operating expenses £000
Continuing operations				
(see note (i) below)	**54,513**	**(127,299)**	43,479	(107,947)
Acquisitions	**8,854**	**(27,925)**	–	–
Exceptional items				
Continuing operations				
Investment income (see note (ii) below)	**3,913**	**–**	12,915	–
Acquisitions				
Reorganisation provisions (see note (iii) below)	**–**	**(4,118)**	–	–
Profit arising from reduction in Life assurance administration costs (see note (iv) below)	**–**	**3,604**	–	–
Total	**67,280**	**(155,738)**	56,394	(107,947)

NOTES:

(i) Included in net operating expenses are net foreign exchange losses of £2,007,000 (1996: losses of £494,000).

(ii) Investment income for 1997 includes the profit on disposal of shares in The Colonial Motor Company Limited of £3,913,000. Investment income for 1996 includes gains on the outcome of various litigations and the disposal of shares in Physicians Insurance Company of Ohio ("PICO").

(iii) Reorganisation provisions arose in Oceanic Capital Holdings Ltd ("Oceanic") as part of that company's integration into the Tyndall Group.

(iv) An exceptional gain has been recorded by Tyndall as a result of a reduction between the average maintenance expense assumption per policy for Oceanic's Life business on acquisition and that following the integration of this business into Tyndall's existing Life operations.

3 PROFIT ON DISPOSAL OF INVESTMENTS AND OTHER INCOME

	Year ended 31 December 1997 £000	Year ended 31 December 1996 £000
Commercial and investment activities		
Interest receivable	**3,282**	3,541
Profit on disposal of investments	**14,508**	10,769
Income from listed investments	**4,215**	952
Net writedown to market value of certain investments	**(1,133)**	(1,618)
Other income	**3,050**	9,399
	23,922	23,043
Life assurance (see note 36a))	**43,358**	33,351
	67,280	56,394

4 OPERATING PROFIT

	Year ended 31 December 1997 £000	Year ended 31 December 1996 £000
Operating profit of continuing operations is stated after charging:		
Depreciation and amortisation	**1,194**	1,864
Auditors' remuneration (see note below)	**344**	341
Directors' emoluments including gains on the exercise of share options (see note 22)	**1,119**	862
Operating lease costs (land and buildings)	**2,407**	3,287

NOTE:

In addition, non-audit services provided to the Company by its auditors amounted to £120,000 (1996: £106,000).

The cost of the audit of the Company for the year was £87,000 (1996: £83,000).

5 INCOME FROM INTERESTS IN ASSOCIATED UNDERTAKINGS

	Year nded 31 December 1997 £000	Year ended 31 December 1996 £000
Share of trading (losses)/profits	**(620)**	1,850
Share of profit on property disposals	**1,067**	1,676
	447	3,526

6 PROFIT ON DISPOSAL OF BUSINESSES

	Year ended 31 December 1997 £000	Year ended 31 December 1996 £000
Profit on disposal of Metals Exploration Ltd	**3,764**	–
Profit on disposal of ASC Ltd	**590**	–
Profit on disposal of Brown Shipley operations	**644**	224
	4,998	224

NOTES:

(i) The Brown Shipley operations consisted of its stockbroking and PEP management businesses, which were sold on 29 December 1995, together with the balance of Brown Shipley's asset management businesses. These were treated as discontinued operations. Additional proceeds were recognised in 1996 in respect of these disposals, and in 1997 the Group released certain provisions for warranties relating to the disposal.

(ii) No tax was attributable to the profits reported above.

(iii) The results of ASC Ltd and Metals Exploration Ltd have been presented within continuing operations.

7 INTEREST PAYABLE AND SIMILAR CHARGES

	Year ended 31 December 1997 £000	Year ended 31 December 1996 £000
Bank loans and overdrafts	**(1,672)**	(1,095)
On finance leases	**(4)**	(1)
	(1,676)	(1,096)
Interest capitalised	**134**	165
	(1,542)	(931)

NOTE:

The cumulative amount of capitalised interest included in development land held by Canberra Investment Corporation at 31 December 1997 was £1,684,000 (1996: £2,041,000).

8 SEGMENTAL INFORMATION

	Turnover		Profit before tax		Profit after tax and minority interests		Net assets	
	1997	1996	**1997**	1996	**1997**	1996	**1997**	1996
a) Type of business	**£000**	£000	**£000**	£000	**£000**	£000	**£000**	£000
Investment	**3,389**	4,148	**10,801**	16,338	**9,346**	11,669	**112,606**	119,744
Funds management	**19,737**	19,963	**1,496**	2,512	**792**	970	**10,918**	9,365
Life assurance	**93,031**	57,530	**14,307**	12,157	**2,649**	4,599	**51,472**	44,299
Profit on disposal of businesses	**–**	–	**4,998**	1,900	**4,594**	1,900	**–**	–
	116,157	81,641	**31,602**	32,907	**17,381**	19,138	**174,996**	173,408

8 SEGMENTAL INFORMATION *continued*

	Turnover		Profit before tax		Profit after tax and minority interests		Net assets	
	1997	1996	**1997**	1996	**1997**	1996	**1997**	1996
b) Geographical origin	**£000**	£000	**£000**	£000	**£000**	£000	**£000**	£000
(see notes (i) and (ii) below)								
UK/Europe								
(see note (iii) below)	**–**	1,058	**5,443**	12,769	**5,164**	9,685	**68,139**	62,060
Australasia	**116,157**	80,583	**26,159**	20,138	**12,217**	9,453	**106,857**	111,348
	116,157	81,641	**31,602**	32,907	**17,381**	19,138	**174,996**	173,408

NOTES:

(i) Operating profit arising from the Company's investment activities is deemed to be of UK origin.

(ii) The geographical segmentation of turnover by destination is not materially different from turnover by origin.

(iii) The assets of the Company are included in the UK/Europe geographical segment although a number of investee companies operate outside this area.

9 EMPLOYEE INFORMATION

a) The average number of persons employed by the Group was:

	Year ended 31 December 1997	Year ended 31 December 1996
Continuing operations including acquisitions		
Commercial and investment activities	**425**	363
Life assurance	**270**	248
	695	611

b) Group employment costs – all employees including directors

	£000	£000
Continuing operations including directors		
Aggregate gross wages and salaries	**14,503**	15,008
Employers' national insurance contributions or foreign equivalents	**734**	764
Employers' pension contributions	**1,162**	1,076
Total direct costs of employment	**16,399**	16,848

10 TAX ON PROFIT ON ORDINARY ACTIVITIES

	Year ended 31 December 1997 £000	Year ended 31 December 1996 £000
UK corporation tax based on profits for the year at 31.5 per cent (1996: 33 per cent)	**(275)**	(2,248)
Prior year corporation tax credit	**199**	–
ACT written off	**(102)**	(55)
Tax attributable to associated undertakings	**(28)**	(982)
Overseas tax	**(9,828)**	(4,170)
Transfer from deferred tax – overseas	**65**	231
Total tax charge	**(9,969)**	(7,224)

NOTES:

(i) Surplus ACT of approximately £2 million remains available for future offset. This amount has not been recognised in the financial statements.

(ii) Substantial capital losses remain available to the Group.

(iii) Australian subsidiaries have income tax losses amounting to A$38,100,000 (£15,087,000) at 31 December 1997 which have not been recognised in these financial statements.

11 PENSION COSTS

The Company has a liability in respect of former directors' and employees' pensions currently being paid, amounting to £71,853 per annum. Provision has been made for the estimated liability based on actuarial advice. Pension costs for current employees are expensed as they are incurred.

Tyndall operates an accumulation fund which provides superannuation benefits for its members. This fund provides benefits payable on retirement, death, disability and resignation based on contributions paid by members and by Tyndall. All benefits that would have been vested under the fund's trust deeds in the event of the termination of the fund or voluntary or compulsory termination of employment of each employee are equal to the net realisable value of all investments and insurances held for each member.

A New Zealand subsidiary has made provision for discretionary pension payments paid to retirees and their spouses on an actuarially determined basis.

12 EARNINGS PER ORDINARY SHARE

Earnings per ordinary share is calculated on a net basis using earnings after taxation and after minority interests for the year ended 31 December 1997 of £17,381,000 (1996: £19,138,000) and the adjusted weighted average number of 686,494,756 ordinary shares (1996: 673,045,016 ordinary shares) in issue during the year and amounts to 2.53 pence (1996: 2.84 pence). Earnings per ordinary share for 1996 has been adjusted for the Capitalisation issues in 1997.

13 DIVIDENDS

An ordinary dividend of 0.30p (gross) per share is recommended for the year ended 31 December 1997 (1996: 0.23p gross, adjusted). This is subject to a right for shareholders to elect instead of the cash dividend to receive one new ordinary share for every 100 existing shares held at the appropriate record date. The cash dividend includes a tax credit of 20% of the gross amount. The dividend per share for 1996 has been adjusted for the 1997 Capitalisation issues.

