

GPG

Interim Report | 2003

GPG (UK) Holdings plc



Chairman's Statement

As I reported in the Annual Report for GPG (UK) Holdings plc ("GPGUKH" or "the Company") on 14 March 2003, the Company is now a wholly owned subsidiary of Guinness Peat Group plc ("GPG") following a reverse acquisition on 13 December 2002. Since the operations of GPGUKH for the half year to 30 June 2003 substantially comprised those operations reported by GPG for that period, I consider it most helpful and informative to reproduce here an extract from the Statement made by the Chairman of GPG, Sir Ron Brierley, in his interim report for the same period which is also being released today.

Blake Nixon
Chairman
28 August 2003

Extract from the statement by the Chairman of Guinness Peat Group plc, in respect of the half year ended 30 June 2003.

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

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

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

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

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

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

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

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

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

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

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

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

Ron Brierley
Chairman
28 August 2003



Consolidated Profit and Loss Account

	6 months ended 30 June 2003 Unaudited £000	6 months ended 30 June 2002 Unaudited £000	Year ended 31 December 2002 Audited £000
Group turnover	320,097	254,505	514,836
Group operating profit	45,728	31,539	46,989
Share of operating profit of joint ventures and associates	<u>4,810</u>	<u>1,376</u>	<u>2,534</u>
	50,538	32,915	49,523
Profit on sale of subsidiary – discontinued operations	<u>-</u>	<u>-</u>	<u>12,238</u>
Profit before interest payable	50,538	32,915	61,761
Interest payable and similar charges	<u>(10,883)</u>	<u>(4,244)</u>	<u>(10,529)</u>
Profit before taxation	39,655	28,671	51,232
Taxation	<u>(14,380)</u>	<u>(7,199)</u>	<u>(5,203)</u>
Profit after taxation	25,275	21,472	46,029
Minority interests	<u>(1,199)</u>	<u>(1,451)</u>	<u>(3,425)</u>
PROFIT ATTRIBUTABLE TO ORDINARY SHAREHOLDERS	24,076	20,021	42,604
Dividends proposed	<u>-</u>	<u>-</u>	<u>(106,033)</u>
PROFIT/(LOSS) RETAINED FOR THE PERIOD	24,076	20,021	(63,429)

Consolidated Balance Sheet

	30 June 2003 Unaudited £000	30 June 2002 Unaudited £000	31 December 2002 Audited £000
FIXED ASSETS			
Intangible assets	(8,779)	(5,309)	(10,734)
Tangible assets	75,049	69,481	73,752
Investments	251,951	226,452	256,189
TOTAL FIXED ASSETS	318,221	290,624	319,207
CURRENT ASSETS			
Debtors	135,253	124,745	118,614
Stocks/Development work in progress	43,512	53,637	13,981
Investments	21,347	34,887	36,874
Cash at bank	178,091	161,035	113,818
TOTAL CURRENT ASSETS	378,203	374,304	283,287
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
Trade and other creditors	(235,597)	(143,722)	(210,571)
Convertible subordinated loan notes	(3,425)	(3,863)	(3,863)
Other borrowings	(35,873)	(54,461)	(5,404)
TOTAL CURRENT LIABILITIES	(274,895)	(202,046)	(219,838)
Net current assets	103,308	172,258	63,449
TOTAL ASSETS LESS CURRENT LIABILITIES	421,529	462,882	382,656
CREDITORS: AMOUNTS FALLING DUE AFTER 1 YEAR			
Trade and other creditors	(792)	(1,344)	(306)
Convertible subordinated loan notes	(3,425)	(7,724)	(7,725)
Capital notes	(67,887)	(67,511)	(67,765)
Other borrowings	(15,504)	(8,207)	(13,672)
TOTAL LONG-TERM CREDITORS	(87,608)	(84,786)	(89,468)
PROVISIONS FOR LIABILITIES AND CHARGES	(13,970)	(10,567)	(14,337)
NET ASSETS	319,951	367,529	278,851
CAPITAL AND RESERVES			
Share capital	61,630	60,704	61,340
Share premium account	10,590	7,312	9,562
Capital redemption reserve	3,863	3,863	3,863
Profit and loss account	227,001	276,048	189,684
EQUITY SHAREHOLDERS' FUNDS	303,084	347,927	264,449
Minority interest (equity)	16,867	19,602	14,402
CAPITAL EMPLOYED	319,951	367,529	278,851



