

GPG (UK) Holdings plc



## Contents

<b>Chairman's Statement</b>	<b>2</b>
<b>Directors' Report</b>	<b>4</b>
<b>Profit and Loss Accounts</b>	<b>8</b>
<b>Balance Sheets</b>	<b>9</b>
<b>Statements of Total Recognised Gains and Losses and Movements in Shareholders' Funds</b>	<b>10</b>
<b>Cash Flow Statements</b>	<b>11</b>
<b>Notes to Financial Statements</b>	<b>12</b>
<b>Independent Auditor's Report</b>	<b>50</b>
<b>Addresses</b>	<b>51</b>

# Chairman's Statement

On 13 December 2002, GPG (UK) Holdings plc (then named Guinness Peat Group plc) ("GPGUKH" or "the former GPG") was acquired by Brunel Holdings plc (now renamed Guinness Peat Group plc) ("GPG" or "the former Brunel") by means of a Court approved Scheme of Arrangement ("the Brunel Merger").

The operations of GPGUKH during the year to 31 December 2003 very substantially comprised

those operations reported by GPG for that period and as per last year I consider it most helpful and informative to reproduce here an extract from the Statement on Group activity made by the Chairman of GPG, Sir Ron Brierley, in his introduction to that company's 2003 Annual Report.

B A Nixon  
CHAIRMAN  
15 March 2004

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## Extract from the statement by the Chairman of Guinness Peat Group plc in respect of the year ended 31 December 2003

"2003 was a good year for GPG with an increase in realised profit and useful progress on longer term projects. Nevertheless, it should be noted that the final result was assisted by several abnormal items (mainly one-off sales and the recovery of past years' exchange losses) so we have embarked on 2004 with confidence, but not complacency.

The outstanding achievement in 2003 was obviously the successful takeover offer for **Coats plc**. GPG's present investment is £80 million for a 64% interest in the holding company which owns 100% of Coats' ordinary shares. In the next few months it is proposed to subscribe additional capital which will increase GPG's percentage equity and will reduce net borrowings which are approximately £375 million. Further reductions in borrowing are anticipated as a consequence of the sale of surplus assets and the more efficient use of funds within Coats' operations (for which there is considerable scope).

Coats' net contribution to GPG's 2003 result was £12.7 million, made up of a £4.5 million pre acquisition dividend plus £8.2 million, being our share of the trading profit for the year. The post acquisition phase has not been without difficulties (probably an inescapable feature of a large global manufacturing and marketing organisation) and trading conditions have not been buoyant. The changed ownership has also been a somewhat disruptive factor, but Coats is the clear world leader in the thread business and the future potential for GPG could be very significant.

Several months ago, we closed out the currency cover held in respect of the original NZ\$250 million Note issue, on which there was a gain of £21 million. This amount is held in reserve until the Notes mature in 2006 and there is no accounting profit or loss until then. The present equation is that at the current exchange rate the repayment of NZ\$250

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million would require £91.7 million, compared with the previous fixed sum of £70 million, so we are marginally behind at this stage. As GPG has a natural hedge in respect of its substantial New Zealand assets, it is debatable whether an ultimate gain is necessarily to GPG's overall advantage, but for now we have the use of an additional £21 million in cash, whatever happens in the future.

In the Interim Report, we referred to the problems at **Dawson International** and there has been no material improvement since then. As a consequence GPG has assumed a much stronger proprietorial role which, although by necessity rather than by choice, also reflects a positive view that we can restore value to the investment notwithstanding it has been conservatively written down to zero in the meantime.

In December, we sold our residual holding of **Turners Auctions** shares, thus concluding a role which proved very successful for GPG and other investors in the company. GPG was at the helm from the original spin off ex Turners & Growers and leaves what has now become a strongly growing independent company in its own right.

Operating earnings continue to be increasingly important to the final result. **Turners & Growers** (79%) and **Canberra Investment Corporation** (69%) are the core subsidiaries and are both well placed in their respective industries. The former **Staveley** units in UK and USA have also been excellent contributors but, as stated in previous Reports, they all need greater substance, to be obtained by acquisition or by integration with larger industry groups, to reach their full economic potential.

The share portfolio is in good shape overall, not only in respect of market values but also, in many instances, the prospects for future strategic advantage. Surplus over book value at 31 December was £118 million compared with £25 million in 2002, so GPG's aggregate increase in value from all sources in 2003 was £150 million, a very satisfactory performance indeed.

GPG's cash balance at 31 December was close to a peak but will reduce in coming months with the anticipated increased Coats' investment, some short term assistance to Dawson and likely reasonably large share purchases. The Board remains convinced of the benefit of strong liquidity, enabling major decisions to be readily implemented.

The GPG outlook for 2004 is for another active and successful year."

Ron Brierley  
CHAIRMAN  
Guinness Peat Group plc  
London, 2 March 2004

# Directors' Report

The directors present their annual report and audited financial statements for the year ended 31 December 2003.

## Review of Activities

The Company is a strategic investment holding company.

On 13 December 2002, Guinness Peat Group plc (now renamed GPG (UK) Holdings plc) ("the former GPG" or "GPGUKH") was acquired by Brunel Holdings plc (now renamed Guinness Peat Group plc) ("the former Brunel" or "GPG") by means of a court-approved Scheme of Arrangement. Further details of the accounting consequences and treatment of this 2002 transaction are set out in Note 1 to the Financial Statements on page 12.

## Significant Events

Significant events during the year ended 31 December 2003 are summarised below.

In February 2003, GPG transferred its investment in Coats plc to a subsidiary of Coats Group Ltd, a joint venture in which GPG has a 63.97% economic interest but in which GPG's voting rights are restricted to 50.00%.

Further commentary on the above transaction and on other activities during the year and also on the outlook for 2004 are set out in the accompanying extract from the Statement by the Chairman of GPG.

There are no significant post balance sheet events to report.

## Results and Dividends

The results of the Group are shown on page 8 and movements on reserves are set out in note 25. No dividend was paid in respect of the year ended 31 December 2003, and the directors do not recommend a final dividend. In respect of the year ended 31 December 2002 GPGUKH paid an interim dividend of 17.28p per ordinary 10p share ("Share") in December 2002. This was the only dividend for that year.

## Share Capital

The Scheme of Arrangement referred to in the Review of Activities resulted in the Company's entire issued share capital being acquired by GPG (see note 1), and hence the Company's Shares are no longer listed.

GPG'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 GPG's shares are listed are set out on page 51.

In December 2003 as a result of a Capitalisation Issue at a rate of 1 new Share for every 10 Shares held, the Company issued 61,930,772 Shares. Also, as a result of the conversion of Redemption Amounts by holders of the Company's convertible loan notes, 5,773,174 Shares were issued. These issues, together with the allotment of Shares arising from the exercise of share options, resulted in the issue of a total of 67,968,531 Shares during the year. Since the year end, as a result of the exercise of options an additional 5,168,144 Shares have been issued, increasing the number of Shares in issue to 686,534,006.

## Directors

The directors who served during the year are as follows:

B A Nixon (Chairman)  
 T J N Beyer  
 A M Butcher (appointed 17 April 2003)  
 Dr G H Weiss (resigned 17 April 2003)

## Directors' Interests

The interests of the directors who held office during the year, and their connected persons (if any) in the shares, options and listed securities of the Company, its parent company GPG, and its subsidiaries as at 31 December 2003 and 2002, are set out below.

### i) Guinness Peat Group plc

#### a) Ordinary 5p shares ("Shares")

	31 December 2003 (or on resignation) Number	31 December 2002 (or on appointment) Number
B A Nixon	<b>4,291,155</b>	3,824,425
T J N Beyer	<b>996,146</b>	887,528
A M Butcher	–	–
Dr G H Weiss	<b>3,864,701</b>	3,864,701

On 2 March 2004 B A Nixon exercised options over 1,401,073 Shares at 25.34p, and T J N Beyer exercised options over 280,206 Shares at 25.34p, 170,000 of which he then sold. On 3 March 2004 A M Butcher exercised options over 454,078 Shares at 25.11p.

#### b) Options under the share option schemes of the Guinness Peat Group

	31 December 2003 (or on resignation) Number	31 December 2002 (or on appointment) Number	Effective exercise price (pence per share)	Exercise period
<b>B A Nixon</b>				
Super**	1,401,073	1,401,073	25.34	12.05.99 to 11.05.04
Ordinary	278,370	278,370	32.78	08.05.99 to 07.05.06
Super	278,370	278,370	32.78	08.05.01 to 07.05.06
Ordinary	460,121	460,121	41.30	01.09.00 to 31.08.07
Ordinary	101,462	101,462	35.39	22.03.02 to 21.03.09
Super	59,588	59,588	35.39	22.03.04 to 21.03.09
Super	2,269,355	2,269,355	33.13	02.09.04 to 01.09.09
Ordinary	1,210,000	1,210,000	33.47	17.10.04 to 16.10.11
<b>T J N Beyer</b>				
Ordinary**	140,103	140,103	25.34	12.05.97 to 11.05.04
Super**	140,103	140,103	25.34	12.05.99 to 11.05.04
Ordinary	187,064	187,064	32.78	08.05.99 to 07.05.06
Super	278,370	278,370	32.78	08.05.01 to 07.05.06
Ordinary	91,303	91,303	32.78	08.05.99 to 07.05.06
Ordinary	184,044	184,044	41.30	01.09.00 to 31.08.07
Super	366,025	366,025	33.13	02.09.04 to 01.09.09
Ordinary	181,500	181,500	33.47	17.10.04 to 16.10.11

## Directors' Report – continued

### Options under the share option schemes of the Guinness Peat Group (continued)

	31 December 2003 (or on resignation) Number	31 December 2002 (or on appointment) Number	Effective exercise price (pence per share)	Exercise period
<b>A M Butcher</b>				
Ordinary**	151,359	151,359	25.11	25.08.98 to 24.08.05
Super**	302,720	302,720	25.11	25.08.00 to 24.08.05
Ordinary	83,509	83,509	32.33	11.04.99 to 10.04.06
Super	83,509	83,509	32.33	11.04.01 to 10.04.06
Ordinary	138,035	138,035	41.30	01.09.00 to 31.08.07
Ordinary	127,229	127,229	35.39	22.03.02 to 21.03.09
Super	74,083	74,083	35.39	22.03.04 to 21.03.09
Super	1,281,088	1,281,088	33.13	02.09.04 to 01.09.09
Ordinary	302,500	302,500	33.13	17.10.04 to 16.10.11
Ordinary*	275,000	–	44.55	21.03.06 to 20.03.13
<b>Dr G H Weiss</b>				
Ordinary	2,802,149	2,802,149	25.34	12.05.97 to 11.05.04
Super	1,401,073	1,401,073	25.34	12.05.99 to 11.05.04
Ordinary	278,370	278,370	32.78	08.05.99 to 07.05.06
Super	278,370	278,370	32.78	08.05.01 to 07.05.06
Ordinary	460,121	460,121	41.30	01.09.00 to 31.08.07
Ordinary	528,246	528,246	35.39	22.03.02 to 21.03.09
Super	309,218	309,218	35.39	22.03.04 to 21.03.09
Super	2,562,175	2,562,175	33.13	02.09.04 to 01.09.09
Ordinary	1,210,000	1,210,000	33.47	17.10.04 to 16.10.11

\* Granted during 2003

\*\* See i a) above

No options granted to directors lapsed during the year and (except as stated above) no options have been granted to directors or have lapsed since the year end.

The 2002 comparative figures have been adjusted to reflect the 2003 capitalisation issue by GPG of 1 new share for every 10 shares held.

The middle market price of GPG's shares at 31 December 2003 was 67.0p and the range during the year was 39.55p to 68.5p.

### ii) GPG (UK) Holdings plc – Convertible subordinated loan notes

	31 December 2003 (or on resignation)	31 December 2002 (or on appointment)
B A Nixon	<b>675</b>	675
T J N Beyer	<b>1,554,705</b>	1,000,000
A M Butcher	–	–
Dr G H Weiss	–	–

### Fixed Assets

Details of fixed assets are set out in the notes to the financial statements.

### **Creditor Payment Policy**

The majority of the Group's investment activity takes place on regulated exchanges and the Group 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. The Group does not follow a specific code or standard in respect of such creditors. As at 31 December 2003, the Company's trade creditors (excluding amounts attributable to investments) represented 23 days' purchase (2002: 35 days).

### **Employees**

Participation in the conduct and affairs of relevant employing companies is encouraged; arrangements for communication vary with each operating entity.

Within the investment holding companies, 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. At operating subsidiary level, practice varies according to industry norms and the legal and regulatory obligations in the country in which the company operates.

### **Donations**

In the year ended 31 December 2003 the Company made charitable donations of £6,800 and the Group made charitable donations of £69,340 (2002: £24,500). No contributions to political parties were made during the year.

### **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 year. 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 2003. The directors also confirm that, except as disclosed in note 1 to the financial statements, applicable accounting standards have been followed and the Group's accounting policies have been applied consistently.

The directors are responsible for keeping proper accounting records, for the system of internal control, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### **Corporate Governance**

The Corporate Governance procedures of GPGUKH depend on, and are integrated within, the corporate governance policies, practices and procedures of its ultimate parent company, GPG, details of which appear in the Corporate Governance section of that company's Annual Report for the year to 31 December 2003.

### **Auditors**

The Company's auditors, PricewaterhouseCoopers LLP, resigned during 2003 and the Company appointed Deloitte & Touche as auditor. On 1 August 2003, Deloitte & Touche converted to a limited liability partnership known as Deloitte & Touche LLP and the Company appointed the partnership as auditor on 12 September 2003.

By order of the Board  
J R Russell  
Secretary  
15 March 2004



# Profit and Loss Accounts

Year ended 31 December	Notes	Group		Company	
		2003 £000	2002 £000	2003 £000	2002 £000
<b>Turnover</b>					
Group and share of joint ventures		<b>612,523</b>	501,487	-	-
Less: share of joint ventures		<b>(59,784)</b>	(42,939)	-	-
Continuing operations (excluding acquisitions)		<b>552,739</b>	458,548	-	-
Acquisitions		<b>482,299</b>	-	-	-
Less: share of joint ventures		<b>(482,050)</b>	-	-	-
		<b>249</b>	-	-	-
<b>Group turnover – continuing operations</b>		<b>552,988</b>	458,548	-	-
Group turnover – discontinued operations		-	56,288	-	-
<b>Group turnover</b>		<b>552,988</b>	514,836	-	-
Cost of sales	4	<b>(423,029)</b>	(425,292)	-	-
<b>Gross profit</b>		<b>129,959</b>	89,544	-	-
Profit on disposal of investments and other net investment income	3	<b>41,153</b>	47,377	<b>3,993</b>	48,931
Net operating (expenses)/income	4	<b>(102,920)</b>	(89,932)	<b>10,326</b>	(6,423)
Operating profit – continuing operations (excluding acquisitions)		<b>68,229</b>	39,946	<b>14,319</b>	42,508
Operating profit – acquisitions (excluding joint ventures and associates)		<b>(37)</b>	-	-	-
Operating profit – continuing operations		<b>68,192</b>	39,946	<b>14,319</b>	42,508
Operating profit – discontinued operations		-	7,043	-	-
<b>Group operating profit</b>	4	<b>68,192</b>	46,989	<b>14,319</b>	42,508
Share of operating profit/(loss) of joint ventures		<b>24,748</b>	(635)	-	-
Share of operating (loss)/profit of associated undertakings		<b>(178)</b>	3,169	-	-
		<b>92,762</b>	49,523	<b>14,319</b>	42,508
Profit on sale of business – continuing operations	32	<b>19,056</b>	-	-	-
Profit on sale of subsidiary – discontinued operations		-	12,238	-	-
Interest payable and similar charges	7	<b>(23,358)</b>	(10,529)	<b>(16,262)</b>	(14,216)
<b>Profit/(loss) on ordinary activities before taxation</b>		<b>88,460</b>	51,232	<b>(1,943)</b>	28,292
Tax on profit on ordinary activities	9	<b>(21,113)</b>	(5,203)	<b>(2,032)</b>	(1,656)
<b>Profit/(loss) on ordinary activities after taxation</b>		<b>67,347</b>	46,029	<b>(3,975)</b>	26,636
Equity minority interests		<b>(2,641)</b>	(3,425)	-	-
<b>PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY SHAREHOLDERS</b>		<b>64,706</b>	<b>42,604</b>	<b>(3,975)</b>	<b>26,636</b>
Equity dividends	11	-	(106,033)	-	(106,033)
<b>RETAINED PROFIT/(LOSS) FOR THE YEAR</b>		<b>64,706</b>	<b>(63,429)</b>	<b>(3,975)</b>	<b>(79,397)</b>