There are local regulatory differences in the countries in which the Group's shares are listed, resulting in different taxation treatment and timing. A circular containing full details, including information relating to payment, timetable and taxation is being posted to shareholders on 17 April 1998.

14 PROFIT OF THE COMPANY

A profit of £9,112,000 (1996: £14,007,000) has been dealt with in the accounts of the Company. As permitted by Section 230 of the Companies Act 1985, the Company has not published a separate profit and loss account.

15 FIXED ASSETS

a) Tangible assets

	Leasehold improvements £000	Furniture and equipment £000	Motor vehicles £000	Land and buildings £000	Total £000
Group					
Cost or valuation					
At 31 December 1996	1,528	5,658	1,557	388	9,131
Currency translation differences	(198)	(772)	(204)	(53)	(1,227)
Additions	361	1,112	416	379	2,268
Disposals	(3)	(158)	(442)	(300)	(903)
Disposal of subsidiaries	–	(10)	(18)	–	(28)
At 31 December 1997	**1,688**	**5,830**	**1,309**	**414**	**9,241**
Accumulated depreciation					
At 31 December 1996	978	3,718	654	102	5,452
Currency translation differences	(154)	(646)	(81)	(11)	(892)
Charge for the year	157	691	301	9	1,158
Disposals	(2)	(132)	(227)	(89)	(450)
Disposal of subsidiaries	–	(10)	(18)	–	(28)
At 31 December 1997	**979**	**3,621**	**629**	**11**	**5,240**
Net book value at 31 December 1997	**709**	**2,209**	**680**	**403**	**4,001**
Net book value at 31 December 1996	550	1,940	903	286	3,679

15 FIXED ASSETS *continued*

Company	Leasehold improvements £000	Furniture and equipment £000	Motor vehicles £000	Land and buildings £000	Total £000
Cost					
At 31 December 1996	174	138	126	–	438
Additions	4	11	–	–	15
At 31 December 1997	**178**	**149**	**126**	–	**453**
Accumulated depreciation					
At 31 December 1996	137	45	78	–	260
Charge for the year	35	11	28	–	74
At 31 December 1997	**172**	**56**	**106**	–	**334**
Net book value at 31 December 1997	**6**	**93**	**20**	–	**119**
Net book value at 31 December 1996	37	93	48	–	178

b) Royalties (nickel mining)	Total £000
At 31 December 1996	1,942
Currency translation differences	(285)
Amortisation during the year	(36)
Disposal of subsidiary	(1,621)
At 31 December 1997	–

c) Land for development

At 31 December 1996	5,129
Currency translation differences	(753)
Purchases	831
Transfer to current assets	(579)
Write-down to recoverable amount	(1,211)
At 31 December 1997	**3,417**

d) Investments (non-current)

Group	**31 December 1997 £000**	31 December 1996 £000
Listed investments	**72,573**	64,226
Unlisted investments	**2,068**	759
Interests in associated undertakings	**6,753**	17,537
Art portfolio	**1,654**	1,765
	83,048	84,287

The movement in the Group's investments is analysed as follows:

	Listed investments £000	Unlisted investments £000	Associated undertakings £000	Art portfolio £000
At 31 December 1996	64,226	759	17,537	1,765
Additions	85,626	621	129	–
Disposals	(74,305)	(2,244)	(10,053)	(111)
Net writedown of investments	(1,082)	106	–	–
Share of retained profits of associated undertakings	–	–	(860)	–
Currency translation differences	(1,892)	–	–	–
Acquisition of subsidiary	–	2,826	–	–
At 31 December 1997	**72,573**	**2,068**	**6,753**	**1,654**

15 FIXED ASSETS *continued*

	31 December 1997 £000	31 December 1996 £000
Company		
Investments in subsidiaries	**40,850**	39,241
Listed investments	**48,879**	34,769
Unlisted investments	**4,969**	6,454
Art portfolio	**1,654**	1,765
	96,352	82,229

The Company's unlisted investments include an investment which is treated as an associated undertaking in the Group.

The movement in the Company's investments is analysed as follows:

	Investments in subsidiaries £000	Listed investments £000	Unlisted investments £000	Art portfolio £000
At 31 December 1996	39,241	34,769	6,454	1,765
Additions	1,609	62,628	337	–
Disposals	–	(48,518)	(1,822)	(111)
At 31 December 1997	**40,850**	**48,879**	**4,969**	**1,654**

The market value of the Group's listed investments, including listed associated undertakings, at 31 December 1997 was £145,851,000 (1996: £97,549,000). All listed shares are quoted on recognised Stock Exchanges.

The aggregate net profit retained to date by associated undertakings is £1,917,000 (1996: £2,041,000).

As at 31 December 1997 the market value of the Company's listed investments (excluding listed subsidiaries) was £62,667,000 (1996: £50,186,000) and the market value of the Company's listed subsidiaries was £19,220,000 (1996: £16,210,000). In the opinion of the directors, the value of investments in subsidiaries is not less than the amount at which they are stated in the Company's accounts.

The Group's principal operating subsidiaries are listed in note 35.

Analysis of significant holdings at 31 December 1997

Company	Capital & Reserves 000s	Latest Profit/(Loss) 000s	Date of last published accounts			
Holdings exceeding 20%: treated as associated undertakings						
Turners & Growers Ltd (see page 4)	NZ$59,267	NZ$9,018	30.06.97	New Zealand	42.43%	Ordinary
Holdings exceeding 20%: not treated as associated undertakings (see note (i) below)						
Bluebird Toys PLC	£20,533	£6,701	31.12.96	United Kingdom	20.28%	Ordinary
Premier Investments Ltd	A$237,921	A$11,863	30.06.97	Australia	23.53%	Ordinary
Tooth & Co Ltd	A$(33,206)	A$11,604	30.06.97	Australia	24.91%	Ordinary

NOTES:

(i) Bluebird Toys PLC, Premier Investments Ltd and Tooth & Co Ltd are not regarded as associated undertakings because the directors do not believe that the Group has significant influence over these companies, due to the dominant influence of other members or the composition of their Boards.

(ii) The total paid for associated undertakings was £4,836,000 which represents a discount of £2,122,000 to the share of net assets on acquisition.

16 DEBTORS

	31 December 1997 £000	31 December 1996 £000
Amounts falling due within one year		
Group		
Trade debtors	**4,115**	3,633
Other debtors	**16,359**	5,546
Prepayments and accrued income	**881**	586
Deferred tax asset (see note below)	**4,307**	1,664
	25,662	11,429
Company		
Amounts due from subsidiaries	**17,810**	18,652
Other debtors	**1,670**	1,536
Prepayments and accrued income	**118**	206
	19,598	20,394

NOTE:

The deferred tax assets in 1997 and 1996 arose in respect of short term timing differences, and represent the amounts where the recoverability of the asset is assured beyond a reasonable doubt. Potential deferred tax assets of £2,974,000 (1996: £1,413,000) have not been recognised.

17 CURRENT ASSET INVESTMENTS

	31 December 1997 £000	31 December 1996 £000
Group		
Listed investments	**19,689**	10,962
Unlisted investments	**631**	94
Art portfolio	**–**	6
	20,320	11,062

NOTE:

The market value of listed current asset investments is £21,201,000 (1996: £12,399,000).

18 CREDITORS

	31 December 1997 £000	31 December 1996 £000
Group		
(a) Amounts falling due within one year:		
Trade creditors	**1,614**	628
Taxation payable	**3,880**	4,699
Accruals and deferred income	**3,069**	5,232
Employee entitlements	**1,300**	1,160
Dividend due to minority interests in Tyndall	**1,397**	1,305
Dividend payable	**1,648**	1,241
Other creditors	**10,407**	3,315
	23,315	17,580
(b) Amounts falling due after one year:		
Employee entitlements	**564**	473
Other creditors	**339**	327
	903	800

18 CREDITORS *continued*

Company	31 December 1997 £000	31 December 1996 £000
Amounts due within one year:		
Amounts due to subsidiary undertakings	**28,262**	24,000
Taxation payable	**554**	477
Accruals and deferred income	**788**	1,250
Other creditors	**2,198**	2,025
	31,802	27,752

19 BORROWINGS

	Secured £000	Unsecured £000	31 December 1997 Total £000	31 December 1996 Total £000
Borrowings repayable within one year	**8,044**	**2,016**	**10,060**	4,511
Borrowings repayable between one and two years	**1,485**	**–**	**1,485**	1,346
Borrowings repayable between two and five years	**11,329**	**–**	**11,329**	1,439
Borrowings repayable after five years	**–**	**–**	**–**	4,288
	20,858	**2,016**	**22,874**	11,584

NOTES:

(i) The secured amount substantially represents a loan of A$46,715,000 (£18,499,000) repayable by instalments. The loan is secured by registered fixed and floating charges over all assets and undertakings of Tyndall and its subsidiaries. The balance of £2,359,000 is secured against property held by Canberra Investment Corporation Ltd for development. These borrowings are subject to floating interest rates.