Consolidated Cash Flow Statement

	6 months ended 30 June 2003 Unaudited £000	6 months ended 30 June 2002 Unaudited £000	Year ended 31 December 2002 Audited £000
Net cash inflow from operating activities	31,509	28,441	73,096
Dividends received from associates and joint ventures	1,915	1,362	2,955
Returns on investments and servicing of finance	(5,705)	(4,037)	(10,131)
Taxation	(4,846)	(1,950)	(4,093)
Capital expenditure and financial investment	(15,984)	(26,948)	(59,134)
Acquisitions and disposals	16,779	(14,179)	(16,200)
Equity dividends paid	-	(1,845)	(1,924)
CASH INFLOW/(OUTFLOW) BEFORE MANAGEMENT OF LIQUID RESOURCES AND FINANCING	23,668	(19,156)	(15,431)
Management of liquid resources	(67,103)	19,302	85,866
Financing			
Issue of ordinary shares	1,621	1,481	1,670
Increase/(decrease) in debt	28,768	4,522	(44,355)
(DECREASE)/INCREASE IN CASH FOR THE PERIOD	(13,046)	6,149	27,750
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS			
(Decrease)/increase in cash for the period	(13,046)	6,149	27,750
Cash outflow/(inflow) from decrease/increase in liquid resources	67,103	(19,302)	(85,866)
Cash (inflow)/outflow from increase/decrease in debt	(28,768)	(4,522)	44,355
Change in net funds resulting from cash flows	25,289	(17,675)	(13,761)
Acquisition of subsidiaries	-	(45,682)	(49,889)
Disposal of subsidiaries	-	-	2,491
Currency translation differences	11,299	3,633	(1,448)
Other non-cash movements (see note below)	-	-	2,866
Movement in net funds for the period	36,588	(59,724)	(59,741)
Net funds as at 1 January	15,389	75,130	75,130
CLOSING NET FUNDS	51,977	15,406	15,389

Non-cash transactions:

- i) On 13 December 2002 the shares in the former Guinness Peat Group plc were acquired by the former Brunel Holdings plc, as part of a reverse acquisition takeover, in exchange for an issue of shares in that company.
- ii) On 31 December 2002 the Group in effect sold a 19.96% interest in ENZA Ltd, formerly a 100% subsidiary, in return for an additional 34.12% of Turners & Growers Ltd, formerly a 45.92% associated undertaking.
- iii) On 14 February 2003 the Group redeemed 4,378,034 convertible subordinated loan notes, amounting to £1,313,000, satisfied by the issue of Ordinary Shares in Guinness Peat Group plc.

Notes to the Financial Statements

- The interim financial information has been prepared on a basis consistent with the accounting policies adopted in the group's financial statements for the year ended 31 December 2002.
- Abridged accounts (Companies Act 1985) – The information for the year ended 31 December 2002 is based on the latest published accounts which have been delivered to the Registrar of Companies.
- Coats Group Ltd ("Coats Group"), a joint venture company in which GPGUKH holds a 64% economic interest and a 50% voting interest, became the parent company of Coats plc ("Coats") when its offer for Coats was declared unconditional on 7 April 2003. Coats Group contributed a loss of £1,274,000 before taxation during the period.
- Having regard to the timing of the acquisition of Coats, it has not been possible to complete detailed investigations of the fair values of its assets at acquisition, which are therefore considered to be provisional.
- The Group's significant associate and joint venture entities are as follows:

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

- On 4 July 2003, those holders of the Company's Convertible Loan Notes ("CLNs") who elected to convert their Election Amounts were issued with 2,886,806 Ordinary shares of 10p each in the Company which, through the "Step-up Rights" in the Company's Articles of Association, were converted to an equivalent number of 5p shares in GPG. The remaining CLN holders were repaid Redemption Amounts of £2.1 million in cash.
- On 9 July 2003, those GPG shareholders who elected to accept that company's Buyback Offer were issued with 26,047,947 GPGUKH CLNs of 20p each in exchange for their holdings of 10,419,320 Ordinary shares of 5p each in Guinness Peat Group plc.
- Publication – This statement is being sent to shareholders and copies will be available at the registered office of the Company, First Floor, Times Place, 45 Pall Mall, London SW1Y 5GP.

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