Notes on pages 12 to 49 form part of these financial statements

# Balance Sheets

31 December			Group		Company
	Notes	2003	2002	2003	2002
<b>FIXED ASSETS</b>		<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Intangible assets – net negative goodwill	12	<b>(8,283)</b>	(10,734)	–	–
Tangible assets	13	<b>76,524</b>	73,752	<b>327</b>	437
Investments	14				
Investments in joint ventures				<b>102,678</b>	12,781
Share of gross assets		<b>601,186</b>	31,159		
Share of gross liabilities		<b>(505,933)</b>	(18,500)		
		<b>95,253</b>	12,659		
Investments in associates		<b>38,299</b>	40,008	<b>3,370</b>	13,129
Other investments		<b>150,939</b>	203,522	<b>233,586</b>	311,480
		<b>284,491</b>	256,189	<b>339,634</b>	337,390
<b>TOTAL FIXED ASSETS</b>		<b>352,732</b>	319,207	<b>339,961</b>	337,827
<b>CURRENT ASSETS</b>					
Stocks and development work in progress	15	<b>28,235</b>	13,981	–	–
Loans to subsidiary undertakings		–	–	<b>178,672</b>	182,391
Other debtors	16	<b>90,918</b>	118,614	<b>3,592</b>	4,939
Investments	17	<b>17,426</b>	36,874	–	11,556
Cash at bank and in hand		<b>289,371</b>	113,818	<b>203,532</b>	57,986
<b>TOTAL CURRENT ASSETS</b>		<b>425,950</b>	283,287	<b>385,796</b>	256,872
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN 1 YEAR</b>					
Trade and other creditors	18	<b>(204,864)</b>	(210,571)	<b>(137,855)</b>	(109,549)
Convertible subordinated loan notes	19	<b>(5,963)</b>	(3,863)	<b>(5,963)</b>	(3,863)
Other borrowings	21	<b>(838)</b>	(5,404)	–	–
<b>TOTAL CURRENT LIABILITIES</b>		<b>(211,665)</b>	(219,838)	<b>(143,818)</b>	(113,412)
<b>NET CURRENT ASSETS</b>		<b>214,285</b>	63,449	<b>241,978</b>	143,460
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>567,017</b>	382,656	<b>581,939</b>	481,287
<b>CREDITORS: AMOUNTS FALLING DUE AFTER 1 YEAR</b>					
Trade and other creditors	18	<b>(1,588)</b>	(306)	<b>(67)</b>	(216)
Loans from subsidiary undertakings		–	–	<b>(297,026)</b>	(294,410)
Convertible subordinated loan notes	19	<b>(5,964)</b>	(7,725)	<b>(5,964)</b>	(7,725)
Capital notes	20	<b>(166,513)</b>	(67,765)	–	–
Other borrowings	21	<b>(22,584)</b>	(13,672)	<b>(163,350)</b>	(66,987)
<b>TOTAL LONG-TERM CREDITORS</b>		<b>(196,649)</b>	(89,468)	<b>(466,407)</b>	(369,338)
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	22	<b>(16,900)</b>	(14,337)	<b>(9,266)</b>	(4,401)
<b>NET ASSETS</b>		<b>353,468</b>	278,851	<b>106,266</b>	107,548
<b>CAPITAL AND RESERVES</b>					
Share capital	24	<b>68,137</b>	61,340	<b>68,137</b>	61,340
Share premium account	25	<b>5,458</b>	9,562	<b>5,458</b>	9,562
Capital redemption reserve	25	<b>3,863</b>	3,863	<b>3,863</b>	3,863
Profit and loss account	25	<b>258,173</b>	189,684	<b>28,808</b>	32,783
<b>EQUITY SHAREHOLDERS' FUNDS</b>		<b>335,631</b>	<b>264,449</b>	<b>106,266</b>	<b>107,548</b>
Equity minority interests		<b>17,837</b>	14,402	–	–
Capital employed		<b>353,468</b>	278,851	<b>106,266</b>	107,548

Blake Nixon, Director

Approved by the Board on 15 March 2004

Notes on pages 12 to 49 form part of these financial statements

## Statements of Total Recognised Gains and Losses

Year ended 31 December	Group		Company	
	2003 £000	2002 £000	2003 £000	2002 £000
Profit/(loss) attributable to ordinary shareholders	<b>64,706</b>	42,604	<b>(3,975)</b>	26,636
Gain on part disposal of ENZA	–	2,490	–	2,448
Currency translation differences				
on foreign currency net investments	<b>615</b>	472	–	–
Deferred tax on foreign currency translation differences	<b>3,501</b>	36	–	–
<b>TOTAL RECOGNISED GAINS/(LOSSES) FOR THE YEAR</b>	<b>68,822</b>	<b>45,602</b>	<b>(3,975)</b>	<b>29,084</b>
Prior year adjustment		(1,391)		116
<b>TOTAL GAINS RECOGNISED SINCE LAST ANNUAL REPORT</b>		<u>44,211</u>		<u>29,200</u>

The currency translation differences arise as follows:

Subsidiary undertakings	<b>11,801</b>	(413)	–	–
Joint ventures	<b>(12,819)</b>	(8)	–	–
Associated undertakings	<b>1,633</b>	893	–	–
<b>TOTAL</b>	<b>615</b>	<u>472</u>	<u>–</u>	<u>–</u>

There are no differences between the profit figures reported on page 8 and their historical cost equivalents.

## Reconciliations of Movements in Shareholders' Funds

Year ended 31 December	Group		Company	
	2003 £000	2002 £000	2003 £000	2002 £000
Profit/(loss) attributable to ordinary shareholders	<b>64,706</b>	42,604	<b>(3,975)</b>	26,636
Gain on part disposal of ENZA	–	2,490	–	2,448
Currency translation differences				
on foreign currency net investments	<b>615</b>	472	–	–
Deferred tax on foreign currency translation differences	<b>3,501</b>	36	–	–
<b>Total recognised gains/(losses) for the year</b>	<b>68,822</b>	45,602	<b>(3,975)</b>	29,084
Dividends paid/proposed	–	(106,033)	–	(106,033)
Scrip dividend alternative	–	2,793	–	2,793
Release of negative goodwill on disposals	<b>(333)</b>	(164)	–	–
Issue of share capital (net of Capitalisation Issue)	<b>604</b>	1,902	<b>604</b>	1,902
Share premium on issue of shares (net of expenses of issue)	<b>2,089</b>	2,926	<b>2,089</b>	2,926
<b>Net movement in shareholders' funds</b>	<b>71,182</b>	(52,974)	<b>(1,282)</b>	(69,328)
Shareholders' funds as at 1 January:				
As previously stated	<b>264,449</b>	318,814	<b>107,548</b>	176,760
Prior year adjustment – FRS 19	–	(1,391)	–	116
As re-stated	<b>264,449</b>	317,423	<b>107,548</b>	176,876
<b>SHAREHOLDERS' FUNDS AS AT 31 DECEMBER</b>	<b>335,631</b>	<b>264,449</b>	<b>106,266</b>	<b>107,548</b>

Notes on pages 12 to 49 form part of these financial statements

# Cash Flow Statements

Year ended 31 December	Notes	Group		Company	
		2003 £000	2002 £000	2003 £000	2002 £000
<b>Net cash inflow from operating activities</b>	28a)	<b>91,545</b>	73,096	<b>68,503</b>	20,876
<b>Dividends received from associates and joint ventures</b>	28b)	<b>5,558</b>	2,955	–	–
<b>Returns on investments and servicing of finance</b>	28c)	<b>(13,247)</b>	(10,131)	<b>(20,471)</b>	(10,426)
<b>Taxation paid</b>	28d)	<b>(5,957)</b>	(4,093)	<b>2,382</b>	33
<b>Capital expenditure and financial investment</b>	28e)	<b>(44,652)</b>	(59,134)	<b>(12,144)</b>	(148,014)
<b>Acquisitions and disposals</b>	28f)	<b>31,924</b>	(16,200)	<b>(50)</b>	(25,204)
<b>Equity dividends paid</b>	28g)	–	(1,924)	–	(1,924)
<b>Cash inflow/(outflow) before management of liquid resources and financing</b>		<b>65,171</b>	(15,431)	<b>38,220</b>	(164,659)
<b>Management of liquid resources</b>	28h)	<b>(157,939)</b>	85,866	<b>(134,479)</b>	62,733
<b>Financing</b>					
Issue of ordinary shares, net of buy back expenses	28i)	<b>80</b>	1,670	<b>81</b>	1,255
Increase/(decrease) in debt	28i)	<b>98,923</b>	(44,355)	<b>96,576</b>	100,697
<b>INCREASE IN CASH FOR THE YEAR</b>		<b>6,235</b>	<b>27,750</b>	<b>398</b>	<b>26</b>
<b>RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS/(DEBT)</b>					
Increase in cash for the year		<b>6,235</b>	27,750	<b>398</b>	26
Cash outflow/(inflow) from increase/decrease in liquid resources		<b>157,939</b>	(85,866)	<b>134,479</b>	(62,733)
Cash (inflow)/outflow from increase/decrease in debt		<b>(98,923)</b>	44,355	<b>(96,576)</b>	(100,697)
<b>Change in net funds/(debt) resulting from cash flows</b>	28j)	<b>65,251</b>	(13,761)	<b>38,301</b>	(163,404)
Acquisition of subsidiaries		–	(49,889)	–	–
Disposal of subsidiaries		–	2,491	–	–
Currency translation differences		<b>6,869</b>	(1,448)	<b>10,669</b>	997
Other non-cash movements (see note below)		–	2,866	<b>(2,742)</b>	2,861
<b>Movement in net funds/(debt) for the year</b>		<b>72,120</b>	(59,741)	<b>46,228</b>	(159,546)
Net funds/(debt) as at 1 January		<b>15,389</b>	75,130	<b>(314,999)</b>	(155,453)
<b>NET FUNDS/(DEBT) AS AT 31 DECEMBER</b>	28j)	<b>87,509</b>	<b>15,389</b>	<b>(268,771)</b>	<b>(314,999)</b>

## Non-cash transactions:

On 14 February 2003 the Company redeemed the outstanding 30p tranche of 4,378,034 of the convertible subordinated loan notes for £1,313,000, satisfied by the issue of ordinary shares in GPG.

On 4 July 2003 the Company redeemed the third 10p tranche of the remaining convertible subordinated loan notes through the payment of £2,126,000 in cash, with the balance of £1,299,000 being satisfied by the issue of ordinary shares in GPG.

On 9 July 2003 GPG repurchased 10.4 million ordinary shares for an aggregate consideration of £5,575,000 (excluding expenses), which was settled through the issue of convertible subordinated loan notes by the Company.

# Notes to Financial Statements

## 1. Statement of Accounting Policies

The following are the principal policies adopted in preparing the financial statements in the current and prior year with the exception of income from equity investments (see note 1l) and the recognition of income for sales of property (see note 1h). The policies in this note have been consistently applied, and have been expanded to reflect the principal accounting policies adopted by the subsidiaries, joint ventures and associates acquired during 2003.

### a) ACCOUNTING CONVENTION AND FORMAT

The financial statements comply with applicable UK accounting standards, and have been prepared under the historical cost convention.

### b) BASIS OF PREPARATION

#### (i) Basis of consolidation

With effect from 13 December 2002, Guinness Peat Group plc, then named Brunel Holdings plc, became the legal parent of the Company, then named Guinness Peat Group plc, and its subsidiary undertakings in a predominantly share-for-share transaction. Due to the relative values of the companies, the Company's shareholders became the majority shareholders with over 98% of the enlarged group. Further, the continuing operations and executive management were those of the Company. The substance of the combination was that the Company acquired Brunel Holdings plc via a reverse acquisition. As part of the combination, the Company changed its name to GPG (UK) Holdings plc and immediately afterwards Brunel Holdings plc changed its name to Guinness Peat Group plc and changed its year end to 31 December.

As a wholly owned subsidiary of another company incorporated in the United Kingdom, the Company is exempt from the requirement to prepare consolidated financial statements. Nonetheless, the directors have presented both entity financial information for the Company and its subsidiaries (excluding the former Brunel Holdings plc). Except for the departures explained elsewhere in this note (being those required to present a true and fair view), the consolidated financial information has been prepared in accordance with the Act and applicable accounting standards in the United Kingdom.

The principal subsidiaries are listed in note 33. The results of subsidiaries acquired or disposed of are consolidated in the Group financial statements from and to the dates of acquisition and disposal respectively. The consolidated

financial statements also include the Group's share of the assets, liabilities, results and cash flows of its joint arrangements.

Associates are accounted for using the equity method and joint ventures are accounted for using the gross equity method.

#### (ii) Presentation of investment income

FRS 3 – *Reporting Financial Performance* requires that the net gains from disposals of fixed asset investments (including associated undertakings) should be disclosed below operating profit. However, the directors believe that this presentation would not give a true and fair view of the results of the Company's or the Group's results because its investment activities form an integral part of the Company and the Group's operations. Disposals of fixed asset investments provide a regular and substantial source of profit, and the directors believe that it is necessary to include the related net gains within operating profit in order to provide a true and fair view. If these net gains were presented below the Group's operating profit, as required by FRS 3, the Group would have reported an operating profit for 2003 of £37,397,000 (2002: £19,783,000) and the Company would have reported an operating loss of £7,750,000 (2002: operating profit of £8,112,000) respectively.

The directors have also adapted the profit and loss account formats included in Schedule 4 to the Act to reflect the importance of the Company's and the Group's investment activities, as required by the Act. Accordingly, the Group's other investment income (including dividends receivable, interest receivable and investment write-downs) is presented before net operating expenses, as part of the "Profit on disposal of investments and other net investment income," and is included operating profit.

The presentation of investment income does not affect the net profit attributable to the Company's shareholders.

#### 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 in which case the relevant contract rate is used. Revenues and expenses arising in a foreign currency are translated either at the rate applicable when the transaction occurred or, in the case of foreign subsidiaries, associates and joint ventures, at the year end rate (except that the results attributable to businesses sold during the year are translated using the exchange rate on the date of disposal).

Differences on exchange arising from the retranslation of opening net investments in subsidiaries, associates and joint ventures are taken to reserves, including the exchange differences on loans between Group companies that form part of the net investment in foreign subsidiaries (and any related taxation). All other foreign exchange differences are taken to the profit and loss account in the year in which they arise.

#### **d) FIXED ASSETS**

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

- |                                 |  |
|---------------------------------|--|
| – Freehold land                 | not depreciated                                  |
| – Freehold buildings            | 1-5%   |
| – Leasehold buildings           | 2-5% or over the term<br>of the lease if shorter |
| – Plant and equipment           | 2-20%  |
| – Vehicles and office equipment | 10-50%   |

Freehold buildings which are depreciated over a period exceeding 50 years are subject to an annual impairment review.

Land held for development is valued at cost or, where there has been an impairment in value, at directors' valuation.

#### **e) INVESTMENTS**

Investments acquired with the intention of being held for the long term (excluding investments in subsidiaries, associates, joint ventures and joint arrangements) are recorded as fixed asset investments and are stated at cost or, where there has been a permanent diminution in value, at directors' valuation. Investments in art portfolios are valued at cost or, where there has been an impairment in value, at directors' valuation.

Investments held as current assets are stated at the lower of cost and market value. In addition, provision is made for any losses arising from such derivatives in excess of the amounts paid. In the Company's financial statements, investments in subsidiaries, associates and joint ventures are valued at cost or, where there has been an impairment in value, at their recoverable amount.

#### **f) LEASES**

Assets held under 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 year in which they are incurred.

#### **g) GOODWILL**

Goodwill represents the difference between the cost of acquiring subsidiaries, associates and joint ventures and the fair value of the attributable net assets. Positive goodwill has been capitalised in the balance sheet and amortised through the profit and loss account on a straight-line basis over its estimated useful economic life. If, in future years, any goodwill arises which is considered to have an indefinite economic useful life, amortisation will not be charged but the goodwill will instead be subject to an annual impairment review and, where appropriate, provided against.

Negative goodwill is also capitalised in the balance sheet, and is then released through the profit and loss account in the periods in which the acquired company's non-monetary assets are recovered, whether through depreciation or sale. Negative goodwill is matched with the acquired company's tangible fixed assets, and any excess is then attributed to that company's other non-monetary assets.

Prior to 1998, negative goodwill was written off directly to reserves. Any such goodwill has not been reinstated. This will be released through the profit and loss account on disposal of the business, or underlying asset, to which it relates.

#### **h) TURNOVER**

Turnover, which excludes VAT and other sales taxes, consists of amounts receivable in respect of goods supplied and services rendered to third parties and the proceeds from the disposal of current asset investments.

Sales of goods are recognised in revenue when control passes to the customer, except that sales of aluminium products are recorded when goods have been despatched and the associated risks and rewards have been transferred.

Income from sales of property is recognised on a percentage of completion basis. Whilst this is a change to accounting policy from the prior year, the effect is immaterial to the current and prior year results. The previous policy was to recognise such income only when unconditional contracts have been exchanged and 10% of the contract price received.

Contracting turnover comprises the value of work executed during the year, including the settlement of monetary claims arising from previous years.

#### **i) STOCKS, WORK IN PROGRESS AND LONG TERM CONTRACTS**

Stocks and work in progress are stated at the lower of cost and net realisable value. In general, cost is determined on a first in first out basis and includes transport and handling costs. In the case of manufactured products, cost includes all direct expenditure and production overheads based on the normal level of activity. Net realisable value is the price at which stocks can be realised in the normal course of business after allowing for the costs of realisation and, where



## Notes to Financial Statements – continued

appropriate, the cost of conversion from their existing state to a finished condition. Provision is made for obsolete, slow moving and defective stocks.

Raw materials and consumable stores are valued at actual or weighted average cost as appropriate.

Long term contracts are generally those exceeding a year in duration and are valued at cost, comprising direct expenditure and the relevant production overheads, plus the profit attributable to the work performed to date. The amounts recoverable from such contracts, being the excess of their valuation over payments received and receivable, are included in debtors. Provision is made for all losses expected to arise on completion of the contracts entered into at the balance sheet date, whether or not work on these has commenced.

Land for resale, which is included within work in progress, is valued at the lower of cost and net realisable value. Cost includes capitalised interest and those costs necessary to prepare the land for sale.