(ii) Included in unsecured borrowings at 31 December 1997 are Convertible Loan Notes issued by Tyndall to the vendor of Oceanic amounting to A$5,000,000 (£1,980,000). On 16 February 1998 these notes were cancelled upon settlement of certain warranty claims against the vendor.

(iii) The Company had no borrowings at 31 December 1997 (1996: £NIL).

20 PROVISIONS FOR LIABILITIES AND CHARGES

Group	31 December 1997 £000	31 December 1996 £000
Deferred taxation (see note (i) below)	**1,132**	1,970
Pension liability (see note (ii) below)	**1,167**	1,404
Empty office space (see note (iii) below)	**1,468**	1,656
Accident claims (see note (iv) below	**2,905**	–
	6,672	5,030
Company		
Pension liability (see note (v) below)	**470**	559

Movements in provisions

	Deferred tax £000	Pension liability £000	Empty office space £000	Accident claims £000
At 31 December 1996	1,970	1,404	1,656	–
Currency translation differences	(289)	(120)	–	–
Acquisition of subsidiary	40	–	–	3,703
Utilisation of provision	–	(78)	(357)	(2,648)
Disposal of subsidiary	(524)	–	–	–
Charge to/(release from) profit and loss account	(65)	(39)	169	1,850
At 31 December 1997	**1,132**	**1,167**	**1,468**	**2,905**

NOTES:

(i) The deferred taxation provision is in respect of short-term timing differences arising on a land revaluation and deferred costs in Canberra Investment Corporation Ltd and represents the full potential liability.

(ii) Included in the pension liability is an amount of £160,000 due within one year (1996: £140,000).

(iii) Included in the provision for empty office space is an amount of £253,000 which relates to amounts payable within one year (1996: £335,000).

(iv) Accident claims of £2,495,000, which arose on the acquisition of Oceanic, are payable within one year and are included in creditors.

(v) Included in the Company's pension liability is an amount of £72,000 payable within one year (1996: £75,000).

21 LEASING COMMITMENTS

The annual commitments of the continuing businesses under operating leases expiring:

	Land and buildings		Other assets	
	31 December 1997 £000	31 December 1996 £000	**31 December 1997 £000**	31 December 1996 £000
Within one year	**1,069**	840	**27**	341
Between one and five years	**510**	741	**–**	336
Over five years	**1,448**	1,529	**–**	–
	3,027	3,110	**27**	677

22 DIRECTORS' EMOLUMENTS

Directors' emoluments may be summarised as follows:

	Year ended 31 December 1997	Year ended 31 December 1996
Aggregate emoluments	**798**	798
Gains made on exercise of share options	**252**	–
Pension contributions	**69**	64
	1,119	862

Further details of directors' emoluments are provided on page 36.

23 SHARE CAPITAL

	31 December 1997 Number	**31 December 1997 £000**	31 December 1996 Number	31 December 1996 £000
Authorised				
Ordinary Shares of 5 pence each	**686,526,789**	**34,326**	620,312,407	31,016
Unclassified Shares of 5 pence each	**213,473,211**	**10,674**	279,687,593	13,984
		45,000		45,000
Issued and fully paid				
Ordinary Shares of 5 pence each	**686,526,789**	**34,326**	620,312,407	31,016

a) During 1997 the following issues and allotments of ordinary shares of 5p each were made, representing an aggregate nominal value of £3,310,719.

Date of issue and allotment	**No. of shares**	**Allotment price (pence per share)**
16 May 1997	3,722,418	Credited as fully paid
19 May 1997	62,392,829	Credited as fully paid
12 September 1997	19,135	Credited as fully paid

In addition, 80,000 shares were issued on exercise of options by employees at 23.32 pence.

Since the year end 1,212,541 shares have been allotted in respect of exercise of share options.

23 SHARE CAPITAL *continued*

b) Following adjustments, grants, exercises and lapses during the year, options outstanding at 31 December 1997 were as set out below.

Share Option Scheme	Number	Date of Grant	Exercise price (p per share)	Exercise period
1985 Share Option Scheme				
Ordinary	1,888,374	05.06.92	9.46	05.06.95 to 04.06.02
Ordinary	2,119,988	19.04.93	11.19	19.04.96 to 18.04.03
1992 Share Option Scheme				
Ordinary	5,084,851	05.06.92	9.46	05.06.95 to 04.06.99
Ordinary	5,319,534	19.04.93	11.19	19.04.96 to 18.04.00
Ordinary	7,917,015	12.05.94	23.32	12.05.97 to 11.05.04
Super	6,090,013	12.05.94	23.32	12.05.99 to 11.05.04
Ordinary	1,176,480	06.10.94	22.04	06.10.97 to 05.10.04
Super	692,047	06.10.94	22.04	06.10.99 to 05.10.04
Ordinary	1,213,035	25.08.95	23.10	25.08.98 to 24.08.05
Super	2,734,470	25.08.95	23.10	25.08.00 to 24.08.05
Ordinary	40,338	03.01.96	26.35	03.01.99 to 02.01.06
Super	154,199	03.01.96	26.35	03.01.99 to 02.01.06
Ordinary	363,000	11.04.96	29.75	11.04.99 to 10.04.06
Super	242,000	11.04.96	29.75	11.04.99 to 10.04.06
Ordinary	1,715,780	08.05.96	30.17	08.05.99 to 07.05.06
Super	1,815,000	08.05.96	30.17	08.05.99 to 07.05.06
Ordinary	1,595,000*	13.01.97	30.45	13.01.00 to 12.01.07
Super	275,000*	13.01.97	30.45	13.01.00 to 12.01.07
Ordinary	3,195,000*	01.09.97	38.00	01.09.00 to 31.08.07
Ordinary	110,000*	07.11.97	37.00	07.11.00 to 06.11.07
Super	240,000*	07.11.97	37.00	07.11.02 to 06.11.07
1994 Share Option Scheme				
Ordinary	1,442,502	12.05.94	23.32	12.05.97 to 11.05.04
Super	456,751	12.05.94	23.32	12.05.99 to 11.05.04
Ordinary	215,878	25.08.95	23.10	25.08.98 to 24.08.05
Super	431,759	25.08.95	23.10	25.08.00 to 24.08.05
Ordinary	113,861	03.01.96	26.35	03.01.99 to 02.01.06
Ordinary	48,400	11.04.96	29.75	11.04.99 to 10.04.06
Ordinary	99,220	08.05.96	30.17	08.05.99 to 07.05.06
Ordinary	90,000*	01.09.97	38.00	01.09.00 to 31.08.07

* Granted during 1997.

Super options will normally be exercisable after five years from date of grant subject to the satisfaction of the two following performance targets: first, that the consolidated net assets per share of the Group over the five year period prior to exercise increases at a rate which at least matches the rate of increase of at least 75% of the FTSE 100 companies as measured by their increase in net assets per share; and second, the percentage increase in the Group's consolidated net assets per share must at least match 110% of the increase in the retail prices index over the relevant period.

Options exercised during the year comprised 80,000 shares under the 1992 scheme. No options lapsed. Since the year end, options over 1,212,541 shares have been exercised at a price of 11.19 pence.

Options outstanding at the beginning of the year (including those exercised) have been adjusted as to price and number to reflect the effect of the Capitalisation issues during the year. Where required, Inland Revenue approval to changes was obtained.

24 RESERVES

The movements in reserves are:

	Share premium account £000	Other reserves £000	Profit and loss account £000
Group			
At 31 December 1996	**23,469**	**1,549**	**79,201**
Goodwill on acquisitions (see note (ii) below)	–	**(1,815)**	–
Release of capital reserve on disposals (see note (iii) below)	–	**(516)**	–
Dividends written back (see note (iv) below)	–	–	**968**
Premium on shares issued	**15**	–	–
Capitalisation issue of shares (including expenses)	**(3,158)**	–	–
Scrip Dividend Alternative	**(186)**	–	–
Foreign exchange translation	–	–	**(7,473)**
Retained profit for the year	–	–	**15,733**
At 31 December 1997	**20,140**	**(782)**	**88,429**
Company			
At 31 December 1996	**23,469**	–	**48,271**
Dividends written back	–	–	**968**
Premium on shares issued	**15**	–	–
Capitalisation issue of shares (including expenses)	**(3,158)**	–	–
Scrip Dividend Alternative	**(186)**	–	–
Retained profit for the year	–	–	**7,464**
At 31 December 1997	**20,140**	–	**56,703**

NOTES:

(i) Other reserves comprise capital reserves and goodwill arising on consolidation.

(ii) The goodwill arising on acquisitions was in respect of Oceanic, BZW Funds Management NZ and White & Lewis Consulting, all of which were acquired by Tyndall.

(iii) The release of capital reserve on disposals was in respect of Metals Exploration Ltd and ASC Ltd.

(iv) Dividends have been written back to the extent that shareholders elected for the Scrip Dividend Alternative.

(v) The cumulative amount of goodwill written off to reserves at 31 December 1997 is £6,827,000 (1996: £5,012,000).

25 CONTINGENT LIABILITIES

a) The Company remains as primary guarantor in relation to certain contingent liabilities arising from its involvement with Fenchurch, but has the benefit of equivalent indemnification from the purchaser. Following the disposal of Forstman Leff Associates and GM Capital Corporation certain contingent obligations remain with the Company, none of which are considered material.

b) Two subsidiary companies of Tyndall have undertaken to repurchase units in trusts for which they act as manager. Net assets of those trusts, to which the companies would have recourse in the event of a contingent liability crystallising, have a market value at 31 December 1997 in excess of any liability which may occur.

c) Following the disposal of the Brown Shipley stockbroking and PEP management businesses, certain representations and warranties were given against which no material losses are expected to arise.

26 CAPITAL COMMITMENTS

At 31 December 1997 there were no significant capital commitments.

27 SUBSEQUENT EVENTS

The Company has fully underwritten the current Tyndall 1:10 rights issue at A$2.00 per share. Since 31 December 1997, GPG's holding in Tyndall has been diluted to 49.84% and the cost of taking up GPG's entitlement will be A$20,353,000 (£8,060,000) and the maximum commitment is A$40,838,000 (£16,172,000). At the date of this Report, Tyndall remains a subsidiary of the Company.

On 19 January 1998, the Company announced its offer for Bluebird Toys PLC at 101 pence per share, valuing the company at approximately £42 million. The Company presently owns 9,513,000 Bluebird shares representing 22.87% of the issued share capital. On 30 March 1998, Mattel Inc. made a cash offer of 111 pence per share for Bluebird, valuing the company at approximately £46 million.

On 12 February 1998, Tyndall and the Statutory Funds of Tyndall Life disposed of their combined 9.31% interest in Perpetual Trustees Australia Ltd for A$36,000,000 (£14,256,000).

28 ACQUISITION OF SUBSIDIARIES AND OTHER BUSINESSES

	Net assets acquired £000	Accounting policy adjustments £000	Other fair value adjustments £000	Adjusted net assets £000
Commercial and investment activities				
Investments (fixed and current)	4,875	–	(1,127)	3,748
Debtors	6,695	–	–	6,695
Cash	2,761	–	–	2,761
Creditors	(4,655)	–	–	(4,655)
Provisions	(3,743)	–	–	(3,743)
Borrowings	(101)	–		(101)
	5,832	–	(1,127)	**4,705**
Life assurance business				
Tangible fixed assets	944	(198)	–	746
Investments	67,691	–	(3,466)	64,225
Life business at acquisition	–	–	9,702	9,702
Debtors	8,180	–	(4,356)	3,824
Cash	2,777	–	–	2,777
Creditors	(3,370)	–	–	(3,370)
Policyholders' liabilities	(65,352)	(7,607)	–	(72,959)
	10,870	(7,805)	1,880	**4,945**
Total net assets	**16,702**	(7,805)	753	**9,650**
Cost of acquisitions				(13,262)
Total goodwill on acquisitions				(3,612)
Goodwill attributable to acquisition of Oceanic				(2,490)
Goodwill attributable to other business acquisitions				(1,122)
Total goodwill on acquisitions				(3,612)
Attributable to minority interests in Tyndall				1,797
Goodwill attributable to GPG				**(1,815)**

NOTES:

(i) Oceanic was acquired by Tyndall in January 1997 and has been consolidated for the full year.

(ii) Fair value adjustments all relate to Oceanic and are explained below:
- The accounting policy adjustments were to bring the fixed assets into line with the Group's accounting policies and to apply the Margin on Services methodology to the calculation of policyholders' liabilities.
- Adjustments to investments relate to the writedown of South Molle Island and various properties, based on the amounts subsequently realised from these assets.
- Adjustments to debtors relate to the irrecoverability of certain items, including a Future Income Tax benefit.
- The Life business at acquisition comprises the fair value of in-force policies.

(iii) The businesses of BZW Funds Management NZ and White & Lewis Consulting had no net assets on acquisition and goodwill is equal to the consideration paid. The contribution from these businesses to the Group's results was not significant.

(iv) Oceanic's audited financial statements for the year ended 30 June 1996 showed a profit after tax and minority interests of A$6,531,000 (£3,031,000). These results were not calculated on the Margin on Services basis, and have not been adjusted to reflect GPG's accounting policies. No audited accounts were prepared for the period from 1 July 1996 to the date of acquisition.

(v) Oceanic reduced the Group's operating cash flows by £2,034,000, received £454,000 in respect of taxation and received £3,376,000 for capital expenditure and financial investment. In addition, Oceanic has increased its liquid resources by £2,339,000 since it was acquired.

29 NOTES TO THE CASH FLOW

a) Reconciliation of operating profit to net cash inflow from operations

	31 December 1997 £000	31 December 1996 £000
Operating profit	**27,699**	30,088
Depreciation and amortisation	**1,194**	1,854
Profit on disposal of fixed assets	**(219)**	(192)
Amounts written off land for development	**1,211**	–
Amounts written off against investments	**1,133**	1,618
Increase in debtors	**(1,422)**	(736)
(Decrease)/increase in provisions	**(1,103)**	242
Accrued earnings – Life business	**(14,307)**	(12,157)
Statutory profit – Life business	**3,643**	3,713
Increase in creditors	**2,081**	1,998
Increase in current asset investments	**(8,554)**	(3,436)
Currency and other adjustments	**85**	51
Net cash inflow from operations	**11,441**	23,043

Non-cash activities

The Company and Tyndall have scrip dividend alternative and dividend reinvestment plans respectively. These arrangements have had the effect of increasing cash flows by £2,421,000 (1996: £2,009,000) through shareholders' electing to receive shares in lieu of their cash dividends. Part of the consideration for the acquisition of Oceanic was settled by issuing Convertible Loan Notes (£1,980,000).

NOTE:

Net cash outflow from operations includes the profits and losses resulting from sales of investments which are considered to be cash inflows generated in the normal course of business.

b) Returns on investments and servicing of finance

	31 December 1997 £000	31 December 1996 £000
Interest paid	**(1,676)**	(1,330)
Dividends paid by subsidiaries to Minority Interests	**(659)**	(833)
Dividends received from associated undertakings	**1,279**	917
	(1,056)	(1,246)
c) Taxation		
UK corporation tax refunded	**–**	58
Overseas tax paid	**(574)**	(2,001)
Overseas tax refunded	**877**	–
	303	(1,943)
d) Capital expenditure and financial investment		
Payments to acquire property, plant or equipment	**(2,268)**	(1,672)
Purchase of fixed asset investments	**(86,376)**	(37,675)
Purchase of land for development	**(697)**	–
Capital injection into Statutory Funds	**(8,693)**	–
Receipts from the disposal of property, plant or equipment	**672**	305
Sale of fixed asset investments at cost	**79,653**	11,026
	(17,709)	(28,016)
e) Acquisitions and disposals		
Net receipts from sale of subsidiary undertakings	**(4,198)**	6,725
Net payments to acquire subsidiary undertakings and businesses	**(12,481)**	–
	(16,679)	6,725
f) Equity dividends paid		
Balance as at 1 January	**(1,241)**	(1,019)
Less: shares in lieu of cash dividend	**968**	738
	(273)	(281)
g) Management of liquid resources		
Cash placed on short term deposits	**(18,583)**	(35,709)
Withdrawals from short term deposits	**17,242**	13,539
	(1,341)	(22,170)

29 NOTES TO CASH FLOW *continued*

h) Financing	31 December 1997	31 December 1996
Issue of ordinary shares by Company	**19**	15,336
Issue of ordinary shares to minority shareholders	**5,326**	4,110
Expenses of share issues	**(38)**	(468)
Issue of ordinary shares	**5,307**	18,978
New loans taken out	**37,295**	12,344
Loans repaid	**(26,405)**	(12,292)
Increase in debt	**10,890**	52
Net cash inflow from financing	**16,197**	19,030

i) Analysis of Net Funds

	1 January 1997	Cash flow	Acquisitions/ Disposals	Other non-cash	Exchange Movement	31 December 1997
Group						
Cash in hand, at bank	**46,989**	(7,776)	–	–	(1,900)	**37,313**
Less: liquid resources	**(30,257)**	(1,341)	–	–	546	**(31,052)**
	16,732	(9,117)	–	–	(1,354)	**6,261**
Debt due within 1 year	**(4,511)**	(2,514)	(101)	(3,577)	643	**(10,060)**
Debt due after 1 year	**(7,073)**	(8,376)	–	1,597	1,038	**(12,814)**
	(11,584)	(10,890)	(101)	(1,980)	1,681	**(22,874)**
Liquid resources	**30,257**	1,341	–	–	(546)	**31,052**
Total	**35,405**	**(18,666)**	**(101)**	**(1,980)**	**(219)**	**14,439**

NOTE:
Liquid resources comprise short and medium term deposits.