### **j) PENSIONS AND OTHER POST RETIREMENT BENEFITS**

Pension costs in respect of defined contribution schemes are charged to the profit and loss account in the year to which they relate. Costs in respect of defined benefit pension schemes and other post retirement benefits are spread over the employees' service lives, in accordance with actuarial advice in such a way that the pension cost is a substantially level percentage of current and expected future pensionable payroll.

### **k) TAXATION**

Provision is made for domestic and foreign taxation assessable on the profit for the year as adjusted for disallowable and non-taxable items. Deferred taxation is provided in full in respect of timing differences which have arisen but not reversed at the balance sheet date, except that deferred tax assets (including those attributable to tax losses carried forward) are only recognised if it is considered more likely than not that they will be recovered. Deferred taxation is not provided in respect of the accumulated reserves of overseas subsidiaries, associates and joint ventures unless a dividend has been declared or there is a binding obligation to distribute those reserves.

### **l) INVESTMENT INCOME**

Income from equity investments is recognised when the legal entitlement vests. This represents a change from the previous accounting policy of recognising such income when declared, but the change has no material impact on the current or prior year results.

Dividends from UK companies are presented net of the attributable tax credit. Dividends received from overseas companies include any withholding taxes, but exclude any underlying tax paid by the investee company on its own profit. Special dividends arising from investments are included as

income in the profit and loss account and, where appropriate, an impairment provision is recognised against the investment.

### **m) EMPLOYEE ENTITLEMENTS**

Provision is made for long service leave and annual leave payable to employees on the basis of relevant statutory requirements or contractual entitlements.

### **n) ACCOUNTING POLICIES SPECIFIC TO MINING COMPANIES**

#### **(i) Turnover**

Sales revenue from gold and other metals sold by way of forward contracts is recognised at the contract forward price. Sales are recognised at spot market prices when sold for immediate settlement. Bullion sales are brought to account when the goods are delivered.

#### **(ii) Stock**

Stockpiles of unprocessed ore and any metals held in circuit are carried at the lower of cost and net realisable value. Supply inventories are carried at cost with a provision for obsolescence.

#### **(iii) Property, plant and equipment**

Direct mining asset costs carried forward are depreciated on a unit of production basis against the total proven and probable reserves or on a usage basis over the economic life of the asset, whichever is the shorter period.

#### **(iv) Exploration, evaluation and development expenditure**

Exploration and evaluation expenditure is accumulated separately for each area of interest, which is limited to an individual geological area related to a known mineral resource. Such expenditure is carried forward provided that certain conditions are met, for example the costs are expected to be recouped through successful development or the area of exploration has not yet reached a stage where assessment of the reserves is possible. All other expenditure is written off or provided against.

Once a development decision has been taken, all past and future exploration and evaluation expenditure in respect of the area of interest is aggregated with the costs of development and classified as development properties. No amortisation is provided until they are reclassified as mining properties, following the commencement of commercial levels of production.

#### **(v) Restoration and rehabilitation expenditure**

Significant restoration and rehabilitation expenditure to be incurred subsequent to the cessation of production from areas of interest is expensed in proportion to production. Provisions are reviewed at least annually.

## 2. Segmental Analysis – Turnover (including share of joint ventures)

	<b>Total 2003 £000</b>	Continuing operations 2002 £000	Discontinued operations 2002 £000	Total 2002 £000
<b>GEOGRAPHIC ANALYSIS BY ORIGIN</b>				
UK/Europe	<b>793,475</b>	284,859	–	284,859
Australasia	<b>259,335</b>	160,507	56,288	216,795
North America	<b>42,012</b>	56,121	–	56,121
	<b><u>1,094,822</u></b>	<u>501,487</u>	<u>56,288</u>	<u>557,775</u>
Amounts relating to acquired businesses:				
Joint ventures – UK/Europe	<b>482,050</b>	–	–	–
Group – North America	<b>249</b>	–	–	–
	<b><u>482,299</u></b>	<u>–</u>	<u>–</u>	<u>–</u>
<b>GEOGRAPHIC ANALYSIS BY DESTINATION</b>				
UK/Europe	<b>873,417</b>	355,565	–	355,565
Australasia	<b>151,408</b>	62,753	56,288	119,041
North America	<b>69,997</b>	83,169	–	83,169
	<b><u>1,094,822</u></b>	<u>501,487</u>	<u>56,288</u>	<u>557,775</u>
<b>BUSINESS ANALYSIS</b>				
Investment	<b>41,585</b>	19,129	–	19,129
Property development	<b>10,353</b>	19,952	–	19,952
Food processing	<b>22,414</b>	13,720	56,288	70,008
Testing services	<b>42,974</b>	57,154	–	57,154
Building services	<b>240,101</b>	239,317	–	239,317
Fruit/produce distribution	<b>195,879</b>	112,230	–	112,230
Accident repair services	<b>59,466</b>	39,985	–	39,985
Thread manufacture	<b>482,050</b>	–	–	–
	<b><u>1,094,822</u></b>	<u>501,487</u>	<u>56,288</u>	<u>557,775</u>
Amounts relating to acquired businesses:				
Joint ventures – Thread manufacture	<b>482,050</b>	–	–	–
Group – Testing services	<b>249</b>	–	–	–
	<b><u>482,299</u></b>	<u>–</u>	<u>–</u>	<u>–</u>
<b>TOTAL</b>				
Group	<b>552,988</b>	458,548	56,288	514,836
Joint ventures	<b>541,834</b>	42,939	–	42,939
	<b><u>1,094,822</u></b>	<u>501,487</u>	<u>56,288</u>	<u>557,775</u>

### Notes:

- i) Total turnover for 2003 is generated only from continuing operations.
- ii) The turnover attributable to joint ventures in Australasia arose from property development and investment (2003: £318,000; 2002: £2,954,000), and in UK/Europe from accident repair services (2003: £59,466,000; 2002: £39,985,000) and from thread manufacture (2003: £482,050,000; 2002: £Nil).



# Notes to Financial Statements – continued

## 2. Segmental Analysis- continued – Profit/(loss) before tax and Net assets

<b>GEOGRAPHIC ANALYSIS</b>	<b>Profit/(loss) before tax 2003 £000</b>	Profit before tax 2002 £000	<b>Net assets 2003 £000</b>	Net assets 2002 £000
UK/Europe	<b>38,270</b>	20,959	<b>198,590</b>	141,006
Australasia	<b>29,229</b>	7,493	<b>147,088</b>	124,280
North America	<b>19,780</b>	2,595	<b>16,071</b>	24,301
Goodwill (subsidiaries only)	<b>1,181</b>	1,095	<b>(8,281)</b>	(10,734)
	<b>88,460</b>	32,142	<b>353,468</b>	278,853
Discontinued operations – Australasia	–	6,852	–	–
Profit on sale of subsidiary – Australia	–	12,238	–	–
	<b>88,460</b>	51,232	<b>353,468</b>	278,853
Analysis of goodwill:				
UK/Europe	<b>159</b>	176	<b>(1,032)</b>	(1,163)
Australasia	<b>1,031</b>	919	<b>(7,367)</b>	(9,571)
North America	<b>(9)</b>	–	<b>118</b>	–
	<b>1,181</b>	1,095	<b>(8,281)</b>	(10,734)
Amounts relating to acquired businesses				
Group:				
North America	<b>(37)</b>	–	<b>316</b>	–
Amounts relating to acquired businesses				
Joint ventures (including goodwill):				
UK/Europe	<b>15,247</b>	–	<b>79,733</b>	–
<b>BUSINESS ANALYSIS</b>				
Group:				
Investment	<b>40,362</b>	21,055	<b>128,485</b>	132,986
Property development	<b>5,431</b>	5,708	<b>16,847</b>	11,206
Testing services	<b>17,576</b>	2,560	<b>16,516</b>	24,670
Buiding services	<b>2,923</b>	4,055	<b>17,461</b>	18,866
Fruit/produce distribution and food processing	<b>5,779</b>	(4,558)	<b>60,348</b>	49,875
Goodwill (subsidiaries only)	<b>1,181</b>	1,095	<b>(8,281)</b>	(10,734)
	<b>73,252</b>	29,915	<b>231,376</b>	226,869
Analysis of goodwill:				
Testing services	<b>(9)</b>	–	<b>118</b>	–
Building services	<b>159</b>	176	<b>(1,032)</b>	(1,163)
Fruit/produce distribution and food processing	<b>1,031</b>	919	<b>(7,367)</b>	(9,571)
	<b>1,181</b>	1,095	<b>(8,281)</b>	(10,734)
Discontinued operations:				
Malting	–	6,852	–	–
Profit on sale of subsidiary	–	12,238	–	–
	–	19,090	–	–

## 2. Segmental Analysis- continued – Profit/(loss) before tax and Net assets

	Profit/(loss) before tax 2003 £000	Profit before tax 2002 £000	Net assets 2003 £000	Net assets 2002 £000
<b>Associates (including goodwill):</b>				
Mining	–	(149)	–	2,200
Aluminium extrusion	(455)	1,082	25,152	18,414
Textiles	(3,316)	(216)	(1)	12,181
Fruit/produce distribution and food processing	1,061	1,213	6,728	4,359
Other	2,000	815	2,224	2,171
	<u>(710)</u>	<u>2,745</u>	<u>34,103</u>	<u>39,325</u>
<b>Joint ventures (including goodwill):</b>				
Accident repair services	443	(1,442)	8,191	11,345
Thread manufacture	15,247	–	79,733	–
Other	228	924	65	1,314
	<u>15,918</u>	<u>(518)</u>	<u>87,989</u>	<u>12,659</u>
	<u>88,460</u>	<u>51,232</u>	<u>353,468</u>	<u>278,853</u>
<b>Amounts relating to acquired businesses (including associates and joint ventures):</b>				
Testing services	(37)	–	316	–
Thread manufacture	15,247	–	79,733	–
Goodwill (subsidiaries only)	(9)	–	118	–
	<u>15,201</u>	<u>–</u>	<u>80,167</u>	<u>–</u>
<b>Analysis of goodwill:</b>				
Testing services	(9)	–	118	–
	<u>(9)</u>	<u>–</u>	<u>118</u>	<u>–</u>
<b>TOTAL</b>				
Group	73,252	49,005	231,376	226,867
Joint ventures	15,918	(518)	87,989	12,659
Associates	(710)	2,745	34,103	39,325
	<u>88,460</u>	<u>51,232</u>	<u>353,468</u>	<u>278,851</u>

### Notes:

- i) Profit arising from the investment activities carried out by the Company is deemed to be of UK origin although a number of investee companies operate, and are listed, in other regions.
- ii) In arriving at the profit before tax figures reported above, interest receivable/payable is allocated to the businesses to which it relates (including interest on loans between Group companies).

# Notes to Financial Statements – continued

## 2. Segmental Analysis - continued – Profit/(loss) before tax and Net assets

Year ended 31 December <b>COMPANY</b>	<b>Loss before tax 2003 £000</b>	Profit before tax 2002 £000	<b>Net assets 2003 £000</b>	Net assets 2002 £000
<b>GEOGRAPHIC ANALYSIS</b>				
United Kingdom	<u>(1,943)</u>	<u>28,292</u>	<u>106,266</u>	<u>107,548</u>
<b>BUSINESS ANALYSIS</b>				
Investment	<u>(1,943)</u>	<u>28,292</u>	<u>106,266</u>	<u>107,548</u>

Note:

The assets of the Company are included in the United Kingdom segment although a number of investee companies operate, and are listed, in other regions.

## 3. Profit on Disposal of Investments and Other Net Investment Income

Year ended 31 December <b>GROUP</b>	<b>Total 2003 £000</b>	Continuing operations 2002 £000	Discontinued operations 2002 £000	Total 2002 £000
Other interest receivable	<b>9,9170</b>	6,335	23	6,358
Profit on disposal of fixed asset investments:				
Associated undertakings (see note 35)	<b>3,888</b>	548	–	548
Other fixed asset investments	<b>26,907</b>	26,532	–	26,532
Income from listed investments	<b>7,589</b>	9,199	–	9,199
Net (increase)/decrease in investment provisions and write-downs	<b>(11,082)</b>	2,438	–	2,438
Profit/(loss) on derivatives held within the investment portfolio	<b>1,365</b>	(467)	–	(467)
Other income	<b>3,316</b>	2,751	18	2,769
	<u><b>41,153</b></u>	<u>47,336</u>	<u>41</u>	<u>47,377</u>

Note:

Total for 2003 is generated only from continuing operations.

Year ended 31 December <b>COMPANY</b>	<b>2003 £000</b>	2002 £000
Interest receivable:		
From subsidiary undertakings	<b>676</b>	658
Other interest receivable	<b>6,001</b>	4,785
Profit on disposal of fixed asset investments:		
Subsidiary undertakings	<b>5,685</b>	8,897
Associated undertakings	<b>4,577</b>	–
Other fixed asset investments	<b>11,807</b>	25,499
Other income:		
From associated undertakings	<b>251</b>	845
From joint venture undertakings	<b>2,000</b>	–
From listed investments	<b>6,641</b>	7,606
Net (increase)/decrease in investment provisions and write-downs:		
Subsidiary undertakings	–	(12)
Other investments	<b>(13,479)</b>	546
Loss on derivatives	<b>(21,457)</b>	–
Other income	<b>1,291</b>	107
	<u><b>3,993</b></u>	<u>48,931</u>

## 4. Operating Profit

Year ended 31 December	Continuing operations 2003 £000	Acquisitions 2003 £000	Total 2003 £000	Continuing operations 2002 £000	Discontinued operations 2002 £000	Total 2002 £000
<b>GROUP</b>						
Cost of sales	<b>(422,997)</b>	<b>(32)</b>	<b>(423,029)</b>	(379,968)	(45,324)	(425,292)
Gross profit	<b>129,742</b>	<b>217</b>	<b>129,959</b>	78,580	10,964	89,544
Distribution costs	-	-	-	(20)	(1,371)	(1,391)
Administration expenses	<b>(102,666)</b>	<b>(254)</b>	<b>(102,920)</b>	(85,950)	(2,591)	(88,541)
<b>Net operating expenses</b>	<b>(102,666)</b>	<b>(254)</b>	<b>(102,920)</b>	(85,970)	(3,962)	(89,932)
Profit on disposal of investments and other net investment income	<b>41,153</b>	-	<b>41,153</b>	47,336	41	47,377
<b>Net operating profit</b>	<b>68,229</b>	<b>(37)</b>	<b>68,192</b>	39,946	7,043	46,989
<b>COMPANY</b>						
Administration expenses	<b>10,326</b>	-	<b>10,326</b>	(6,423)	-	(6,423)

## 5. Operating Profit/(Loss) from Joint Ventures and Associates

During the year, Coats Group Ltd ("Coats"), a company registered in the British Virgin Islands, became a joint venture undertaking. The Company has a 63.97% economic interest in Coats but only a 50% voting interest. The Group's share of the operating profit of Coats in 2003 was £24,281,000.

Also during the year, Turners Auctions Ltd ceased to be an associated undertaking. The Group's share of the operating profit of that company was £550,000.

## 6. Profit/(Loss) on Ordinary Activities Before Taxation

Year ended 31 December	2003 £000	Group 2002 £000	2003 £000	Company 2002 £000
Profit before taxation is stated after charging/(crediting):				
Depreciation of tangible fixed assets	<b>10,409</b>	8,775	<b>158</b>	103
Amortisation of positive goodwill from the balance sheet (including associates and joint ventures)	<b>901</b>	241	-	-
Release of negative goodwill from fixed assets (including associates and joint ventures)	<b>(1,932)</b>	(2,101)	-	-
Release of negative goodwill from reserves	<b>(333)</b>	(164)	-	-
Group audit fees (see note below)	<b>399</b>	552	<b>80</b>	75
Operating lease rentals:				
Plant and equipment	<b>6,332</b>	4,885	-	-
Other	<b>5,587</b>	5,788	<b>507</b>	2,793
Net foreign exchange (gains)/losses	<b>(15,904)</b>	612	<b>(22,737)</b>	(1,513)
Rental income from land and buildings	<b>(1,958)</b>	(1,286)	-	-

The audit fee for the Company was £80,000 (2002: £75,000).

Non-audit fees paid to Deloitte & Touche LLP in the UK were £754,000 prior to appointment as auditor and £417,000 post the appointment (2002: PricewaterhouseCoopers LLP £276,000).

## Notes to Financial Statements – continued

### 7. Interest Payable and Similar Charges

Year ended 31 December	2003 £000	Group 2002 £000	2003 £000	Company 2002 £000
Interest payable on bank loans and overdrafts	(3,290)	(2,663)	(178)	(1)
Unwinding of discount on provisions	(204)	(193)	(87)	(66)
Interest payable on loans from subsidiary undertakings	–	–	(14,917)	(13,077)
Interest payable on CLNs (see note 19)	(887)	(1,072)	(1,080)	(1,072)
Interest payable on Capital Notes (see note 20)	(9,001)	(5,758)	–	–
Amortisation of issue costs on Capital Notes and CLNs	(881)	(603)	–	–
	<b>(14,263)</b>	<b>(10,289)</b>	<b>(16,262)</b>	<b>(14,216)</b>
Interest capitalised	210	67	–	–
	<b>(14,053)</b>	<b>(10,222)</b>	<b>(16,262)</b>	<b>(14,216)</b>
Net interest payable by associated undertakings	(504)	(424)	–	–
Interest payable by joint ventures (net of amounts capitalised)	(8,801)	117	–	–
	<b>(23,358)</b>	<b>(10,529)</b>	<b>(16,262)</b>	<b>(14,216)</b>

The cumulative amount of capitalised interest included in development land held at 31 December 2003 was £253,000 (2002: £164,000). Interest is capitalised, gross of tax relief, at an average rate of 7.9% (2002: 7.8%).