30 ANALYSIS OF CHANGES IN CASH AND LIQUID RESOURCES DURING THE YEAR

	31 December 1997 £000	31 December 1996 £000
Opening balance	**46,989**	30,223
Net cash outflow	**(9,117)**	(4,858)
Liquid resources	**1,341**	22,170
Currency translation differences	**(1,900)**	(546)
Closing balance	**37,313**	46,989

31 ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital (inc. premium) £000	Minority interests £000	Loans and finance leases £000
At 31 December 1996	**54,485**	**38,173**	**11,584**
Currency translation differences	–	**(5,601)**	**(1,681)**
Shares issued for cash (net of expenses)	**(19)**	–	–
Loans taken out	–	–	**37,295**
Borrowings repaid	–	–	**(26,405)**
Acquisition of subsidiary	–	–	**2,081**
Share of goodwill written off	–	**(1,797)**	–
Share of profits for year	–	**4,252**	–
Minority participation in subsidiaries' share issues (including Scrip dividends)	–	**6,928**	–
Net reduction in interests in subsidiaries	–	**316**	–
Disposal of subsidiaries	–	**(6,992)**	–
Dividends paid/payable (including Scrip dividends)	–	**(2,396)**	–
At 31 December 1997	**54,466**	**32,883**	**22,874**

32 PURCHASE OF SUBSIDIARY UNDERTAKINGS AND BUSINESSES

The analysis of the net outflow of cash in respect of subsidiaries and businesses purchased is as follows:

	Year ended 31 December 1997 £000	Year ended 31 December 1996 £000
Consideration invested in acquiring subsidiaries and businesses	**13,262**	–
Cash refunded from escrow post year-end	**3,960**	–
	17,222	–
Convertible loan notes issued as part of purchase consideration	**(1,980)**	–
Cash payments in respect of acquisitions	**15,242**	–
Cash held by subsidiaries and businesses acquired	**(2,761)**	–
Net outflow of cash in respect of the purchase of subsidiaries and businesses	**12,481**	–

33 DISPOSAL OF SUBSIDIARY UNDERTAKINGS

	Year ended 31 December 1997 £000	Year ended 31 December 1996 £000
Net assets of subsidiaries sold:		
Fixed assets (royalties)	**1,621**	–
Debtors	**367**	–
Cash at bank	**19,277**	–
Creditors	**(2,052)**	–
Deferred taxation	**(524)**	–
	18,689	–
Minority interests	**(6,992)**	–
Shares retained in Metals Exploration Ltd	**(200)**	–
	11,497	–
Profit on disposal (including release of capital reserves)	**4,998**	224
Less non-cash items	**(1,002)**	–
Consideration receivable	**15,493**	224
Proceeds receivable	**15,493**	224
Cash held by subsidaries sold	**(19,277)**	–
Adjustments for deferred consideration	**(414)**	6,501
Net (reduction)/increase in cash	**(4,198)**	6,725

The operations disposed of in 1997 were ASC Limited and Metals Exploration Ltd.

34 RELATED PARTY DISCLOSURES

The Tyndall Group provides advisory services to the Statutory Funds of Tyndall's Life operations. The fees charged to the Statutory Funds during the year were £1,429,000 (1996: £1,017,000). The Statutory Funds are also charged for their share of Tyndall Group's overhead expenses. This recharge totalled £5,338,000 in 1997 (1996: £4,860,000).

The Tyndall Group also acts as manager to several unlisted and listed trusts and receives portfolio management fees. As manager it buys and sells units in these trusts. The Tyndall Group has loaned certain of these trusts amounts totalling £407,000 (1996: £488,000) at commercial rates of interest. The trusts paid £29,000 (1996: £19,000) in interest during the year.

Details of a transaction during 1996 between a director and an overseas subsidiary can be found in the Corporate Governance section on page 39.

35 PRINCIPAL SUBSIDIARY UNDERTAKINGS

The Group's principal subsidiary undertakings at 31 December 1997 are set out below. Unless stated otherwise, in each case, Guinness Peat Group plc, either itself or through its subsidiaries, is the beneficial owner of all of the equity share capital, all of which is fully paid.

Name and country of incorporation/operation	Issued share capital	Nature of business
Tyndall Australia Ltd (Australia) 50.24% (1996: 50.40%)	202,540,108 ordinary shares of A$0.20 each	Life assurance and funds management
Mid-East Minerals Ltd (Australia) 89.75% (1996: 89.75%)	20,994,034 ordinary shares of A$0.25 each	Investment company
Canberra Investment Corporation Ltd (Australia) 68.31% (1996: 37.80%)	30,800,000 ordinary shares of A$0.40 each	Property developer
GPG Securities Trading Limited (England)	2 ordinary shares of £1 each	Securities trading
GPG (Australia) Pty Ltd (Australia)	4,000,000 ordinary shares of A$1 each	Holding company
Guinness Peat Group New Zealand Ltd (New Zealand)	250,000 ordinary shares of NZ$1 each	Securities trading

36 LIFE ASSURANCE BUSINESS

a) Long term revenue account

	Year ended 31 December 1997 £000	Year ended 31 December 1997 £000	Year ended 31 December 1996 £000	Year ended 31 December 1996 £000
Earned premiums, net of reinsurance		**93,031**		57,530
Investment income				
Profit on disposal of investments and other investment income	**42,907**		29,992	
Unrealised investment income	**451**		3,359	
		43,358		33,351
Claims incurred, net of reinsurance		**(46,393)**		(35,074)
Net change in policyholders' liabilities				
Policyholders' liabilities for linked business	**(39,449)**		(25,918)	
Change in long term business provision	**(9,581)**		(870)	
		(49,030)		(26,788)
Net operating expenses				
Acquisition costs	**(9,840)**		(9,897)	
Change in deferred acquisition costs	**1,848**		3,388	
Administrative expenses	**(15,774)**		(7,913)	
		(23,766)		(14,422)
Investment expenses and charges		**(1,413)**		(1,231)
Tax charge attributable to the long term business		**(9,034)**		(3,032)
Transfer to fund for future appropriations		**(1,480)**		(1,209)
Balance on the long term revenue account		**5,273**		9,125
Minority interests		**(2,624)**		(4,526)
Profits attributable to GPG shareholders		**2,649**		4,599

NOTE:
The profits attributable to GPG shareholders in 1997 reflect exceptional items disclosed in Note 2 relating to the acquisition of Oceanic.

b) Investments

	31 December 1997 £000	31 December 1996 £000
Financial investments		
Shares and other variable yield securities	**45,679**	48,182
Debt securities and other fixed income securities	**54,380**	5,860
	100,059	54,042
Assets held to cover linked liabilities	**173,044**	118,643
	273,103	172,685
Financial investments comprise the following:		
Listed outside the UK	**75,769**	34,070
Unlisted	**24,290**	19,972
	100,059	54,042

At 31 December 1997 the cost of the financial investments was £99,100,000 (1996: £48,577,000).

c) Value of Life business

At 31 December 1997, the directors' valuation of the total life business was £29,929,000 (1996: £17,112,000), incorporating Life business at acquisition. This valuation is based on the appraisal of the future surpluses applicable to shareholders which are likely to arise from the business in force at the date of the valuation. These surpluses have been discounted using a rate of 12.5% per annum (1996: 12.5%).

36 LIFE ASSURANCE BUSINESS *continued*

d) Debtors and prepayments

	31 December 1997 £000	31 December 1997 £000	31 December 1996 £000	31 December 1996 £000
	£000	**£000**	£000	£000
Deferred acquisition costs		**35,243**		37,888
Debtors		**10,271**		5,234
Prepayments and accrued income		**1,504**		2,024
		47,018		45,146

e) Policyholder liabilities (net of reinsurance)

Linked business		**161,634**		115,339
Participating business:				
Long term business provision	**92,831**		63,919	
Claims outstanding	**29,356**		15,552	
		122,187		79,471
		283,821		194,810

Claims outstanding are stated net of reinsurance of £23,072,000 (1996: £13,595,000).

f) Other liabilities

Fund for future appropriations	**7,177**	5,289
Creditors	**12,135**	9,577
Provisions	**7,945**	–
Accruals and deferred income	**1,464**	4,792
	28,721	19,658

37 ANALYSIS OF NET ASSETS

The group's net assets may be summarised as follows:

	£m		£m
Creditors	4	Cash at bank	28
Provisions	5	Current assets	4
Shareholders' funds	142	Canberra Investment Corp.	4
		Mid-East Minerals	8
		PICO Holdings	6
		Turners & Growers	7
		Tyndall Australia	31
		Share portfolio	63
	£151		**£151**

NOTE:

The above analysis shows the Group's share of the net assets of its listed subsidiaries, rather than the respective assets and liabilities of those companies, together with the book value of the Group's remaining net assets (including the investments in Turners & Growers Ltd and PICO Holdings Inc). The shareholders' funds figure is that reported in the consolidated balance sheet on pages 12 and 13.