### 8. Employee Information

Year ended 31 December	2003	Group 2002	2003	Company 2002
<b>The average number of employees (including executive directors) during the year was:</b>				
Continuing operations:				
Investment/corporate	13	27	–	15
Property development	14	16	–	–
Food processing	215	–	–	–
Fruit/produce distribution	1,057	85	–	–
Building services	2,785	2,621	–	–
Testing services	1,027	1,132	–	–
	<b>5,111</b>	<b>3,881</b>	<b>–</b>	<b>15</b>
Discontinued operations:				
Malting	–	227	–	–
<b>TOTAL NUMBER OF EMPLOYEES</b>	<b>5,111</b>	<b>4,108</b>	<b>–</b>	<b>15</b>

The average numbers stated above include the average number of employees of acquired businesses from the date they became subsidiaries and the average to the date of disposal for businesses disposed of during the year (rather than the weighted average for the year as a whole).

Year ended 31 December	2003 £000	Group 2002 £000	2003 £000	Company 2002 £000
<b>Employment costs – all employees including directors:</b>				
Aggregate gross wages and salaries	117,980	108,267	–	2,200
Employer's national insurance contributions or foreign equivalents	9,644	9,571	–	154
Employer's pension contributions	5,345	4,123	–	71
<b>TOTAL DIRECT COSTS OF EMPLOYMENT</b>	<b>132,969</b>	<b>121,961</b>	<b>–</b>	<b>2,425</b>

Following the reverse acquisition takeover in December 2002, all employees of GPG (UK) Holdings plc transferred to Guinness Peat Group plc. The related costs have been recharged to the Company.

## 8. Employee Information - continued

Year ended 31 December	2003 £000	Group 2002 £000	2003 £000	Company 2002 £000
<b>Directors' emoluments:</b>				
Aggregate emoluments	2,151	2,316	1,717	2,316
Gains made on exercise of share options	-	1,248	-	1,248
Pension contributions	55	89	41	89
	<u>2,206</u>	<u>3,653</u>	<u>1,758</u>	<u>3,653</u>

The aggregate emoluments for the highest paid director were £1,364,477 (2002: £590,237) excluding gains on share options exercised. Contributions paid to money purchase pension schemes in respect of the highest paid director were £29,273 (2002: £41,973). The Group paid contributions to money purchase schemes in respect of 3 directors (2002: 3 directors).

## 9. Tax on Profit/(Loss) on Ordinary Activities

Year ended 31 December	2003 £000	Group 2002 £000	2003 £000	Company 2002 £000
<b>Current tax:</b>				
UK corporation tax at 30% (2002: 30%)	(1,448)	(144)	2,884	33
Overseas tax	(6,654)	(2,480)	-	-
Tax attributable to associated undertakings	(49)	(416)	-	-
Tax attributable to joint ventures	(6,717)	(272)	-	-
	<u>(14,868)</u>	<u>(3,312)</u>	<u>2,884</u>	<u>33</u>
Deferred tax	(6,245)	(1,891)	(4,916)	(1,689)
<b>TOTAL TAX CHARGE</b>	<b>(21,113)</b>	<b>(5,203)</b>	<b>(2,032)</b>	<b>(1,656)</b>

Tax attributable to one of the Group's joint ventures is recognised by the subsidiary undertaking which holds the Group's investment in the joint venture.

The current tax charge is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:

Year ended 31 December	2003 £000	Group 2002 £000	2003 £000	Company 2002 £000
Profit/(loss) on ordinary activities before taxation	88,460	51,232	(1,943)	28,292
Profit/(loss) on ordinary activities multiplied by standard rate of tax in the UK of 30%	26,538	15,370	(583)	8,488
Impact of differences in overseas tax rates	1,794	42	-	-
Non-taxable income	(3,825)	(7,140)	(4,107)	(4,185)
Utilisation of losses	(9,156)	(6,090)	(486)	(4,741)
Non-deductible expenses	(1,136)	1,307	4,246	81
Group relief surrendered without payment	-	-	72	1,827
Other permanent differences	(6,527)	540	-	186
Accelerated capital allowances	459	(451)	(2)	(9)
Other short term timing differences	801	(266)	-	(1,680)
Prior year adjustments	(846)	-	(2,024)	-
Joint ventures and associates	6,766	-	-	-
<b>Current tax charge for the year</b>	<b>14,868</b>	<b>3,312</b>	<b>(2,884)</b>	<b>(33)</b>
<b>Deferred tax charge</b>	<b>6,245</b>	<b>1,891</b>	<b>4,916</b>	<b>1,689</b>
<b>Total tax charge for the year</b>	<b>21,113</b>	<b>5,203</b>	<b>2,032</b>	<b>1,656</b>

## Notes to Financial Statements – continued

### 10. Pension Costs

The Group has a liability in respect of former employees' pensions currently being paid, amounting to £48,313 (2002: £46,685) per annum. Provision has been made for the estimated liability based on actuarial advice. The key assumptions made in arriving at the liability are as follows: a growth rate for pension payments of 2.75% (2002: 2.3%), an average life expectancy of 8 years (2002: 8 years) and a discount rate of 5.5% (2002: 5.5%).

Most of the Group's pension arrangements are of the defined contribution type but the Group also operates two significant defined benefit schemes in the UK: the Brunel Holdings Pension Scheme ("Brunel"), which was acquired as part of the 2002 reverse acquisition, and the Staveley Industries Retirement Benefits Scheme ("SIRBS"). Both are administered in accordance with their respective trust deeds and rules and with the advice of independent, professionally qualified actuaries. The assets of the schemes are held separately from those of the relevant companies. SIRBS is now closed to new members.

The charge for the year in respect of the Group's defined contribution arrangements was £2,944,000 (2002: £1,538,000).

**The last actuarial valuations of the SIRBS and Brunel schemes were as at 5 April 2002 and 13 December 2002 respectively. These valuations have been updated to 31 December 2002. The assumptions used for the SIRBS and Brunel scheme valuations were, respectively, pre-retirement investment return of 8.1% (both schemes) per annum; post-retirement investment return of 5.0% and 5.5% per annum; inflation of 2.25% (both schemes) per annum; pension increase of 3.25% and 3.3% per annum; and salary growth of 3.25% and nil per annum. The total market value of the aggregated scheme assets of £283.9 million (2002: £285.3 million) represented 99% (2002: 99%) of the accrued liabilities. The valuation method was the projected unit method with surpluses and deficits spread over the future working lifetime of the active membership.**

Contributions paid during the year and contributions agreed for future years are based on a percentage of pensionable salaries (14% for SIRBS and 16.4% for Brunel) and amounted to £2,384,000 (2002: £2,531,000). The agreed contribution rate for future years is 14% (SIRBS) and 16.4% (Brunel) of pensionable salaries. The pension charge under SSAP24 for the two schemes amounted to £2,500,000 (2002: £2,585,000) and the net pension liability at the year end was £838,000 (2002: asset £645,000). The Brunel scheme was fair valued at 13 December 2002 as part of the reverse acquisition, and the charge to the profit and loss account in 2002 therefore only relates to the period 13 December 2002 to 31 December 2002.

**The following disclosures are made for the purposes of Financial Reporting Standard 17 ("FRS 17") and do not include information in respect of schemes operated by joint ventures and associated undertakings:**

The major assumptions used by the actuaries for the purposes of FRS 17 were:

	SIRBS			Brunel		
	31 December 2003	31 December 2002	31 December 2001	31 December 2003	31 December 2002	31 December 2001
Discount rate	5.50%	5.50%	5.90%	5.50%	5.50%	5.70%
Rate of increase in salaries	3.75%	3.25%	3.50%-4.00%	3.75%	3.25%	4.00%
Inflation	2.75%	2.25%	2.50%	2.75%	2.25%	2.50%
Rate of increase in pensions in payment*	2.75%	2.25%	2.50%	3.40%	3.30%	3.00%

\* There are a variety of different types of pension increases. The rate shown is the average rate but all the assumptions used are consistent with the inflation assumption.

The assets in the schemes as at 31 December 2003 and 2002 and the expected rates of return were:

	Long term expected rate of return at 31 December 2003	Value as at 31 December 2003 £000	Long term expected rate of return at 31 December 2002	Value as at 31 December 2002 £000
Equities	8.1%	84,414	8.1%	75,731
Bonds	5.0%	211,008	5.0%	208,443
Other	4.0%	2,382	4.0%	2,323
Total market value of assets		297,804		286,497
Present value of schemes' liabilities		(339,333)		(313,640)
Deficit in the schemes		(41,529)		(27,143)

The Group has a potential deferred tax asset of £12,459,000 in relation to the FRS 17 deficit shown above which has not been recognised due to uncertainty regarding the availability of sufficient future taxable profits.

## 10. Pension Costs - continued

The assets in the only Group scheme as at 31 December 2001 and the expected rates of return were:

	Long term expected rate of return at 31 December 2001	Value as at 31 December 2001 £000
Equities	6.9%	52,924
Bonds	5.4%	114,729
Other	4.0%	7,265
Total market value of assets		174,918
Present value of scheme liabilities		(174,607)
Surplus in the scheme		311
Related deferred tax liability		(93)
Net pension asset		218

The effects of adopting the requirements of FRS 17 on the primary financial statements are shown below:

	2003 £000	2002 £000	2001 £000
Net assets excluding net pension asset/liability recognised under SSAP 24	<b>354,055</b>	277,855	333,345
Net pension liability under FRS 17	<b>(41,529)</b>	(27,143)	218
Net assets including FRS 17 pension (liability)/asset	<b>312,526</b>	250,712	333,563
Profit and loss reserve excluding pension assets/liabilities recognised under SSAP 24	<b>258,760</b>	188,688	245,603
Net pension liability under FRS 17	<b>(41,529)</b>	(27,143)	218
Adjusted FRS 17 profit and loss reserve	<b>217,231</b>	161,545	245,821
Analysis of amount that would be charged to operating profit under FRS 17:		2003 £000	2002 £000
Current service cost		<b>2,908</b>	3,127
Past service cost		-	-
Total operating charge		<b>2,908</b>	3,127
Analysis of amount that would be credited to other finance income under FRS 17:		2003 £000	2002 £000
Expected return on pension scheme assets		<b>16,301</b>	10,383
Interest on pension scheme liabilities		<b>(16,922)</b>	(10,577)
Net return		<b>(621)</b>	(194)
Analysis of the amount that would be recognised in statement of total recognised gains and losses under FRS 17:		2003 £000	2002 £000
Actual return on scheme assets (2.4% (2002: 4.9%) of scheme assets)		<b>7,074</b>	(13,934)
Experience gains and losses arising (1.3% (2002: 2.4%) of scheme liabilities)		<b>(4,396)</b>	7,404
Changes in assumptions		<b>(15,919)</b>	(7,782)
Actuarial loss recognised in the STRGL (3.9% (2002: 4.6%) of scheme liabilities)		<b>(13,241)</b>	(14,312)



# Notes to Financial Statements – continued

## 10. Pension Costs - continued

Movement in FRS17 (deficit)/surplus during the year:

	<b>2003</b>	2002
	<b>£000</b>	£000
(Deficit)/surplus at beginning of year	<b>(27,143)</b>	311
Current service cost	<b>(2,908)</b>	(3,127)
Contributions	<b>2,384</b>	2,530
Deficit attributable to acquired business	–	(12,351)
Other finance income (net)	<b>(621)</b>	(194)
Actuarial loss	<b>(13,241)</b>	(14,312)
Deficit at end of year	<b>(41,529)</b>	(27,143)

## 11. Equity Dividends

The directors did not pay an interim dividend for the year ended 31 December 2003 (2002: 17.28p per share). The directors do not propose a final dividend (2002: Nil).

## 12. Intangible Fixed Assets

	Positive goodwill £000	Negative goodwill £000	Net negative goodwill £000
<b>COST</b>			
At 1 January 2003	79	(11,939)	(11,860)
Currency translation differences	(11)	(36)	(47)
Additions:			
Current year (note 30)	138	–	138
Fair value adjustments for prior year acquisitions (note 30a)	1,173	–	1,173
<b>AT 31 DECEMBER 2003</b>	<b>1,379</b>	<b>(11,975)</b>	<b>(10,596)</b>
<b>CUMULATIVE AMOUNTS (CHARGED)/RELEASED</b>			
At 1 January 2003	–	1,126	1,126
Currency translation differences	–	7	7
(Charge)/release for the year	(17)	1,197	1,180
<b>AT 31 DECEMBER 2003</b>	<b>(17)</b>	<b>2,330</b>	<b>2,313</b>
<b>NET BOOK VALUE AT 31 DECEMBER 2003</b>	<b>1,362</b>	<b>(9,645)</b>	<b>(8,283)</b>
NET BOOK VALUE AT 31 DECEMBER 2002	79	(10,813)	(10,734)

Negative goodwill is being released to the profit and loss account over periods between 5 and 10 years. Positive goodwill is all being amortised over 10 years.

## 13. Tangible Fixed Assets

### The Group

	Land and buildings £000	Plant and equipment £000	Vehicles and office equipment £000	Land for development £000	Total £000
<b>COST</b>					
At 1 January 2003	45,925	73,950	29,762	786	150,423
Currency translation differences	4,703	3,942	2,331	160	11,136
Acquisition of subsidiaries	–	214	(1,173)	–	(959)
Additions	3,870	3,117	1,852	18,971	27,810
Transfer to current assets	–	–	–	(14,883)	(14,883)
Reclassification	73	(2,067)	1,975	19	–
Disposals	(926)	(2,354)	(836)	(2,370)	(6,486)
Disposal of business (note 32)	(142)	(6,317)	(1,046)	–	(7,505)
<b>AT 31 DECEMBER 2003</b>	<b>53,503</b>	<b>70,485</b>	<b>32,865</b>	<b>2,683</b>	<b>159,536</b>
<b>ACCUMULATED DEPRECIATION</b>					
At 1 January 2003	6,034	49,178	21,459	–	76,671
Currency translation differences	268	2,670	1,804	–	4,742
Charge for the year	2,093	5,539	2,777	–	10,409
Reclassifications	93	(1,727)	1,634	–	–
Disposals	(689)	(2,209)	(719)	–	(3,617)
Disposal of business	(51)	(4,509)	(633)	–	(5,193)
<b>AT 31 DECEMBER 2003</b>	<b>7,748</b>	<b>48,942</b>	<b>26,322</b>	<b>–</b>	<b>83,012</b>
<b>NET BOOK VALUE AT 31 DECEMBER 2003</b>	<b>45,755</b>	<b>21,543</b>	<b>6,543</b>	<b>2,683</b>	<b>76,524</b>
NET BOOK VALUE AT 31 DECEMBER 2002	39,891	24,772	8,303	786	73,752

Year ended 31 December

2003  
£0002002  
£000

### ANALYSIS OF NET BOOK VALUE OF LAND AND BUILDINGS

Freehold	45,602	38,304
Leasehold:		
Over 50 years unexpired	238	511
Under 50 years unexpired	1,503	1,076
	<b>47,343</b>	<b>39,891</b>

### The Company

	Plant and equipment £000
<b>COST</b>	
At 1 January 2003	707
Disposals	(55)
<b>AT 31 DECEMBER 2003</b>	<b>652</b>
<b>ACCUMULATED DEPRECIATION</b>	
At 1 January 2003	270
Charge for the year	158
Disposals	(103)
<b>AT 31 DECEMBER 2003</b>	<b>325</b>
<b>NET BOOK VALUE AT 31 DECEMBER 2003</b>	<b>327</b>
NET BOOK VALUE AT 31 DECEMBER 2002	437

## Notes to Financial Statements – continued

### 14. Fixed Asset Investments

Year ended 31 December	2003 £000	Group 2002 £000	2003 £000	Company 2002 £000
Interests in joint ventures (see note a) below)	<b>95,253</b>	12,659	<b>102,678</b>	12,781
Interests in associated undertakings (see notes a) and c) below)	<b>38,299</b>	40,008	<b>3,370</b>	13,129
Interests in group undertakings (see note c) below)	–	–	<b>115,969</b>	133,135
Other investments (see notes b) and c) below)				
– listed investments	<b>147,119</b>	199,667	<b>117,315</b>	178,043
– unlisted investments	<b>3,551</b>	3,586	<b>33</b>	33
– art portfolio	<b>269</b>	269	<b>269</b>	269
	<b>284,491</b>	256,189	<b>339,634</b>	337,390

#### a) The Group – Interests in joint ventures and associated undertakings

	Joint ventures £000	Associated undertakings £000
At 1 January 2003	12,659	40,008
Currency translation differences	(12,820)	1,635
Reclassified from fixed asset investments	84,637	–
Additions	–	9,781
Repayment of capital	(2,004)	–
Dividends receivable	(3,684)	(1,874)
Loans advanced	7,264	4,196
Loans repaid	–	(822)
Share of profit/(loss) after tax and minorities	9,201	(759)
Amounts written off	–	(8,767)
Disposals (note 32)	–	(1,187)
Reclassified as fixed asset investments	–	(3,912)
<b>AT 31 DECEMBER 2003</b>	<b>95,253</b>	<b>38,299</b>

Additions to joint venture and associated undertakings, including amounts reclassified from fixed asset investments, are analysed in note 31.