CORPORATE GOVERNANCE

DIRECTORS

The Board consists of two non-executive and four executive directors as listed on page 6 all of whom served throughout the period. None of the directors has a contract of service with the Company or any of its subsidiaries. In accordance with the Articles of Association Sir Ron Brierley and Dr G H Weiss retire by rotation at the conclusion of the 1998 Annual General Meeting and, being eligible, offer themselves for re-election. The non-executive directors are not appointed for a specified term, but must seek re-election every three years.

The interests of the directors, including connected persons, in the share capital of the Company and its subsidiaries are set out in the Report on Remuneration and Related Matters below. Except as set out on page 39 no director, either during or at the end of the year under review, was interested in any material contract (not being a contract of employment) with the Company or any of its subsidiaries nor has become so interested since the year end.

COMPLIANCE

The Company has complied with the Cadbury Committee's Code of Best Practice ("the Code") insofar as its terms are considered relevant and practical. However, in view of the Company's size, structure and management style, and the direct involvement of the directors in the day to day activities of the Group, full compliance with the Code is considered inappropriate. Exceptions are mentioned under the appropriate subject headings, and the position is continually reviewed and monitored by the directors and management.

INTERNAL FINANCIAL CONTROL

The directors acknowledge that they are responsible for the Group's system of internal financial control, although it must be recognised that any system cannot provide absolute assurance against material misstatement or loss.

The Board as a whole is responsible for setting and achieving the Group's objectives and policies, and the maintenance and custody of its assets. It meets with such frequency as is practical and necessary to ensure full and effective control over the Group.

The directors reviewed the effectiveness of the internal financial controls of the Company and its subsidiary undertakings during March 1997 and repeated this exercise in March 1998. At least one GPG director is appointed to the board of each principal subsidiary. Each subsidiary's board has been notified of its responsibilities for identifying key business risks and establishing appropriate control procedures. They were also required to acknowledge, in writing, that they are aware of their responsibilities with respect to internal financial control systems. The systems were reviewed principally through the completion of internal questionnaires, the results of which were reported to the Audit Committee and the Board of Guinness Peat Group plc.

Further reviews will be conducted from time to time, and professional advice, where appropriate, will be sought from the auditors.

AUDIT COMMITTEE

An Audit Committee was established on 19 December 1995. It consists of one non-executive director, Mr T J N Beyer, who chairs the committee and one executive director, Mr B A Nixon. The Board considers that the appointment of only one non-executive director to the Audit Committee is sufficient to ensure the integrity of the Group's financial reporting and controls.

GOING CONCERN

Giving due consideration to the nature of the Group's business and underlying investments, the directors consider that the Company and the Group are a going concern and the financial statements are prepared on that basis.

REPORT ON REMUNERATION AND RELATED MATTERS

Introduction

For completeness, this report covers the remuneration of executive and non-executive directors and also related matters such as directors' interests in shares of the Company. It therefore covers issues which are the concern of the Board as a whole, in addition to those dealt with by the Remuneration Committee.

Remuneration Committee

The Remuneration Committee was established on 12 December 1995. It is chaired by Mr T J N Beyer, a non-executive director. The Chairman of the Company, Sir Ron Brierley, has delegated full responsibility and authority to Mr Beyer. As with the Audit Committee, it is the view of the Board that the appointment of Mr Beyer as the only non-executive director is sufficient to ensure the integrity and independence of the Remuneration Committee in fulfilling its duties. The Committee also includes two executive directors. Save as aforesaid, this Committee complies as far as practicable with Section A of the Best Practice Provisions annexed to the Listing Rules of the London Stock Exchange. It meets with such frequency as may be required to fulfil its responsibilities and has access to internal and external professional advice as deemed necessary. The Committee gives full consideration to Section B of the Best Practice Provisions referred to above in carrying out its duties.

Current membership of the Committee is indicated on page 6.

Directors' Remuneration Policy

It remains the Remuneration Committee's policy that remuneration and benefit levels should be sufficiently competitive, having regard to local remuneration practice in the country in which the director works, to attract, incentivise, reward and retain the directors.

The make-up of directors' remuneration varies subject to geographical location and the nature of the appointment but includes:

- Annual benefits: including a competitive basic salary, directors' fees as appropriate, health and car benefits and life assurance. Directors are not entitled to any performance related cash bonuses.
- Long term incentives: directors are entitled to receive awards of Options under the Company's share option schemes, as referred to overleaf.
- Pensions contributions: see the Notes below the following table.

Details of individual directors' remuneration are provided below:

Name	Salaries & Fees £	Current Year Benefits in Kind £	Aggregate emoluments £	Prior Year Total £	Gains on share options exercised £	Current Year Pension £	Prior Year Pension £
Non Executive							
Sir Ron Brierley	–	–	–	–	99,097	–	–
T J N Beyer	80,000	1,306	81,306	81,040	–	–	–
Executive							
A I Gibbs	155,274	–	155,274	106,939	–	–	–
M W Loomes	122,761	–	122,761	128,272	76,229	10,759	–
B A Nixon	200,000	13,167	213,167	211,884	–	20,000	20,000
Dr G H Weiss	226,166	–	226,166	269,679	76,229	38,015	44,556

The aggregate emoluments and gains on share options exercised for the highest paid director were £302,395 (1996: £269,679).

NOTES:

1. Share options are awarded to directors and senior staff in accordance with the terms of the Company's share option schemes, the terms of which have been approved by the shareholders. The Company does not operate any other long term incentive schemes or award cash bonuses. It is felt that the grant of options is more appropriate since this contains an element of reward for individual achievement together with an incentive allied to the Company's longer term performance. The approach also aligns management interests with those of Shareholders. Awards are made each year in the context of the Company's performance in the preceding year, the individual's contribution to that performance, and his or her expected performance and contribution in the future. In addition, awards are calculated having regard to the individual's existing holdings.
   There were no changes to or departures from that policy in the year under review. Details of directors' share options and shareholdings are set out below.
2. In addition to his salary B A Nixon receives contributions to a Personal Pension arrangement of his choice assessed at 10% of his salary. The remaining executive directors are entitled to direct that a variable amount of their total salary, as determined by the Remuneration Committee each year, be paid by way of contribution to any pension arrangement which they may establish for the purpose.
3. "Benefits in kind" include the provision of a fully expensed company car, private health insurance and miscellaneous expenses.
4. T J N Beyer's remuneration figure includes an amount of £35,000 by way of director's fees.
5. The prior year figures for Messrs Gibbs and Loomes are calculated from date of appointment.
6. Directors are also entitled to direct that a variable amount of their total salary, as determined by the Remuneration Committee each year, be paid in a form other than cash.
7. All pension contributions are in respect of defined contribution arrangements.
8. Overseas directors' emoluments, which are paid in local currency, have been translated at the relevant year end exchange rate.
9. The directors did not exercise any share options in 1996.

DIRECTORS' INTERESTS

a) The interests of the directors who held office at the end of the period, and connected persons, in the shares and options of the Company and its subsidiaries as at 31 December 1997 and 1996 are set out below.

(i) Guinness Peat Group plc

Ordinary shares of the Company of 5 pence each, fully paid

	31 December 1997	31 December 1996
Sir Ron Brierley	**25,737,815**	23,219,404
T J N Beyer	**2,046,911**	1,946,911
A I Gibbs	**793,066**	715,467
M W Loomes	**3,809**	3,437
B A Nixon	**118,922**	107,286
Dr G H Weiss	**1,167,361**	1,053,137