Year ended 31 December	2003 £000	Joint ventures 2002 £000	Associated undertakings 2003 £000	2002 £000
Share of net assets on acquisition	<b>90,678</b>	9,992	<b>49,439</b>	44,628
Share of post-acquisition retained (losses)/profits	<b>(7,864)</b>	(824)	<b>(7,889)</b>	1,007
Share of net assets	<b>82,814</b>	9,168	<b>41,550</b>	45,635
Positive goodwill	<b>5,175</b>	3,491	–	860
Negative goodwill	–	–	<b>(7,447)</b>	(7,170)
	<b>87,989</b>	12,659	<b>34,103</b>	39,325
Loans to joint ventures and associates	<b>7,264</b>	–	<b>4,196</b>	683
	<b>95,253</b>	12,659	<b>38,299</b>	40,008

## 14. Fixed Asset Investments - continued

	Joint ventures		Associated undertakings	
	Positive goodwill £000	Negative goodwill £000	Positive goodwill £000	Negative goodwill £000
<b>MOVEMENTS IN GOODWILL ATTRIBUTABLE TO JOINT VENTURES AND ASSOCIATED UNDERTAKINGS</b>				
At 1 January 2003	3,491	–	860	(7,170)
Fair value adjustments	–	–	1,037	–
Acquisitions during the year (see note 31)	2,135	–	–	(3,130)
(Amortisation)/amounts released	(451)	–	(433)	918
Goodwill written off	–	–	(1,464)	–
Reclassified as a listed investment	–	–	–	1,935
<b>AT 31 DECEMBER 2003</b>	<b>5,175</b>	<b>–</b>	<b>–</b>	<b>(7,447)</b>

Positive goodwill is being amortised over 10 years. Negative goodwill, all of which is attributable to fixed assets, is being released over periods ranging from 5 to 10 years.

Note:

A discount of £3,099,000 previously arose on acquisition of the Group's investment in Turners & Growers Ltd, which was taken directly to reserves in the year of acquisition. £59,000 of this discount was released in 2002 in respect of a reduction in the Group's interest in Turners Auctions Ltd, and a further £161,000 was released during 2003 when that company ceased to be an associate.

**The Group's significant associated undertakings at 31 December 2003 are listed below:**

	Capital and reserves 000	Latest profit/(loss) 000	Date of last audited accounts	Country of incorporation	Nature of business	GPG shareholding	Class
<b>INVESTMENT</b>							
<b>Capral Aluminium Ltd</b> (held indirectly)	A\$209,282	A\$(4,319)	31.12.03	Australia	Aluminium extrusion	34.26%	Ordinary
<b>Green's Foods Ltd</b> (held indirectly)	A\$46,933	A\$4,257	30.06.03	Australia	Food processing	28.91%	Ordinary
<b>Dawson International PLC</b> (held directly)	£43,117	£(8,600)	31.12.02	Scotland	Textiles	29.91%	Ordinary

**The Group's significant joint ventures at 31 December 2003 are listed below:**

	Capital and reserves 000's	Latest profit/(loss) 000's	Date of last audited accounts	Country of incorporation	Nature of business	GPGUKH shareholding	Class
<b>INVESTMENT</b>							
<b>Coats Group Ltd</b> (held directly)	£196,406	£14,104	Not published	British Virgin Islands	Thread manufacture	63.97%*	Ordinary
<b>Nationwide Accident Repair Services plc</b> (held directly)	£20,016	£2,824	31.12.03	England	Vehicle repair	50.00%	Ordinary
<b>Harcourt Hill Estate Ltd</b> (held indirectly)	A\$2,675	A\$3,204	30.06.03	Australia	Property development	50.00%	Ordinary

\*The Group's voting rights in Coats Group Ltd are restricted to 50.00%.

The following table provides summarised financial information on the Group's associated undertakings, relating to the period when they were associates, and excludes goodwill:

	2003 £000	2002 £000
<b>SUMMARISED PROFIT AND LOSS ACCOUNT INFORMATION</b>		
Turnover	<b>161,727</b>	181,788
(Loss)/profit before tax	<b>(710)</b>	2,745
Taxation	<b>(49)</b>	(416)
<b>(LOSS)/PROFIT AFTER TAX</b>	<b>(759)</b>	(2,329)

# Notes to Financial Statements – continued

## 14. Fixed Asset Investments - continued

	2003 £000	2002 £000
<b>SUMMARISED BALANCE SHEET INFORMATION</b>		
Fixed assets	<b>27,515</b>	28,262
Current assets	<b>57,314</b>	51,050
	<b>84,829</b>	79,312
Liabilities due within one year	<b>(34,187)</b>	(28,396)
Liabilities due after more than one year	<b>(4,780)</b>	(1,250)
Provisions	<b>(4,312)</b>	(4,031)
<b>NET ASSETS</b>	<b>41,550</b>	45,635

The Group's share of associated undertakings' borrowings is £16,144,000 of which £11,364,000 is repayable within one year and £4,780,000 is repayable after more than one year. Liabilities due after more than one year are repayable over the period to 2008. These borrowings have not been guaranteed by the Company nor by any of its subsidiary undertakings.

There was one holding at year end that exceeded 20% but was not treated as an associated undertaking. The directors consider that the Group has not exercised significant influence over this company due to the dominant influence of other members and the composition of the Board. The details are as follows:

	Capital and reserves 000's	Latest profit 000's	Date of last audited accounts	Country of incorporation	Nature of business	GPG shareholding	Class
<b>Tooth &amp; Co Ltd</b> (held indirectly)	A\$118,405	A\$95,771	30.06.03	Australia	Investment	24.95%	Ordinary

The following table provides summarised financial information on the Group's share of its joint venture undertakings, relating to the period during which they were joint ventures, and excludes goodwill:

31 December	2003 £000	2002 £000
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### SUMMARISED PROFIT AND LOSS ACCOUNT INFORMATION

Turnover	<b>541,834</b>	42,939
Profit/(loss) before tax	<b>15,918</b>	(519)
Taxation	<b>(6,717)</b>	(272)
<b>PROFIT/LOSS AFTER TAX</b>	<b>9,201</b>	(791)

### SUMMARISED BALANCE SHEET INFORMATION

Fixed assets	<b>231,347</b>	5,661
Current assets	<b>369,784</b>	31,849
	<b>601,131</b>	37,510
Liabilities due within one year	<b>(119,339)</b>	(14,011)
Liabilities due after more than one year	<b>(280,213)</b>	(13,369)
Provisions	<b>(88,501)</b>	(962)
	<b>113,078</b>	9,168
Minority interest	<b>(30,264)</b>	–
<b>NET ASSETS</b>	<b>82,814</b>	9,168

The Group's share of joint venture undertakings' borrowings is £280,213,000 of which £128,429,000 is repayable within one year and £151,784,000 is repayable after more than one year. Liabilities due after more than one year are repayable over the period to 2008. Except as disclosed in note 26, these borrowings have not been guaranteed by GPG nor by any of its subsidiary undertakings.

The Group's principal operating subsidiaries are listed in note 33.

## 14. Fixed Asset Investments - continued

### b) The Group – Other investments

	Listed investments £000	Unlisted investments £000	Art portfolio £000	Total £000
<b>COST</b>				
At 1 January 2003	210,341	3,586	269	214,196
Currency translation differences	–	72	–	72
Additions	54,864	51	–	54,915
Reclassification from associated undertakings	3,912	–	–	3,912
Reclassification to joint ventures	(84,637)	–	–	(84,637)
Disposals	(27,193)	–	–	(27,193)
Reclassification from current investments	3,302	–	–	3,302
Repayment of capital	(308)	–	–	(308)
Reclassification to current investments	–	(102)	–	(102)
<b>AT 31 DECEMBER 2003</b>	<b>160,281</b>	<b>3,607</b>	<b>269</b>	<b>164,157</b>
<b>PROVISIONS</b>				
At 1 January 2003	10,674	–	–	10,674
Charge for the year	2,939	56	–	2,995
Disposals	(451)	–	–	(451)
<b>AT 31 DECEMBER 2003</b>	<b>13,162</b>	<b>56</b>	<b>–</b>	<b>13,218</b>
<b>NET BOOK VALUE AT 31 DECEMBER 2003</b>	<b>147,119</b>	<b>3,551</b>	<b>269</b>	<b>150,939</b>
NET BOOK VALUE AT 31 DECEMBER 2002	199,667	3,586	269	203,522

The market value of the Group's listed investments at 31 December 2003 (excluding listed subsidiaries and associates) was £213,881,000 (2002: £208,397,000). These listed investments are all quoted on recognised stock exchanges.

### c) The Company

	Investments in subsidiaries £000	Investments in joint ventures £000	Investments in associates £000	Listed investments £000	Unlisted investments £000	Art portfolio £000	Total £000
<b>COST</b>							
At 1 January 2003	144,591	12,781	13,129	178,907	33	269	349,710
Additions	50	–	–	37,678	–	–	37,728
Disposals	(17,166)	–	(337)	(13,224)	–	–	(30,727)
Loans advanced	–	7,264	3,369	–	–	–	10,633
Reclassifications	–	84,637	(359)	(84,278)	–	–	–
Repayment of capital	(50)	(2,004)	–	(308)	–	–	(2,362)
<b>AT 31 DECEMBER 2003</b>	<b>127,425</b>	<b>102,678</b>	<b>15,802</b>	<b>118,775</b>	<b>33</b>	<b>269</b>	<b>364,982</b>
<b>PROVISIONS</b>							
At 1 January 2003	11,456	–	–	864	–	–	12,320
Charge for the year	–	–	12,432	1,047	–	–	13,479
Disposals	–	–	–	(451)	–	–	(451)
<b>AT 31 DECEMBER 2003</b>	<b>11,456</b>	<b>–</b>	<b>12,432</b>	<b>1,460</b>	<b>–</b>	<b>–</b>	<b>25,348</b>
<b>NET BOOK VALUE AT 31 DECEMBER 2003</b>	<b>115,969</b>	<b>102,678</b>	<b>3,370</b>	<b>117,315</b>	<b>33</b>	<b>269</b>	<b>339,634</b>
NET BOOK VALUE AT 31 DECEMBER 2002	133,135	12,781	13,129	178,043	33	269	337,390

As at 31 December 2003, the market value of the Company's listed investments (excluding subsidiaries and associates) was £155,682,000 (2002: £176,968,000) and the market value of the Company's listed subsidiaries and associates was £64,465,000 (2002: £16,174,000). The carrying value of these listed subsidiaries and associates was £28,468,000 (2002: £13,128,000).

## Notes to Financial Statements – continued

### 15. Stocks and Development Work in Progress

Year ended 31 December	2003 £000	Group 2002 £000	2003 £000	Company 2002 £000
Raw materials and consumables	4,896	3,936	-	-
Work in progress	605	867	-	-
Finished goods and goods for resale	7,107	5,686	-	-
	<b>12,608</b>	10,489	-	-
Development work in progress	15,627	3,492	-	-
	<b>28,235</b>	13,981	-	-

### 16. Debtors

Year ended 31 December	2003 £000	Group 2002 Re-stated £000	2003 £000	Company 2002 £000
Trade debtors	61,401	83,830	-	-
Amounts owed by subsidiary undertakings	-	-	884	19
Amounts recoverable on contracts	14,446	12,507	-	-
Tax recoverable	1,597	-	-	-
Other debtors	6,365	12,335	1,757	4,197
Pension prepayments	-	1,573	-	-
Other prepayments and accrued income	4,603	5,507	844	616
Deferred tax asset (see note below)	2,506	2,862	107	107
	<b>90,918</b>	118,614	<b>3,592</b>	4,939

The deferred tax asset for the Group is included within the analysis in note 22. The Company's deferred tax asset of £107,000 relates to short term timing differences.

Group debtors recoverable after more than one year total £4,471,000 (2002: £7,096,000) including £1,623,000 (2002: £3,550,000) in respect of amounts recoverable on contracts, £2,506,000 (2002: £1,973,000) in respect of deferred tax, and £Nil (2002: £1,573,000) in respect of pension prepayments.

The movements in the deferred tax asset during the year were as follows:

	Group £000	Company £000
At 1 January 2003	2,862	107
Currency translation differences	326	-
Charged to the profit and loss account	(682)	-
<b>AT 31 DECEMBER 2003</b>	<b>2,506</b>	<b>107</b>

### 17. Current Asset Investments

Year ended 31 December	2003 £000	Group 2002 £000	2003 £000	Company 2002 £000
Listed investments	17,253	18,769	-	-
Unlisted investments	173	18,105	-	11,556
	<b>17,426</b>	36,874	-	11,556

The market value of the Group's listed current asset investments is £18,225,000 (2002: £23,731,000). These investments are all quoted on recognised stock exchanges. Unlisted investments substantially comprise short-term interest-bearing instruments.

## 18. Trade and Other Creditors

Year ended 31 December	2003 £000	Group 2002 £000	2003 £000	Company 2002 £000
<b>AMOUNTS FALLING DUE WITHIN ONE YEAR</b>				
Trade creditors	51,796	36,837	-	-
Amounts owed to parent undertaking	85,367	103,171	85,367	103,171
Amounts owed to subsidiary undertakings	-	-	45,794	2,790
Corporate taxes	6,901	3,876	983	1,485
Other tax and social security payable	7,775	6,555	80	41
Payments received on account	20,225	25,632	-	-
Other creditors	9,024	14,478	417	56
Accruals and deferred income	20,783	17,921	5,214	2,006
Employee entitlements	2,993	2,101	-	-
	<u>204,864</u>	<u>210,571</u>	<u>137,855</u>	<u>109,549</u>
<b>AMOUNTS FALLING DUE AFTER ONE YEAR</b>				
Other creditors	1,164	41	-	-
Employee entitlements	424	265	67	216
	<u>1,588</u>	<u>306</u>	<u>67</u>	<u>216</u>

## 19. Convertible Subordinated Loan Notes ("CLNs")

Year ended 31 December	2003 £000	Group 2002 £000	2003 £000	Company 2002 £000
CLNs repayable within one year	5,963	3,863	5,963	3,863
CLNs repayable between one and two years	5,964	3,863	5,964	3,863
CLNs repayable between two and five years	-	3,862	-	3,862
	<u>11,927</u>	<u>11,588</u>	<u>11,927</u>	<u>11,588</u>

On 2 June 2000, the Company repurchased 38.6 million ordinary shares for an aggregate consideration of £19,313,000, which was settled through the issue of 38.6 million CLNs of 50p each.

Those CLNs are convertible into shares of the Company. However, under the terms of the 2002 reverse acquisition, "Step-up Rights" were inserted into the Company's Articles of Association with the result that upon any future requirement to issue shares in the Company, for example on conversion of CLNs, those shares are automatically transferred to GPG in exchange for the issue of an equal number of fully paid shares in GPG. This ratio will be subject to adjustment in future to reflect certain capital events (such as capitalisation issues by GPG).

Any ordinary shares issued in GPG will rank *pari passu* with those already in issue, save that they will not rank for dividends or other distributions declared, made or paid in respect of financial periods or parts of financial periods ending on or prior to 30 June in that financial year. Conversion prices are subject to adjustment for capitalisation and rights issues and in certain other circumstances.

In addition, GPG has entered into a deed of guarantee pursuant to which GPG guarantees (on a subordinated basis) the Company's obligations in respect of the payment of principal and accrued interest under the CLN Trust Deed in the event of, and following completion of, a liquidation of the Company.

Also under the terms of the reverse acquisition, holders of CLNs were given the option to convert their entire holdings into ordinary shares in the Company which, in accordance with the "Step-up Rights," were automatically transferred to GPG in exchange for an issue of an equal number of fully paid GPG shares. On 14 February 2003, 4,378,034 CLNs were converted in this manner.

On 9 July 2003, a further 26,047,862 CLNs were issued, with exactly the same terms and rights as the existing CLNs and with the same face value of 20p per CLN, as part of GPG's share buy-back offer. The issue costs amounted to £176,000, and these costs are being charged to the profit and loss account over the outstanding term of the CLNs. At 31 December 2003 the unamortised balance of these costs was £132,000.

The CLNs are subordinated, unsecured obligations of the Company and carry interest at 8% per annum. The residual principal amount of 20p (2002: 30p) is redeemable in two equal instalments (2002: three equal instalments) of 10p per CLN per annum commencing 30 June 2004 (2002: 30 June 2003) or, at the option of the holder, the instalment due for redemption in any year may be converted to Ordinary Shares on the following effective basis:

- on 30 June 2004, one Ordinary Share for every 48.8p in principal of CLNs; and
- on 30 June 2005, one Ordinary Share for every 52.5p in principal of CLNs.



## Notes to Financial Statements – continued

### 20. Capital Notes

31 December	2003 £000	Group 2002 £000	2003 £000	Company 2002 £000
Capital Notes repayable between two and five years	<b>166,513</b>	67,765	–	–

Between 2 August 2001 and 11 September 2001, the Group issued NZ\$250 million of unsecured, subordinated fixed interest Capital Notes (“the 2001 Notes”). The issue costs amounted to NZ\$9,275,000, and these costs are being charged to the profit and loss account over the initial five year term of the debt. As at 31 December 2003, the unamortised balance of these costs was NZ\$5,022,000. The 2001 Notes bear interest at a fixed rate of 9.0% per annum, payable on a quarterly basis. Under the terms of a cross currency interest rate swap, the Company fixed the sterling principal amount of the 2001 Notes at £70 million. Through that same transaction, the effective interest charge on the 2001 Notes was reduced to a fixed rate of 8.25% on this sterling amount. This interest rate swap was closed out in 2003.

The 2001 Notes have an initial election date of 15 November 2006, prior to which GPG Finance plc, being the issuing subsidiary, will provide terms and conditions on which noteholders may elect to roll-over their 2001 Notes. Noteholders may then elect to retain some or all of their 2001 Notes for a further period on the new terms and conditions and/or to convert some or all of their 2001 Notes into ordinary shares. The 2001 Notes are initially convertible into shares of the Company. However, under the terms of the reverse acquisition in 2002, “Step-up Rights” were inserted into the Company’s Articles of Association with the result that upon any future requirement to issue or transfer shares on conversion of the 2001 Notes, those shares will be automatically transferred to GPG in exchange for the issue of an equal number of fully paid shares in GPG. Conversion of the 2001 Notes will be into such number of the Company shares as is equal to the number of GPG shares having a value equal to the aggregate of the principal amount of, and any accrued interest and unpaid interest on, the 2001 Notes being converted, such GPG shares being valued for this purpose at a price of 97% of the weighted average sale price of an ordinary share in GPG on each of the five business days prior to the election date. These elections are subject to the Company’s over-riding right (at its option) to purchase for cash some or all of the 2001 Notes for their principal amount, together with any accrued interest and unpaid interest.

The Company has provided a subordinated and unsecured guarantee in respect of the repayment of principal and the payment of accrued interest and unpaid interest due on the 2001 Notes on liquidation of the issuing subsidiary or of the Company itself. In the event that the issuing subsidiary is in liquidation and the Company is not, the guarantee is only enforceable after the scheduled election date for the 2001 Notes which next follows the liquidation of the subsidiary. This guarantee ranks *pari passu* with those provided for the CLNs (see note 19) and the loan to the Company from GPG Finance plc, but is subordinated to all other creditors. GPG has entered into a deed of guarantee pursuant to which it has guaranteed (on a subordinated basis) the obligations of the Company as guarantor in respect of the payment of principal, interest and accrued interest on the 2001 Notes in the event of, but following completion of, a liquidation of the Company.

Between 1 August and 4 September 2003, the Group issued a further NZ\$215 million of unsecured, subordinated fixed interest Capital Notes (“the 2003 Notes”). The issue costs amounted to NZ\$6,334,000, and these costs are being charged to the profit and loss account over the initial five year term of the debt. At 31 December 2003 the unamortised balance of these costs was NZ\$5,963,000. The 2003 Notes bear interest at a fixed rate of 8.7% per annum, payable on a quarterly basis.

The 2003 Notes have an initial election date of 15 December 2008, prior to which GPG Finance plc, being the issuing subsidiary, will provide terms and conditions on which noteholders may elect to roll-over their 2003 Notes. Noteholders may then elect to retain some or all of their 2003 Notes for a further period on the new terms and conditions and/or to convert some or all of their 2003 Notes into ordinary shares of GPG. Conversion of the 2003 Notes will be at a price of 97% of the weighted average sale price of an ordinary share in GPG on each of the five business days prior to the election date. These elections are subject to GPG’s over-riding right (at its option) to purchase for cash some or all of the 2003 Notes for their principal amount, together with any accrued interest and unpaid interest.

GPG has provided a subordinated and unsecured guarantee in respect of the repayment of principal and the payment of interest and unpaid interest due on the 2003 Notes on liquidation of the issuing subsidiary or of GPG itself. In the event that the issuing subsidiary is in liquidation and GPG is not, the guarantee is only enforceable after the scheduled election date for the 2003 Notes which next follows the liquidation of the subsidiary. This guarantee ranks *pari passu* with the guarantees provided for the CLNs, the 2001 Notes and the loans to the Company from GPG Finance plc, but is subordinated to all other creditors.

## 21. Other Borrowings

Year ended 31 December	2003 £000	Group 2002 £000	2003 £000	Company 2002 £000
Bank overdraft	-	509	-	-
Borrowings repayable within one year	<b>838</b>	4,895	-	-
	<b>838</b>	5,404	-	-
Borrowings repayable between one and two years	<b>22,584</b>	2,381	-	-
Borrowings repayable between two and five years	-	9,419	<b>163,350</b>	66,987
Borrowings repayable after more than five years	-	1,872	-	-
	<b>23,422</b>	19,076	<b>163,350</b>	66,987
Bank overdraft	-	509	-	-
Bank borrowings	<b>23,422</b>	18,567	-	-
Interest-bearing loan from subsidiary undertaking	-	-	<b>163,350</b>	66,987
	<b>23,422</b>	19,076	<b>163,350</b>	66,987

### Notes:

- At 31 December 2003, the Group's borrowings comprised £23,422,000 in secured borrowings (2002: £19,023,000) and £Nil in unsecured borrowings (2002: £53,000). Of the secured borrowings, £15,516,000 (2002: £16,184,000) was secured against property and the balance was secured against inventories.
- Between 2 August and 11 September 2001, a subsidiary undertaking issued NZ\$250 million of unsecured fixed interest Capital Notes, with an initial election date of 15 November 2006 (see note 20). The proceeds of those Capital Notes, net of NZ\$9,275,000 of costs incurred, were lent to the Company under the terms of an unsecured subordinated loan. The loan bears interest at 10.25% per annum and falls due for repayment on 15 November 2006. The loan ranks *pari passu* with the CLNs and the guarantee of the Capital Notes in any liquidation of the Company.
- Between 1 August and 4 September 2003, a subsidiary undertaking issued NZ\$215 million of unsecured fixed interest Capital Notes with an initial election date of 15 December 2008 (see note 20). The proceeds of these Capital Notes, net of NZ\$6,334,000 of costs incurred, were lent to the Company under the terms of an unsecured subordinated loan. The loan bears interest at 10% per annum and falls due for repayment on 15 December 2008. The loan ranks *pari passu* with the CLNs and the guarantee of the 2001 Capital Notes in any liquidation of the Company.

## 22. Provisions for Liabilities and Charges

Year ended 31 December	2003 £000	Group 2002 £000	2003 £000	Company 2002 £000	
Deferred tax	<b>10,518</b>	7,388	<b>6,596</b>	1,680	
Pension liabilities	<b>838</b>	928	<b>302</b>	300	
Onerous lease commitments	<b>4,705</b>	4,825	<b>2,328</b>	2,421	
Other provisions	<b>839</b>	1,196	<b>40</b>	-	
	<b>16,900</b>	14,337	<b>9,266</b>	4,401	
	Deferred tax £000	Pension liabilities £000	Onerous leases £000	Other provisions £000	Total £000
<b>GROUP</b>					
At 1 January 2003	7,388	928	4,825	1,196	14,337
Currency translation differences	1,067	(63)	293	42	1,339
Utilised in year	-	(53)	(1,057)	(547)	(1,657)
Charged to the profit and loss account	5,564	26	489	133	6,212
Unwinding of discount	-	-	155	15	170
Charged to reserves	(3,501)	-	-	-	(3,501)
<b>AT 31 DECEMBER 2003</b>	<b>10,518</b>	<b>838</b>	<b>4,705</b>	<b>839</b>	<b>16,900</b>

### Notes:

- Included in the Group's provisions for onerous leases, pensions and other commitments are amounts totalling £1,274,000 (2002: £2,438,000) which are payable within one year. The leases relate to office, warehouse and industrial buildings which are no longer occupied by the Group. In many cases sub-leases have been granted in respect of these buildings but where the rent receivable is insufficient to cover the lease commitments a provision has been made for the deficit. The provision covers the period to 2011 and is based on assumptions concerning the outcome of rent reviews and the rent receivable from new sub-tenants, both of which are uncertain. The expected future cash flows have been discounted on a pre-tax basis at nominal interest rates of 5.0% (UK) and 3.0% (Germany).
- Other provisions mainly comprise post retirement healthcare obligations for former employees of Staveley in the UK and the US. These liabilities expire on the death of the beneficiaries. They are based on management's estimate of future costs, having regard to past experience, and have been discounted at 5.3%.

## Notes to Financial Statements – continued

### 22. Provisions for Liabilities and Charges - continued

Year ended 31 December	2003 Provided £000	2003 Unprovided £000	2002 Provided £000	2002 Unprovided £000
<b>DEFERRED TAX IS ANALYSED AS FOLLOWS:</b>				
Accelerated capital allowances	(470)	–	1,958	–
Short term timing differences	(187)	(581)	4,517	(4,270)
Revenue losses carried forward	8,669	(9,770)	(1,949)	(10,266)
Other timing differences	–	(51,339)	–	(16,800)
	<u>8,012</u>	<u>(61,690)</u>	<u>4,526</u>	<u>(31,336)</u>
Comprising:				
Deferred tax assets	(2,506)	–	(2,862)	–
Deferred tax liabilities	10,518	–	7,388	–
	<u>8,012</u>	–	<u>4,526</u>	–

A number of Group companies have losses carried forward. Such losses are only recognised in the financial statements to the extent that it is considered more likely than not that sufficient future taxable profits will be available for offset.

COMPANY	Deferred tax £000	Pension liabilities £000	Onerous leases £000	Other provisions £000	Total £000
At 1 January 2003	1,680	300	2,421	–	4,401
Currency translation differences	–	–	201	–	201
Charged to the profit and loss account	4,916	2	74	40	5,032
Unwinding of discount	–	–	53	–	53
Utilised in year	–	–	(421)	–	(421)
<b>AT 31 DECEMBER 2003</b>	<u>6,596</u>	<u>302</u>	<u>2,328</u>	<u>40</u>	<u>9,266</u>

	2003 Provided £000	2003 Unprovided £000	2002 Provided £000	2002 Unprovided £000
<b>DEFERRED TAX IS ANALYSED AS FOLLOWS:</b>				
Accelerated capital allowances	(4)	–	9	–
Short term timing differences	(103)	–	(116)	–
Other timing differences	6,596	–	1,680	–
	<u>6,489</u>	<u>–</u>	<u>1,573</u>	<u>–</u>
Comprising:				
Deferred tax assets	(107)	–	(107)	–
Deferred tax liabilities	6,596	–	1,680	–
	<u>6,489</u>	–	<u>1,573</u>	–

## 23. Operating Lease Commitments

Year ended 31 December	Land and buildings 2003 £000	Other 2003 £000	Land and buildings 2002 £000	Other 2002 £000
<b>GROUP</b>				
Annual commitments under operating leases expiring:				
Within one year	397	863	1,211	278
Between one and two years	1,102	2,542	1,135	2,121
Between two and five years	2,442	372	1,542	99
Over five years	2,833	147	2,809	365
	<u>6,774</u>	<u>3,924</u>	<u>6,697</u>	<u>2,863</u>
<b>COMPANY</b>				
Annual commitments under operating leases expiring:				
Within one year	-	506	-	-
Over five years	416	-	416	-
	<u>416</u>	<u>506</u>	<u>416</u>	<u>-</u>

## 24. Share Capital

### Group and Company

	2003 Number	2003 £000	2002 Number	2002 £000
<b>Authorised</b>				
Ordinary Shares of 10p each	1,905,000,000	190,500	1,905,000,000	190,500
<b>Issued and fully paid</b>				
Ordinary Shares of 10p each	681,365,862	68,137	613,397,331	61,340

During 2003 the following issues and allotments of Ordinary Shares were made, representing an increase in the aggregate nominal value of the Company's share capital of £6,797,000:

Date of event	Stock event	No. of shares	Price (pence per share)
28 January 2003	Exercise of options	13,310	36.44
14 February 2003	Conversion of CLNs	2,886,368	45.50
4 July 2003	Conversion of CLNs	2,886,806	45.00
10 July 2003	Exercise of options	110,000	36.82
20 October 2003	Exercise of options	13,908	35.39
4 December 2003	Capitalisation Issue	61,930,772	Credited as fully paid
11 December 2003	Exercise of options	127,367	23.95
		<u>67,968,531</u>	

Since the year end as a result of the exercise of options an additional 5,168,144 shares have been issued, increasing the number of shares in issue to 686,534,006.

## Notes to Financial Statements – continued

### 24. Share Capital - continued

Following adjustments, grants, exercises and lapses during the year, options outstanding under the Group's various share option schemes at 31 December 2003 were as set out below:

Share Option Scheme	Number	Date granted	Exercise price (p per share)	Exercise period
<b>1992 SHARE OPTION SCHEME</b>				
Ordinary	5,884,505	12.05.94	25.34	12.05.97 to 11.05.04
Super	4,553,482	12.05.94	25.34	12.05.99 to 11.05.04
Ordinary	955,271	06.10.94	23.95	06.10.97 to 05.10.04
Super	636,843	06.10.94	23.95	06.10.99 to 05.10.04
Ordinary	1,116,280	25.08.95	25.11	25.08.98 to 24.08.05
Super	2,516,377	25.08.95	25.11	25.08.00 to 24.08.05
Ordinary	37,117	03.01.96	28.63	03.01.99 to 02.01.06
Super	141,898	03.01.96	28.63	03.01.01 to 02.01.06
Ordinary	282,157	11.04.96	32.33	11.04.99 to 10.04.06
Super	225,401	11.04.96	32.33	11.04.01 to 10.04.06
Ordinary	1,578,916	08.05.96	32.78	08.05.99 to 07.05.06
Super	1,670,222	08.05.96	32.78	08.05.01 to 07.05.06
Ordinary	1,366,554	13.01.97	33.10	13.01.00 to 12.01.07
Super	253,065	13.01.97	33.10	13.01.02 to 12.01.07
Ordinary	2,848,134	01.09.97	41.30	01.09.00 to 31.08.07
Ordinary	101,223	07.11.97	40.21	07.11.00 to 06.11.07
Super	220,856	07.11.97	40.21	07.11.02 to 06.11.07
Ordinary	59,024	03.08.98	28.56	03.08.01 to 02.08.08
Super	29,552	03.08.98	28.56	03.08.03 to 02.08.08
Ordinary	2,053,393	22.03.99	35.39	22.03.02 to 21.03.09
Super	1,199,823	22.03.99	35.39	22.03.04 to 21.03.09
Ordinary	25,621	02.09.99	33.13	02.09.02 to 01.09.09
Super	12,774,273	02.09.99	33.13	02.09.02 to 01.09.09
<b>1994 SHARE OPTION SCHEME</b>				
Ordinary	140,103	12.05.94	25.34	12.05.97 to 11.05.04
Super	140,103	12.05.94	25.34	12.05.99 to 11.05.04
Ordinary	198,655	25.08.95	25.11	25.08.98 to 24.08.05
Super	397,318	25.08.95	25.11	25.08.00 to 24.08.05
Ordinary	104,778	03.01.96	28.63	03.01.99 to 02.01.06
Ordinary	17,021	11.04.96	32.33	11.04.99 to 10.04.06
Ordinary	91,303	08.05.96	32.78	08.05.99 to 07.05.06
Ordinary	32,204	01.09.97	41.30	01.09.00 to 31.08.07
Ordinary	24,157	22.03.99	35.39	22.03.02 to 21.03.09
Super	29,282	02.09.99	33.13	02.09.04 to 01.09.09
<b>2001 SHARE OPTION SCHEME</b>				
Ordinary	7,387,050	17.10.01	33.47	17.10.04 to 16.10.11
Ordinary	302,500	19.03.02	44.21	19.03.05 to 18.03.12
<b>2002 SHARE OPTION SCHEME</b>				
Ordinary	737,000	08.01.03	39.55	08.01.06 to 07.01.13
Ordinary	1,990,999	21.03.03	44.55	21.03.06 to 20.03.13
Ordinary	630,000	16.10.03	63.50	16.10.03 to 15.10.13

Since the year end, options have been exercised as to 6,849,423 shares under the 1992 Share Option Scheme and 698,959 shares under the 1994 Share Option Scheme.

Super options are normally exercisable after five years from the date of grant. Options exercised during the year comprised 303,701 shares under the 1992 scheme and 40,602 shares under the 1994 scheme and 121,000 shares under the 2001 scheme (all adjusted for the 2003 Capitalisation Issue).

Options granted before 13 December 2002, being the Effective Date of the reverse acquisition of Brunel Holdings plc, were over shares in GPG (UK) Holdings plc ("GPGUKH") which changed its name from Guinness Peat Group plc as a result of the reverse acquisition. Options granted since that date are on the shares of Guinness Peat Group plc ("GPG") (formerly Brunel Holdings plc). Following the reverse acquisition, certain option holders "rolled over" their rights. Those who rolled over their rights are entitled to exercise their options directly into the ordinary shares of GPG. As a result of the Step-Up Rights contained in GPGUKH's Articles of Association, the remaining option holders will receive GPG shares initially on a one-for-one basis as an automatic consequence of exercise.

## 25. Reserves

	Share premium account £000	Capital redemption reserve £000	Profit and loss account £000
<b>GROUP</b>			
At 1 January 2003	9,562	3,863	189,684
Premium on shares issued (net of expenses)	2,089	–	–
Capitalisation issue of shares	(6,193)	–	–
Currency translation differences	–	–	615
Release of negative goodwill on disposals	–	–	(333)
Deferred tax on foreign currency translation differences	–	–	3,501
Retained profit for the year	–	–	64,706
<b>AT 31 DECEMBER 2003</b>	<b>5,458</b>	<b>3,863</b>	<b>258,173</b>
<b>COMPANY</b>			
At 1 January 2003	9,562	3,863	32,783
Premium on shares issued (net of expenses)	2,089	–	–
Capitalisation issue of shares	(6,193)	–	–
Retained loss for the year	–	–	(3,975)
<b>AT 31 DECEMBER 2003</b>	<b>5,458</b>	<b>3,863</b>	<b>28,808</b>

Cumulative negative goodwill taken directly to reserves in respect of acquisitions prior to 1998 amounts to £2,774,000.