Options over ordinary shares of the Company

	Number 1997	Number 1996	Exercise price (pence per share)	Exercise period
Sir Ron Brierley				
Ordinary	3,129,139	3,129,139	9.46	05.06.95 to 04.06.99
Ordinary	3,045,006	3,045,006	23.32	12.05.97 to 11.05.04
Super	1,522,503	1,522,503	23.32	12.05.99 to 11.05.04
Ordinary	302,500	302,500	30.17	08.05.99 to 07.05.06
Super	302,500	302,500	30.17	08.05.01 to 07.05.06
T J N Beyer				
Ordinary	782,284	782,284	11.19	19.04.96 to 18.04.00
Ordinary	152,250	152,250	23.32	12.05.97 to 11.05.04
Super	152,250	152,250	23.32	12.05.99 to 11.05.04
Ordinary	302,500	302,500	30.17	08.05.99 to 07.05.06
Super	302,500	302,500	30.17	08.05.01 to 07.05.06
Ordinary	200,000**	–	38.00	01.09.00 to 31.08.07
A I Gibbs				
Ordinary	152,250	152,250	23.32	12.05.97 to 11.05.04
Super	228,375	228,375	23.32	12.05.99 to 11.05.04
Ordinary	692,046	692,046	22.04	06.10.97 to 05.10.04
Super	346,024	346,024	22.04	06.10.99 to 05.10.04
Ordinary	616,798	616,798	23.10	25.08.98 to 24.08.05
Super	1,541,994	1,541,994	23.10	25.08.00 to 24.08.05
Ordinary	302,500	302,500	30.17	08.05.99 to 07.05.06
Super	302,500	302,500	30.17	08.05.01 to 07.05.06
Ordinary	550,000*	–	30.45	13.01.00 to 12.01.07
Ordinary	500,000**	–	38.00	01.09.00 to 31.08.07
M W Loomes				
Ordinary	1,212,541	1,212,541	11.19	19.04.96 to 18.04.00
Ordinary	1,522,503	1,522,503	23.32	12.05.97 to 11.05.04
Super	1,141,877	1,414,877	23.32	12.05.99 to 11.05.04
Ordinary	349,518	349,518	23.10	25.08.98 to 24.08.05
Super	699,038	699,038	23.10	25.08.99 to 24.08.05
Ordinary	302,500	302,500	30.17	08.05.99 to 07.05.06
Super	302,500	302,500	30.17	08.05.01 to 07.05.06
Ordinary	500,000**	–	38.00	01.09.00 to 31.08.07
B A Nixon				
Ordinary	1,564,570	1,564,570	9.46	05.06.95 to 04.06.02
Ordinary	1,642,797	1,642,797	11.19	19.04.96 to 18.04.03
Ordinary	1,414,877	1,414,877	23.32	12.05.97 to 11.05.04
Super	1,522,503	1,522,503	23.32	12.05.99 to 11.05.04
Ordinary	302,500	302,500	30.17	08.05.99 to 07.05.06
Super	302,500	302,500	30.17	08.05.01 to 07.05.06
Ordinary	500,000**	–	38.00	01.09.00 to 31.08.07
Dr G H Weiss				
Ordinary	1,564,570	1,564,570	9.46	05.06.95 to 04.06.99
Ordinary	3,246,482	3,246,452	11.19	19.04.96 to 18.04.03
Ordinary	3,045,482	3,045,006	23.32	12.05.97 to 11.05.04
Super	1,522,503	1,522,503	23.32	12.05.99 to 11.05.04
Ordinary	302,500	302,500	30.17	08.05.99 to 07.05.06
Super	302,500	302,500	30.17	08.05.01 to 07.05.06
Ordinary	500,000**	–	38.00	01.09.00 to 31.08.07

* Denotes options granted on 13 January 1997
** Denotes options granted on 1 September 1997

Options outstanding at 31 December 1996 have been restated as to price and number to reflect the effect of the 1997 Capitalisation issue.
No director exercised any options during the year (1996: Nil). Since the year end M W Loomes has exercised options over 1,212,541 shares at a price of 11.19 pence.
A description of the terms of exercise of Super options is set out in note 23.
The middle market price of the shares at 31 December 1997 was 33.5 pence and the range during the financial year was 33.0 pence to 40.5 pence.

(ii) Mid-East Minerals Ltd

Ordinary shares of A$0.25 each, fully paid

	31 December 1997	31 December 1996
Dr G H Weiss	**11,617**	–

No other director was interested in the shares of this company during 1996 or 1997, save in respect of the following options:

Options over ordinary shares of A$0.25 each

	Number 1997	Number 1996 or on appointment	**Exercise price (A$ per share)**	**Exercise period**
M W Loomes	125,000*	–	0.96	8.04.97 to 7.04.2002
Dr G H Weiss	125,000*	–	0.96	8.04.97 to 7.04.2002

* Granted during 1997

No director's options were exercised or lapsed during the year under review or since the year end (1996: Nil).

The middle market price of the shares at 31 December 1997 was A$1.21 and the range during the financial year was A$0.90 to A$1.50.

(iii) Metals Exploration Ltd (an 83% subsidiary of Mid-East Minerals Ltd until date of disposal: see Note 33 on page 32)

Ordinary shares of A$0.25 each, fully paid

	31 December 1997	31 December 1996
Dr G H Weiss	–	12,000

No other director was interested in the shares of this company during 1996 or 1997, save in respect of the following options:

Options over ordinary shares of A$0.25 each

	Number 1997	Number 1996 or on appointment	**Exercise price (A$ per share)**	**Exercise period**
Sir Ron Brierley	–	325,000	0.66	20.04.94 to 19.04.99
M W Loomes	–	250,000	0.66	20.04.94 to 19.04.99
Dr G H Weiss	–	250,000	0.66	20.04.94 to 19.04.99

825,000 director's options were exercised on 8 April 1997, the date of disposal of Metals Exploration Ltd.

(iv) Tyndall Australia Limited

Ordinary shares of A$0.20 each, fully paid

	31 December 1997	31 December 1996
A I Gibbs	**7,813**	6,276
Dr G H Weiss	**39,177**	31,467

No other director was interested in the shares of this company during 1996 or 1997, save in respect of the following options:

	Number 1997	Number 1996	**Attaching Bonus Shares contingent upon exercise**	**Exercise price (A$ per share)**	**Exercise period**
Sir Ron Brierley	50,000	50,000	16,550	1.22	19.04.97 to 18.04.00
	50,000	50,000	10,500	1.68	26.04.98 to 24.04.01
	50,000*	–	5,000	1.84	23.04.99 to 22.04.02
A I Gibbs	50,000	50,000	16,550	1.22	19.04.97 to 18.04.00
	50,000	50,000	10,500	1.68	26.04.98 to 24.04.01
	50,000*	–	5,000	1.84	23.04.99 to 22.04.02
M W Loomes	50,000	50,000	23,205	1.95	23.02.96 to 22.02.99
	50,000	50,000	16,550	1.22	19.04.97 to 18.04.00
	50,000	50,000	10,500	1.68	26.04.98 to 24.04.01
	50,000*	–	5,000	1.84	23.04.99 to 22.04.02
Dr G H Weiss	50,000	50,000	16,500	1.22	19.04.97 to 18.04.00
	50,000	50,000	10,500	1.68	26.04.98 to 24.04.01
	50,000*	–	5,000	1.84	23.04.99 to 22.04.02

*Granted during 1997

No director's options were exercised or lapsed during the year under review and no changes have taken place since the year end.

The middle market price of the shares at 31 December 1997 was A$2.38 and the range during the financial year was A$1.79 to A$2.71.

b) During 1996, following a request by a Group subsidiary, interests associated with Mr A I Gibbs agreed to sell to that subsidiary certain shares for £367,000. The shares were acquired by the Group at their original cost to the director. The market value of the shares at 31 December 1996 was £412,000.

c) There were no loans or guarantees from Group companies to directors or connected persons at 31 December 1996 and 31 December 1997 or during the year, and save as disclosed above, no director has any interest in the share capital of the Company or any of its subsidiaries (other than as a nominee of the Company). Other than stated above there has been no change in the interests of the current directors of the Company between 1 January 1998 and 31 March 1998, the latest practical date before the printing of the report and accounts.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that period.
The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of financial statements for the year ended 31 December 1997. The directors also confirm that applicable accounting standards have been followed.
The directors are responsible for keeping proper accounting records, for safeguarding the assets of the Company and of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REPORT OF THE AUDITORS TO THE MEMBERS OF GUINNESS PEAT GROUP PLC

We have audited the financial statements on pages 10 to 34.

Respective responsibilities of directors and auditors
As described above the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion
We conducted our audit in accordance with 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 affairs of the Company and the Group at 31 December 1997 and of the profit, total recognised gains and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand London
Chartered Accountants and Registered Auditors 1 April 1998

REPORT BY THE AUDITORS TO GUINNESS PEAT GROUP PLC ON CORPORATE GOVERNANCE MATTERS

In addition to our audit of the financial statements, we have reviewed the directors' statement on pages 35 to 39 concerning the Company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v).

Basis of opinion
We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Group's system of internal financial control or its corporate governance procedures nor on the ability of the Group or Company to continue in operational existence.

Opinion
With respect to the directors' statements on internal financial control and going concern on page 35, in our opinion the directors have provided the disclosures required by the Listing Rules referred to above and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.
Based on enquiry of certain directors and officers of the Company, and examination of relevant documents, in our opinion the directors' statement on page 35 appropriately reflects the Company's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43(j).

Coopers & Lybrand London
Chartered Accountants and Registered Auditors 1 April 1998

NOTICE OF MEETING

Notice is hereby given that the 1998 Annual General Meeting of Guinness Peat Group plc will be held at 11.30am on Tuesday, 26 May 1998 at The Tallow Chandlers Hall, 4 Dowgate Hill, London EC4R 2SH to consider and, if thought fit, to pass the following resolutions:

ORDINARY BUSINESS

Ordinary Resolutions

1. To receive the directors' report and the accounts for the year ended 31 December 1997.
2. To declare a final dividend of 0.30p (gross) per ordinary share, payable in cash.
3. That subject to the passing of resolution 2 of this notice:
   (a) pursuant to Article 152 of the Articles of Association of the Company, the directors be authorised to offer those shareholders entitled to the final dividend of 0.30p (gross) per ordinary share payable in cash pursuant to resolution 2 the right to elect to receive ordinary shares, credited as fully paid, in lieu of the final cash dividend on the terms and subject to the conditions set out in a circular sent to shareholders on 17 April 1998 ("Scrip Dividend Alternative") or on such basis as the directors in their absolute discretion think fit and provided that no partial elections may be permitted except if the directors in their absolute discretion think fit; and
   (b) pursuant to Article 152(e) of the Articles of Association of the Company, the directors be and are hereby authorised to capitalise out of the amount for the time being standing to the credit of any reserve or fund whether or not the same is available for distribution, or any profits which could otherwise have been applied in paying dividends in cash, as the directors may determine, a sum equal to the aggregate nominal amount of the ordinary shares to be allotted pursuant to elections made as aforesaid, and to apply such sum in paying up in full the appropriate number of unissued ordinary shares in the Company and to allot such ordinary shares to the members of the Company who have validly so elected; and
   (c) in the event that the middle market quotation of an ordinary share on the Official List of the London Stock Exchange as at 22 May 1998 is less than 30p per share the directors be entitled to withdraw the Scrip Dividend Alternative in which case those shareholders who have elected for the Scrip Dividend Alternative will receive the cash dividend approved pursuant to resolution 2 of this notice.
4. To re-elect Sir Ron Brierley a director of the Company.
5. To re-elect Dr G H Weiss a director of the Company.
6. To re-appoint the auditors.
7. To authorise the directors to fix the remuneration of the auditors.

SPECIAL BUSINESS

Special Resolution

8. That:

(1) the authorised share capital of the Company be increased from £45,000,000 divided into 687,739,330 ordinary shares of 5 pence each and 212,260,670 unclassified shares of 5 pence each to £60,000,000 divided into 987,739,330 ordinary shares of 5 pence each and 212,260,670 unclassified shares of 5 pence each, by the creation of 300,000,000 ordinary shares of 5 pence each;

(2) (a) the directors of the Company be and they are hereby generally and unconditionally authorised, in accordance with Section 80 of the Companies Act 1985 ("the Act"), to exercise all the powers of the Company to allot relevant securities (within the meaning of Section 80(2) of the Act), up to a maximum nominal amount of £16,278,843 to such persons and at such times and on such terms as they think proper during the period expiring at the end of five years from the date of the passing of this resolution, such authority being in substitution for any existing authority to allot relevant securities of the Company; and

(b) the Company be and it is hereby authorised to make, prior to the expiry of such period, any offer or agreement which would or might require relevant securities to be allotted after the expiry of the said period and the directors may allot relevant securities pursuant to any such offer or agreement notwithstanding the expiry of the authority given by this resolution;

(3) (a) the directors be empowered pursuant to Section 95 of the Act to allot equity securities (as defined in Section 94 of the Act) for cash, in accordance with the authority conferred by paragraph (2) of this resolution, as if Section 89(1) of the Act did not apply to the allotment, provided that the power conferred by this resolution shall be limited to:

(i) the allotment of equity securities in connection with a rights issue in any or all jurisdictions where its equity securities are listed on any recognised stock exchange in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them on the record date of such allotment but subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with legal or practical problems in respect of overseas holders, fractional entitlements or otherwise; and

(ii) the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities up to an aggregate nominal value not exceeding £2,099,324.

(b) this power, unless renewed or otherwise varied by the Company in general meeting, shall expire at the end of the Annual General Meeting of the Company to be held in 1999 or the date which is fifteen months after the passing of this resolution, whichever is the earlier;

(c) the Company may make an offer or agreement before this power has expired, which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired; and

(d) any earlier power of the directors to allot equity securities as aforesaid be and is hereby revoked.

9. That Article 136 of the Company's Articles of Association be amended by adding the words "PROVIDED THAT if the Company is permitted by law to send to any member or debenture holder of the Company any summary financial statement in lieu of all or any of such documents, this Article shall impose no greater obligation on the Company than that imposed by law" after the words "to one of the joint holders."

Ordinary Resolutions

10. That upon the recommendation of the directors, it is desirable to capitalise up to £3,816,953 being part of the amount standing to the credit of the share premium account of the Company and accordingly such amount be set free for distribution among the holders of the ordinary shares of 5 pence of the Company whose names are entered on the register of members at midnight on 29 May 1998 in proportion to the number of such ordinary shares then held by them respectively on the basis that it be not paid in cash but be applied in paying up in full at par up to 76,339,066 ordinary shares of 5 pence each and that such shares be allotted and distributed, credited as fully paid up, to and among the said holders of ordinary shares of 5 pence each and that the directors be authorised and directed to apply the said £3,816,953 and generally and unconditionally authorised to allot the said 76,339,066 ordinary shares accordingly on or prior to 31 December 1998 upon terms that such new ordinary shares of 5 pence each shall rank in all respects *pari passu* with such of the existing issued ordinary shares of 5 pence as are fully paid or credited as fully paid.

11. That:

(a) the existing 212,260,670 unclassified shares of 5 pence each in the capital of the Company be converted into ordinary shares of 5 pence each in the capital of the Company ranking pari passu in all respects with the existing ordinary shares of 5 pence each (the "Conversion"); and

(b) following the Conversion and pursuant to Article 42(b) of the Company's Articles of Association and Section 121(2)(b) of the Act, every two ordinary shares of 5 pence each in issue in respect of ordinary shares of 5 pence each held on the Company's register of members at midnight on 2 June 1998 (or such later time(s) as the Directors of the Company shall determine) (the "Consolidation Record Time") and every two authorised but unissued ordinary shares of 5 pence each existing at the Consolidation Record Time be and are hereby consolidated in each case into one ordinary share of 10 pence in the capital of the Company.

Registered Office:
2nd floor
21-26 Garlick Hill
London EC4V 2AU

By Order of the Board
Richard Russell
Secretary
17 April 1998

NOTES TO NOTICE OF MEETING

1. A member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of the member. A proxy need not be a member of the Company. A relevant form of proxy is enclosed.

2. Forms of proxy and a Power of Attorney or other authority, if any, under which they are signed or a notarially certified copy of a power or authority should be sent to Computershare Services PLC, Owen House, Bankhead Crossway North, Edinburgh EH11 4BR (from UK registered members), Corporate Registries, Private Bag 92119, Auckland 1030 (from New Zealand registered members) or Registries Limited, Level 2, 28 Margaret Street, Sydney NSW 2000 (from Australian registered members) so as to arrive not later than 48 hours before the time appointed for the meeting. Completion and return of the appropriate form of proxy enclosed with this Notice will not preclude a member from attending and voting at the meeting in person should he find himself able to do so.

3. No director has a service contract with the Company or any subsidiary.

4. A summary of the proceedings at the Annual General Meeting of the Company will be made available upon request to any shareholder applying to any one of the Company's share registrars whose locations are set out on page 44 or to the Secretary, Guinness Peat Group plc, 2nd Floor, 21-26 Garlick Hill, London EC4V 2AU.

Registered in England No. 159975

GUINNESS PEAT GROUP plc

UNITED KINGDOM
2nd Floor, 21-26 Garlick Hill, London EC4V 2AU
Tel: 0171 236 0336 Fax: 0171 329 8870

AUSTRALIA
c/o Pannell Kerr Forster
Level 20, 1 York Street, Sydney NSW 2000
Tel: 02 9252 4100 Fax: 02 9251 3832

NEW ZEALAND
c/o Registry Managers (New Zealand) Limited
Private Bag 92119, Auckland 1030, New Zealand
Tel: 09 379 3636 Fax: 09 377 3715

Registered in England No. 159975

Location of share registers

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

UK main register:	Australian register:	New Zealand register:
Computershare Services PLC	Registries Ltd	Corporate Registries Limited

Telephone & postal enquiries

Owen House Bankhead Crossway North Edinburgh EH11 4BR	PO Box R67 Royal Exchange Sydney NSW 1223	Private Bag 92119 Auckland 1030
Tel: 0131 523 6666 Fax: 0131 452 4924	Tel: 02 9279 0677 Fax: 02 9279 0664	Tel: 09 522 0022 Fax: 09 522 0058

Inspection of Register

5-10 Great Tower Street London EC3R 5ER	Level 2 28 Margaret Street Sydney NSW 2000	Level 3 277 Broadway Newmarket Auckland