The profit and loss account includes £2,490,000 of unrealised profits on the part disposal of ENZA in 2002.

## 26. Contingent Liabilities

The Company has guaranteed the repayment of principal, accrued interest and unpaid interest due on the NZ\$250 million Capital Notes issued in 2001 in the event of a liquidation of the issuing subsidiary or the Company (see note 20).

As at 31 December 2003, Staveley had contingent liabilities in respect of performance bonds, tender bonds and guarantees for third parties amounting to £2,000,000 (2002: £3,200,000). In addition, Staveley and certain of its subsidiaries are parties to legal actions and claims arising in the ordinary course of business, which the directors are advised and believe are likely to be resolved without significant effect on the net assets of the Group.

A subsidiary of Canberra Investment Corporation (“Canberra”) is jointly and severally liable for all the liabilities of the Harcourt Hill Estate joint venture. The assets of the joint venture at year-end were sufficient to meet such liabilities. In addition, Canberra has guaranteed the bank facilities of a joint arrangement in which it has a 50% interest. As at 31 December 2003, these facilities amounted to £Nil (2002: £Nil).

## 27. Capital Commitments

As at 31 December 2003, the Group had commitments of £5,739,000 in respect of contracts placed for future capital expenditure (2002: £5,480,000). Its share of the capital commitments reported by associated undertakings was £3,270,000 (2002: £6,322,000). The Company did not have any capital commitments.

# Notes to Financial Statements – continued

## 28. Notes to Cashflow

### a) Reconciliation of operating profit to net cash inflow from operating activities

Year ended 31 December	2003 £000	Group 2002 £000	2003 £000	Company 2002 £000
Operating profit	68,192	46,989	14,319	42,508
Depreciation	10,409	8,775	158	103
Profit on disposal of tangible fixed assets	(353)	(142)	(37)	(17)
Release of negative goodwill	(1,180)	(1,343)	–	–
Amounts written off/(written back) against investments	11,026	(2,438)	13,479	(534)
Decrease/(increase) in debtors	17,196	8,926	5,404	(10,056)
(Increase)/decrease in land under development	(15,303)	3,010	–	–
(Increase)/decrease in stocks	(1,725)	44,475	–	–
(Decrease)/increase in provisions	(1,009)	(182)	(51)	2,419
(Decrease)/increase in creditors	(6,481)	(24,669)	34,344	(5,949)
Decrease/(increase) in current asset investments	21,876	(9,645)	11,556	(5,756)
Currency and other adjustments	(11,103)	(660)	(10,669)	(1,842)
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	<b>91,545</b>	<b>73,096</b>	<b>68,503</b>	<b>20,876</b>

Net cash inflow from operating activities includes the profits and losses resulting from the sale of investments, together with interest and dividends received, all of which are considered to be cash inflows generated in the normal course of business.

### b) Dividends received from associates and joint ventures

Dividends received from associated undertakings	1,874	1,818	–	–
Dividends received from joint ventures	3,684	1,137	–	–
	<u>5,558</u>	<u>2,955</u>	<u>–</u>	<u>–</u>

### c) Returns on investments and servicing of finance

Interest paid	(12,881)	(9,445)	(20,471)	(10,426)
Dividends paid by subsidiaries to minority interests	(366)	(686)	–	–
	<u>(13,247)</u>	<u>(10,131)</u>	<u>(20,471)</u>	<u>(10,426)</u>

### d) Taxation paid

Overseas tax paid	(5,273)	(3,475)	–	–
UK tax paid	(684)	(618)	2,382	33
	<u>(5,957)</u>	<u>(4,093)</u>	<u>2,382</u>	<u>33</u>

### e) Capital expenditure and financial investment

Payments to acquire property, plant and equipment (excluding land for development)	(8,841)	(7,314)	55	(422)
Purchase of fixed asset investments	(55,079)	(100,473)	(44,571)	(94,991)
Receipts from the disposal of property, plant and equipment	852	1,079	(66)	17
Sale of fixed asset investments, at book value	27,050	47,687	36,990	42,873
Repayment of capital	2,004	–	2,362	–
Loans advanced to associated undertakings	(3,374)	(113)	(3,369)	–
Loans advanced to joint venture undertakings	(7,264)	–	(7,264)	–
Loans repaid by/(advanced to) subsidiary undertakings	–	–	3,719	(95,491)
	<u>(44,652)</u>	<u>(59,134)</u>	<u>(12,144)</u>	<u>(148,014)</u>

## 28. Notes to Cashflow - continued

### f) Acquisitions and disposals

Year ended 31 December	2003 £000	Group 2002 £000	2003 £000	Company 2002 £000
Net receipts from sale of shares in subsidiary undertakings	16,635	10,291	-	-
Net receipts from sale of business	23,391	-	-	-
Cash held by subsidiaries sold	-	(1,366)	-	-
Net payments arising from the purchase of subsidiary undertakings	(381)	(20,088)	(50)	(18,101)
Cash held by subsidiaries acquired (net of overdrafts)	35	4,276	-	-
Net payments arising from the purchase of associated undertakings	(8,943)	(2,210)	-	-
Net payments arising from the purchase of joint venture undertakings	-	(7,103)	-	(7,103)
Sale of shares in associated undertakings, at book value	1,187	-	-	-
	<b>31,924</b>	<b>(16,200)</b>	<b>(50)</b>	<b>(25,204)</b>

### g) Equity dividends paid

Balance payable as at 1 January	-	(5,393)	-	(5,393)
Dividends payable re additional shares issued	-	(33)	-	(33)
Less: shares in lieu of cash dividend	-	3,502	-	3,502
	<b>-</b>	<b>(1,924)</b>	<b>-</b>	<b>(1,924)</b>

### h) Management of liquid resources

Cash placed on short term deposit	(168,546)	(21,586)	(145,086)	(21,586)
Withdrawals from short term deposits	10,607	107,452	10,607	84,319
	<b>(157,939)</b>	<b>85,866</b>	<b>(134,479)</b>	<b>62,733</b>

### i) Financing

Issue of ordinary shares by Company	80	1,255	81	1,255
Issue of ordinary shares to minority shareholders in subsidiaries	-	415	-	-
<b>NET PROCEEDS FROM ISSUE OF ORDINARY SHARES</b>	<b>80</b>	<b>1,670</b>	<b>81</b>	<b>1,255</b>
New loans taken out (including 2003 Capital Notes)	148,918	25,020	-	-
Capital Note and CLN issue expenses	(2,520)	-	(197)	-
Borrowings from subsidiary undertakings	-	-	98,979	101,698
Loans repaid	(47,475)	(69,375)	(2,206)	(1,001)
<b>INCREASE/(DECREASE) IN DEBT</b>	<b>98,923</b>	<b>(44,355)</b>	<b>96,576</b>	<b>100,697</b>
<b>NET CASH INFLOW/(OUTFLOW) FROM FINANCING</b>	<b>99,003</b>	<b>(42,685)</b>	<b>96,657</b>	<b>101,952</b>



## Notes to Financial Statements – continued

### 28. Notes to Cashflow - continued

#### j) Analysis of net funds

<b>GROUP</b>	1 January 2003 £000	Cash flow £000	Exchange and other non-cash movements £000	<b>31 December 2003 £000</b>
Cash at bank and in hand	113,818	163,606	11,947	<b>289,371</b>
Bank overdraft	(509)	568	(59)	–
Less: liquid resources "FRS1" cash	(57,125)	(157,939)	(10,603)	<b>(225,667)</b>
	56,184	6,235	1,285	<b>63,704</b>
Debt due within 1 year	(8,758)	5,775	(3,818)	<b>(6,801)</b>
Debt due after 1 year	(89,162)	(104,698)	(1,201)	<b>(195,061)</b>
	(97,920)	(98,923)	(5,019)	<b>(201,862)</b>
Liquid resources	57,125	157,939	10,603	<b>225,667</b>
<b>NET FUNDS</b>	<b>15,389</b>	<b>65,251</b>	<b>6,869</b>	<b>87,509</b>

<b>COMPANY</b>	1 January 2003 £000	Cash flow £000	Exchange and other non-cash movements £000	<b>31 December 2003 £000</b>
Cash at bank and in hand	57,986	134,877	10,669	<b>203,532</b>
Less: liquid resources "FRS1" cash	(57,125)	(134,479)	(10,603)	<b>(202,207)</b>
	861	398	66	<b>1,325</b>
External debt due within 1 year	(3,863)	99	(2,199)	<b>(5,963)</b>
External debt due after 1 year	(7,725)	2,304	(543)	<b>(5,964)</b>
Borrowings from subsidiary undertakings	(361,397)	(98,979)	–	<b>(460,376)</b>
	(372,985)	(96,576)	(2,742)	<b>(472,303)</b>
Liquid resources	57,125	134,479	10,603	<b>202,207</b>
<b>NET DEBT</b>	<b>(314,999)</b>	<b>38,301</b>	<b>7,927</b>	<b>(268,771)</b>

Liquid resources comprise cash deposits with an original maturity of more than 24 hours.

### 29. Analysis of Changes in Cash and Liquid Resources During the Year

Year ended 31 December	<b>2003 £000</b>	Group 2002 £000	<b>2003 £000</b>	Company 2002 £000
Opening balance	<b>113,818</b>	169,985	<b>57,986</b>	119,696
Net cash inflow	<b>6,235</b>	27,750	<b>398</b>	22
Increase/(decrease) in liquid resources	<b>157,939</b>	(85,866)	<b>134,479</b>	(62,729)
(Decrease)/increase in bank overdraft	<b>(568)</b>	509	–	–
Currency translation differences	<b>11,947</b>	1,440	<b>10,669</b>	997
<b>CLOSING BALANCE</b>	<b>289,371</b>	113,818	<b>203,532</b>	57,986

### 30. Purchase of Subsidiary Undertakings

a) In April 2003, the Group acquired control of Cal-Matrix Technical Services Inc, an electronics calibration operation in Canada.

	Book value £000	Fair value adjustments £000	Fair value £000
<b>ACQUISITION SUMMARY</b>			
Tangible fixed assets	53	161	214
Debtors	81	-	81
Cash	35	-	35
Creditors	(87)	-	(87)
<b>Net assets acquired</b>	<b>82</b>	<b>161</b>	<b>243</b>
<b>Goodwill arising on acquisition</b>			<b>138</b>
<b>Total consideration – paid in 2003</b>			<b>381</b>

The fair value adjustment relates to the revaluation of certain tangible fixed assets.

b) In May 2003, Turners & Growers Ltd acquired the remaining 10.00% of Status Produce Ltd from minority shareholders.

	Book value £000	Fair value adjustments £000	Fair value £000
<b>ACQUISITION SUMMARY</b>			
Tangible fixed assets	8,907	-	8,907
Stocks	494	-	494
Debtors	1,330	-	1,330
Cash	177	-	177
Trade and other creditors	(3,630)	-	(3,630)
Borrowings	(4,179)	-	(4,179)
<b>Net assets</b>	<b>3,099</b>	<b>-</b>	<b>3,099</b>
Less: share of Status Produce Ltd's net assets previously recognised			<b>(2,802)</b>
<b>Net assets attributable to purchase consideration paid this year</b>			<b>297</b>
Consideration – satisfied by shares in Turners & Growers Ltd			<b>(297)</b>
<b>Negative goodwill arising on purchase of minority interest</b>			<b>-</b>

#### c) Reassessment of 2002 Fair Values

In addition, the fair value of the net assets of ENZA Ltd, which was acquired in 2002, have been reassessed during the current year to reflect additional information which has become available concerning the conditions that existed on the date of acquisition. The resulting changes are analysed as follows:

## Notes to Financial Statements – continued

### 30. Purchase of Subsidiary Undertakings - continued

	Provisional fair value as previously reported £000	2003 fair value adjustments £000	Fair value as restated £000
<b>ENZA LTD</b>			
Tangible fixed assets	29,935	(1,173)	28,762
Investment in associates	1,152	–	1,152
Stocks	43,312	–	43,312
Debtors	20,651	–	20,651
Cash	4,725	–	4,725
Creditors	(21,557)	–	(21,557)
Borrowings – short term	(33,163)	–	(33,163)
Borrowings – long term	(10,744)	–	(10,744)
Provisions	(1,305)	–	(1,305)
<b>Net assets at acquisition</b>	<b>33,006</b>	<b>(1,173)</b>	<b>31,833</b>
<b>Negative goodwill arising on acquisition</b>	<b>(12,975)</b>	<b>1,173</b>	<b>(11,802)</b>
Total Consideration	<b>20,031</b>	<b>–</b>	<b>20,031</b>
Consideration reported above			20,031
Cash paid in earlier years			(1,980)
<b>CASH PAYMENTS MADE IN 2002</b>			<b>18,051</b>

The 2003 fair value adjustments relate to the impairment in the value of certain tangible fixed assets.

- d) The subsidiary undertakings acquired during the year contributed an outflow of £8,000 to the Group's net operating cash flows, paid £Nil in respect of returns on investments and servicing of finance, paid £Nil in respect of taxation and utilised £Nil for capital expenditure.

### 31. Purchase of Associated and Joint Venture Undertakings

During the year, the Group increased its investment in two existing associated undertakings and one company became a joint venture undertaking. The Company increased its stake in Green's Foods Ltd from 22.93% to 28.91%, and in Capral Aluminium Ltd from 31.26% to 34.26%. In April 2003 the Company became a joint venture partner in Coats Group plc, with a 63.97% economic interest but with only 50.00% of the voting rights.

The goodwill arising from these transactions is analysed as follows:

	Green's Foods Ltd £000	Associates Capral Aluminium Ltd £000	Joint venture Coats Group Ltd £000	Total £000
Book value of net assets (GPG share)	2,475	8,558	82,502	93,535
Fair value adjustments	–	325	–	325
Fair value of net assets (GPG share)	2,475	8,883	82,502	93,860
Consideration	(2,244)	(5,983)	(84,637)	(92,864)
<b>NEGATIVE/(POSITIVE) GOODWILL</b>	<b>231</b>	<b>2,900</b>	<b>(2,135)</b>	<b>996</b>

The aggregate consideration of £92,864,000 includes £84,637,000 paid in prior years. The net assets of the associates are based on their published accounts, as adjusted to reflect any identified differences between book values and fair values (including relevant accounting policy adjustments).

The significant fair value adjustments for Capral relate to the revaluation of property and plant and equipment at depreciated replacement cost.

### 31. Purchase of Associated and Joint Venture Undertakings - continued

In addition, the fair values attributed to Dawson International PLC ("Dawson"), which was acquired in 2002, have been re-assessed during the current year to reflect additional information made available by this company during 2003 concerning the conditions which existed on the date of acquisition. The resulting changes are analysed below:

	Dawson International plc £000
Book value of net assets (GPG share)	13,829
Fair value adjustments:	
As previously reported	(2,258)
2003 fair value adjustments	(1,038)
As re-stated	(3,296)
Fair value of net assets (GPG share)	10,533
Consideration	(12,432)
<b>POSITIVE GOODWILL</b>	<b>(1,899)</b>

The 2003 fair value adjustments relate to the revaluation of property and plant and equipment at depreciated replacement cost. The balance of the unamortised positive goodwill in Dawson was written off in 2003.

### 32. Disposal of Subsidiary and Associated Undertakings

There were no disposals of subsidiary undertakings during the year.

- a) In August 2003 Staveley Inc disposed of the non-destructive testing division of its North American subsidiary Staveley Services North America Inc. The profit on disposal of that division was as follows:

	2003 £000
Tangible fixed assets	2,623
Stocks	132
Debtors	1,580
<b>Group share of net assets at disposal</b>	<b>4,335</b>
Consideration received	23,391
<b>Profit on disposal</b>	<b>19,056</b>

The business was sold for cash, all of which was received during 2003.

- b) In May 2003 the Group sold 18.79% of its 38.78% investment in Turners Auctions Ltd. The gain on that sale arose as follows:

	£000
Net assets (GPG share) at date of disposal	1,187
Negative goodwill previously written off to reserves	(161)
	1,026
Consideration received	5,003
<b>Profit on disposal</b>	<b>3,977</b>

The shares in Turners Auctions Ltd were sold for cash.

Following the sale, the Group's representation on the Turners Auctions Ltd Board ceased, and the Group's remaining 19.99% investment in Turners Auctions Ltd was reclassified from associated undertaking to fixed asset investment. That fixed asset investment was sold in November 2003.

## Notes to Financial Statements – continued

### 33. Principal Subsidiary Undertakings

The Group's principal subsidiary undertakings at 31 December 2003, all of which are included in the Group's consolidated financial statements, are set out below:

Company name	Country of incorporation/ registration	Class and percentage of shares held	Nature of business
GPG Securities Trading Ltd	England	100% ordinary shares 100% preference shares	Securities trading
Staveley Industries plc*	England	100% ordinary shares	Building services
Staveley Inc	USA	100% ordinary shares	Testing services
Guinness Peat Group (Australia) Pty Ltd*	Australia	100% ordinary shares 100% preference shares	Investment company
Canberra Investment Corporation Ltd*	Australia	68.63% ordinary shares	Property development
Turners & Growers Ltd	New Zealand	78.96% ordinary shares	Fresh produce wholesaler
MEM Group Ltd*	Australia	100% ordinary shares	Investment company
Guinness Peat Group New Zealand Ltd	New Zealand	100% ordinary shares 100% preference shares	Securities trading
GPG Finance plc	England	100% ordinary shares	Finance

\*These subsidiaries are owned indirectly by the Company.

### 34. Related Party Transactions

The Company has taken advantage of the exemption in Financial Reporting Standard 8(3) not to disclose transactions with entities 90% or more of whose voting rights are controlled within the Group.

### 35. Derivatives and Other Financial Instruments

The Group's main financial instruments comprise:

- investments in equity shares with both UK and international exposure. These investments are held both as fixed and current asset investments
- other investments, such as non-equity shares and guaranteed bank bills
- derivatives, including forward foreign currency contracts, cross-currency interest rate swaps, interest rate swaps, equity options and Low Exercise Price Options ("LEPOs")
- trade debtors and trade creditors that arise directly from the Group's operations, including intercompany balances with the parent company
- cash and bank deposits
- bank borrowings and commercial bills
- convertible subordinated loan notes
- capital notes.

The Company is a strategic investment holding company and it, together with certain of its subsidiaries, is principally involved in managing a portfolio of cash and investments. The profile of the Group's financial assets, and in particular the relative balance between cash and investments, varies during the year depending on the timing of purchases and sales of investments and the issue of new subordinated debt. The currency profile of the Group's financial assets is similarly affected by the timing of investment transactions, and also tends to vary during the year.

### 35. Derivatives and Other Financial Instruments - continued

Most of the Group's investments are listed on a recognised stock exchange and so could be converted into cash or liquid resources at short notice. In addition, the Group typically holds cash balances in deposits with a short maturity, and further resources can be drawn through committed borrowing facilities. In managing liquidity, the Group's objective is to ensure it has access to the funds needed to take advantage of any attractive investment opportunities that may arise.

The main risks arising from the Group's financial instruments are as follows:

- market price risk
- currency risk
- interest rate fluctuation risk.

The Group's policies for managing those risks are described below and, except as noted below, have remained unchanged since the beginning of the year to which these financial statements relate.

#### MARKET PRICE RISK

The Group can be affected by market price movements on its equity investments. Since it generally invests for the medium or long term, the Board does not believe it is economic or necessary to hedge market price risk, which in any event it considers to be a relatively short term factor. No significant equity investment is made without exhaustive research and unless a margin of safety has been identified. Once a significant investment has been made, the investment is continually monitored and managed in the light of new information or market movements. As an active investor, the Group's objective is to utilise shareholder influence to enhance the value of its investments and therefore, ultimately, their price. Exposure to price movement is further mitigated through holding a spread of investments, diversified across a range of sectors and countries.

Equity swaps, equity options and LEPOs are purchased from time to time as part of the Group's investment portfolio. These derivatives do not form a significant proportion of the portfolio, and are subject to the same rigorous research procedures as other equity investments.

#### FOREIGN CURRENCY RISK

The income and capital value of the Group's financial instruments can be affected by exchange rate movements as a significant portion of its financial assets (principally cash and investments) and financial liabilities are denominated in currencies other than Sterling, which is the Group's reporting currency. The accounting impact of these exposures will vary according to whether or not the Group company holding such financial assets and liabilities reports in the currency in which they are denominated.

The Board recognises that the Group's Sterling balance sheet will be affected by short term movements in exchange rates, particularly the value of the Australian and New Zealand dollars. The Board takes the view that the major currencies in which the Group is invested move within a relatively stable range and that currency fluctuations should even out over the long term. The Group's policy is to hold over time a broad balance of cash and investments in Sterling and Australian dollars, being the two currencies in which it mainly invests.

At certain times, the Board will make limited use of forward foreign currency contracts and swaps to maintain the Group's relative exposure to the Australian dollar. These contracts tend to have a maturity of less than three months. Otherwise, the distribution of the Group's net assets between the principal currencies in which it does business is driven largely by the availability of suitable investment opportunities within each country.

As explained in note 20, during 2001 the Group issued Capital Notes denominated in NZ dollars. The Board decided to hedge the Sterling value of this debt, which was achieved using a cross-currency interest rate swap of NZ\$250 million in value, maturing in November 2006. The principal amount of the 2001 Notes was translated into Sterling at the exchange rate implicit in the cross-currency interest rate swap. The net interest receivable under the swap was offset against the interest expense on the 2001 Notes, on an accruals basis. The contract involve net settlement with a single counterparty, so the interest payable and receivable at year-end is presented on a net basis. In December 2003 the cross-currency interest rate swap was closed out. The gain on the currency element of the net proceeds received has been accounted for as an increase in the Sterling value of the 2001 Notes, and the loss on the interest element of the settlement has been accounted for as an expense in 2003.

Staveley Inc and Turners & Growers Ltd use forward foreign currency contracts to eliminate the currency exposure that arises on business transacted in currencies other than their own reporting currencies. These companies only enter into such foreign currencies contracts when there is a firm commitment to the transaction. The contracts used to hedge future transactions typically have a maturity of between 6 months and 2 years.

The borrowings drawn by the Group as at 31 December 2003 were all denominated in the reporting currency of the relevant company of which they were liabilities.

# Notes to Financial Statements – continued

## 35. Derivatives and Other Financial Instruments - continued

### INTEREST RATE RISK

In 2003, the Group financed its operations through shareholders' funds, bank borrowings, commercial bills, the CLNs and the Capital Notes. The CLNs and the Capital Notes carry a fixed interest rate. The Group's trading subsidiaries use a mixture of fixed and floating rate debt. The Company also has access to bank facilities amounting to some £83 million, of which £23 million had been drawn down at year-end. This includes facilities negotiated by trading subsidiaries to meet their local needs.

The Group's interest income does not vary significantly from the returns it would generate through investing surplus cash at floating rates of interest since the interest rates are re-set on a regular basis.

In adopting the requirements of FRS13, *Derivatives and other Financial Instruments*, the Group has taken advantage of the exemption that short term debtors and creditors can be excluded from the following disclosures (other than the currency disclosures).

### INTEREST RATE AND CURRENCY PROFILE OF FINANCIAL LIABILITIES

The interest rate and currency profile of the Group's financial liabilities, after taking account of the cross-currency interest rate swap, other interest rate swaps and forward foreign currency contracts used to manage the interest and currency profile, was as follows:

Year ended 31 December	2003				2002			
Currency	Floating rate £000	Fixed rate £000	Interest free £000	Total £000	Floating rate £000	Fixed rate £000	Interest free £000	Total £000
Australian dollars	7,906	–	–	7,906	2,839	–	–	2,839
Sterling	1,670	11,927	254	13,851	1,747	79,353	216	81,316
New Zealand dollars	16,222	166,514	–	182,736	16,894	–	–	16,894
Other	2,328	–	–	2,328	2,421	–	–	2,421
	<b>28,126</b>	<b>178,441</b>	<b>254</b>	<b>206,821</b>	<b>23,901</b>	<b>79,353</b>	<b>216</b>	<b>103,470</b>

The financial liabilities included above comprise the Group's borrowings, onerous lease commitments, contractual employee entitlements and certain derivatives.

Details of fixed and non interest-bearing liabilities are provided below:

Year ended 31 December	2003			2002		
Currency	Fixed rate financial liabilities	Weighted average period for which rate is fixed (months)	Financial liabilities on which no interest is paid	Fixed rate financial liabilities	Weighted average period for which rate is fixed (months)	Financial liabilities on which no interest is paid
	Weighted average interest rate %		Weighted average period until maturity (months)	Weighted average interest rate %		Weighted average period until maturity (months)
Sterling	8.00%	12	–	8.21%	42	–
Other	8.86%	46	–	–	–	–
	<b>8.80%</b>	<b>44</b>	<b>–</b>	<b>8.21%</b>	<b>42</b>	<b>–</b>

The benchmark for determining floating rate liabilities in the UK is LIBOR. In New Zealand, floating rates are determined by reference to the New Zealand 90 Day Bank Bill rate.

## 35. Derivatives and Other Financial Instruments - continued

### INTEREST RATE AND CURRENCY PROFILE OF FINANCIAL ASSETS

The interest rate and currency profile of the Group's financial assets, after taking account of forward foreign currency contracts, was as follows:

Year ended 31 December	2003			2002		
	Investments and other assets £000	Cash at bank and in hand £000	Total £000	Investments and other assets £000	Cash at bank and in hand £000	Total £000
<b>Currency</b>						
Sterling	72,646	28,497	101,143	165,747	11,544	177,291
Australian dollars	59,049	126,476	185,525	57,839	78,692	136,531
New Zealand dollars	47,732	102,032	149,764	23,980	8,632	32,612
United States dollars	823	30,541	31,364	823	9,214	10,037
Other currencies	930	1,825	2,755	914	5,736	6,650
	<b>181,180</b>	<b>289,371</b>	<b>470,551</b>	249,303	113,818	363,121
Floating rate	12,886	282,758	295,644	11,269	111,473	122,742
No rate	–	6,613	6,613	683	2,345	3,028
	<b>12,886</b>	<b>289,371</b>	<b>302,257</b>	11,952	113,818	125,770

The investments included above comprise listed and unlisted investments in shares (excluding associates and joint ventures), equity options, equity swaps and guaranteed bank bills. Other assets comprise amounts recoverable on contracts after more than one year, loans to associates and certain derivatives.

Deposits of £282,758,000 (2002: £111,473,000) which have been placed on deposit with banks for a variety of fixed periods, not exceeding six months, earn available market rates based in LIBID equivalents and are for these purposes classified as floating rate cash balances. The Group's investment portfolio principally comprises equity shares and derivatives. All such investments have been excluded from the interest rate analysis because the investments do not generate a fixed entitlement to interest. The interest-bearing investments principally comprise guaranteed bank bills with a maturity of less than six months. Interest bearing loans of £3,369,000 (2002: £Nil) and £7,264,000 (2002: £Nil) have been provided to an associated undertaking and a joint venture respectively. A non-interest bearing loan of £827,000 (2002: £683,000) has been provided to an associated undertaking which has no fixed repayment date. Non-interest bearing deposits are payable on demand.

### MATURITY OF FINANCIAL LIABILITIES

The maturity of the Group's financial liabilities, other than short-term creditors such as trade creditors and accruals, was as follows:

Year ended 31 December	2003 £000	2002 £000
In one year or less, or on demand	8,320	10,591
In more than one year but not more than two years	29,193	7,017
In more than two years but not more than five years	168,398	82,638
In more than five years	910	3,224
	<b>206,821</b>	<b>103,470</b>

### BORROWING FACILITIES

The Group had the following undrawn committed borrowing facilities in respect of which all conditions precedent had been met at the year-end:

Year ended 31 December	2003 £000	2002 £000
Expiring within one year	36,000	9,291
Expiring between one and two years	24,092	123,608
Expiring between two and five years	–	1,624
	<b>60,092</b>	<b>134,523</b>



# Notes to Financial Statements – continued

## 35. Derivatives and Other Financial Instruments - continued

### FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The fair value of the Group's financial assets and liabilities is summarised below:

Year ended 31 December	Book value £000	2003 Fair value £000	Book value £000	2002 Fair value £000
<b>Primary financial instruments</b>				
Cash at bank	289,371	289,371	113,818	113,818
Investments (fixed and current)	179,278	246,735	240,808	254,500
Amount recoverable on contracts	1,623	1,469	3,550	3,213
CLNs	(11,927)	(17,691)	(11,588)	(14,484)
Capital Notes	(166,513)	(174,558)	(78,990)	(82,580)
Other borrowings	(23,422)	(23,422)	(19,076)	(19,078)
Other financial liabilities	(4,959)	(4,959)	(5,041)	(5,041)
<b>Derivative financial instruments held as part of the investment portfolio</b>				
Equity options and equity swaps	278	278	4,752	4,752
Contracts for differences	1,275	1,275	-	-
<b>Derivative financial instruments held to hedge currency exposures</b>				
Forward foreign currency contracts	-	113	-	320
Cross-currency interest rate swaps	-	-	11,418	10,658

Investments are held for strategic growth or trading purposes. Market values have been used to derive the fair value of all listed investments, the CLNs and the Capital Notes. Unlisted investments are valued according to the most recent price at which they have been traded. For floating rate financial assets and liabilities, and for fixed rate financial assets and liabilities with a maturity of less than six months, it has been assumed that fair values are approximately the same as book values. Fair values for forward foreign currency contracts have been estimated using applicable forward exchange rates at the year end. The fair value of the equity options, equity swaps and the cross-currency interest rate swap have been determined by third party institutions, based on market rates. All other fair values have been calculated by discounting expected cash flows at prevailing interest rates.

Gains and losses on forward foreign currency contracts used for hedging future transactions are not recognised until the exposure to which they relate is itself recognised. Such gains and losses are incorporated in the value of the transaction being hedged.

### CURRENCY EXPOSURE

The table below shows the extent to which Group companies have monetary assets and liabilities in currencies other than their local currency after taking account of forward foreign currency contracts and cross-currency interest rate swaps held as hedges. Foreign exchange differences arising on retranslation of these assets and liabilities are taken to the Group's profit and loss account. The table excludes loans between Group companies that form part of the net investment in overseas subsidiaries on which the exchange differences are dealt with through reserves. It also excludes investments held in equity shares, which are translated into the investing company's reporting currency at the historical rate on the date of acquisition and are not subsequently re-translated.

Functional currency 31 December 2003	Sterling £000	Australian dollars £000	New Zealand dollars £000	Net foreign currency monetary assets/(liabilities)		
				US dollars £000	Other £000	Total £000
<b>Sterling</b>	-	98,412	(91,068)	18,500	(19,250)	6,594
<b>US dollars</b>	-	-	-	-	290	290
<b>Australian dollars</b>	-	-	-	(427)	(15)	(442)
<b>New Zealand dollars</b>	(62)	872	-	1,577	106	2,493
	<u>(62)</u>	<u>99,284</u>	<u>(91,068)</u>	<u>19,650</u>	<u>(18,869)</u>	<u>8,935</u>
				Net foreign currency monetary assets/(liabilities)		
Functional currency 31 December 2002	Sterling £000	Australian dollars £000	New Zealand dollars £000	US dollars £000	Other £000	Total £000
Sterling	-	72,962	13,907	(3,206)	(11,384)	72,279
US dollars	-	-	-	-	612	612
New Zealand dollars	40	54	-	275	1,594	1,963
	<u>40</u>	<u>73,016</u>	<u>13,907</u>	<u>(2,931)</u>	<u>(9,178)</u>	<u>74,854</u>

### 35. Derivatives and Other Financial Instruments - continued

#### HEDGES

During 2003, the Group hedged the following exposures:

- interest rate risk – using interest rate swaps
- currency risk – using forward foreign currency contracts and cross-currency interest rate swaps.

The table below shows the extent to which the Group has off-balance sheet (unrecognised) gains and losses in respect of financial instruments used as hedges at the beginning and end of the year. It also shows the amount of such gains and losses which have been included in the profit and loss account.

	Gains £000	Losses £000
Gains/(losses) not yet taken at 1 January 2003	320	(760)
(Gains)/losses arising in previous years included in 2003 profit	<u>(320)</u>	<u>760</u>
<b>(Gains)/losses not included in 2003 profit arising before 1 January 2003</b>	–	–
Unrecognised gains arising in 2003	<u>113</u>	–
<b>Gains not yet taken at 31 December 2003</b>	<b><u>113</u></b>	<b><u>–</u></b>
Of which:		
Gains expected to be recognised in 2004	113	–
Gains expected to be recognised after 2004	–	–

#### GAINS/(LOSSES) ON FINANCIAL ASSETS/LIABILITIES

The net gain/(loss) from buying and selling financial assets and financial liabilities shown in the Group's profit and loss account is analysed as follows:

Year ended 31 December	2003 £000	2002 £000
Gain on disposal of investments (excluding derivatives)	<b>40,904</b>	26,601
Gains on disposal of equity options, equity swaps and LEPOs	<b>1,365</b>	–
Net (write-down)/write-back of investments (excluding derivatives)	<b>(11,083)</b>	2,433
Net write-back/(write-down) of equity options, equity swaps and LEPOs	<b>1</b>	(462)
	<b><u>31,187</u></b>	<b><u>28,572</u></b>

# Independent Auditor's Report

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GPG (UK) HOLDINGS PLC

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We have audited the financial statements of GPG (UK) Holdings plc for the year ended 31 December 2003 which comprise the profit and loss accounts, the balance sheets, the statements of total recognised gains and losses, the reconciliations of movements in shareholders' funds, the cash flow statements and the related notes 1 to 35. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

### Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 circumstances of the company and the group, 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 as at 31 December 2003 and of the loss of the company and the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP  
Chartered Accountants and Registered Auditors  
London  
15 March 2004

# GPG (UK) Holdings plc

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**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. Register enquiries may be addressed direct to the Company's share registrars named below:

Register	Telephone and postal enquiries	Inspection of Register
<b>UK Main Register:</b> Computershare Investor Services PLC	PO Box 82, The Pavilions, Bridgwater Road Bristol BS99 7NH Tel: 0870 702 0000 Facsimile: 0870 703 6143	PO Box 82, The Pavilions Bridgwater Road Bristol BS99 7NH
<b>Australian Branch Register:</b> Registries Ltd	PO Box R67 Royal Exchange, Sydney NSW 1224 Tel: 02 9279 0677 Facsimile: 02 9279 0664	Level 2, 28 Margaret Street Sydney NSW 2000
<b>New Zealand Branch Register:</b> Computershare Investor Services Limited	Private Bag 92119, Auckland 1020 Tel: 09 488 8777 Facsimile: 09 488 8787	Level 2, 159 Hurstmere Road Takapuna North Shore City

