GPG
Guinness Peat Group plc

ANNUAL REPORT
2008

Contents

CHAIRMAN'S STATEMENT

AS STATED IN THE 7 JANUARY Market Update, 2008 was a very unsatisfactory year for GPG.

A number of portfolio writedowns have been necessary as a consequence of the global financial crisis although we believe many of these will ultimately recover as a more realistic reflection of intrinsic value.

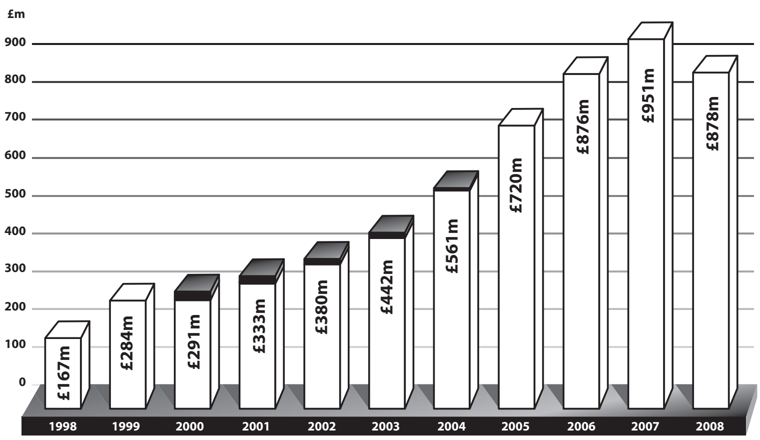
Not so good, are those which are the product of poor investment judgment in earlier years and where we must accept a permanent loss.

All of the foregoing was canvassed in the Interim Report but became worse in the second half.

Our principal operating subsidiary, Coats, has also been affected by the economic downturn with a disappointing loss of £4 million. However, that arose from an unusual circumstance whereby tax of £20 million exceeded the net profit of £16 million because of country mismatches for which there is no immediate solution other than if, and when, loss making units return to profit, there will be a corresponding offset in the future.

Coats will obviously continue to encounter difficult trading conditions during 2009 but that may provide some relative advantages in terms of the Company's outstanding geographic coverage and its technological superiority over weaker competitors. Coats has manufacturing facilities in 35 countries and is represented in 71 overall which is quite remarkable for a company with total assets of only £1 billion and provides reassurance regarding its ultimate value in a better economic cycle.

Shareholders' Funds

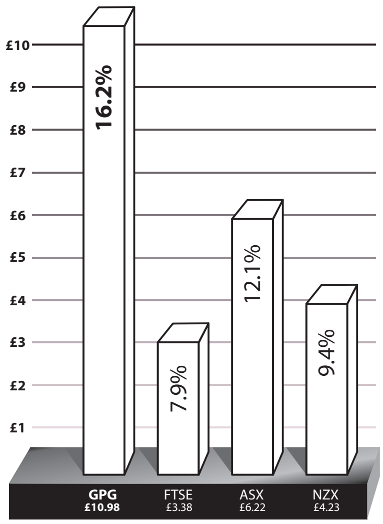


■ The figures for Convertible Loan Notes are £19m (2000), £16m (2001), £12m (2002), £12m (2003), £6m (2004), £Nil (2005 and subsequently).

Figures for 2004 and later years are prepared under International Accounting Standards whereas previous figures have been prepared under UK GAAP. For comparability the 2004 figures have been adjusted to reflect the IAS 32/39 transitional adjustments of £120m.

Compound growth in GPG's Net Asset Value per share

Comparison with total return on various indices



Growth in value of £1 invested over the period 1 January 1993 to 31 December 2008

% Compound annual growth rate

GPG = Increase in NAV per GPG Ordinary Share, as adjusted for stock events, since 1 January 1993.

Total return indices:
FTSE = London Stock Exchange FTSE 100
ASX = Australian Stock Exchange All Ordinaries
NZX = New Zealand Stock Exchange Top 40 (from January 2004 NZX-50)

GPG's formal Accounts show a net loss for the year of £50 million compared with a loss of £42 million to 30 June and profit of £129 million in 2007. However, all those figures are largely meaningless for present analytical purposes as they contain "exotic" accounting entries which distort actual performance.

In today's volatile market conditions, the January Market Update is considered to be a more useful assessment of GPG's year end position. Net asset value on that basis was £729 million compared with £878 million in these Accounts – the difference being a more informal overall conservative evaluation.

That profile has not changed greatly in the current term other than a further fall in the value of CSR shares and the provision of A$10 million support for Capral Ltd. Net cash has increased, mainly as a result of the sale of MYOB shares.

Capital and dividend

The Board has decided to maintain the standard 1p dividend and 1 for 10 bonus issue (the 16th in succession, multiplying an original 1990 holding 4.6 times). That recognises the context of GPG's 19 year record rather than one unsatisfactory year just completed. The share election scheme will operate in lieu of cash dividend on the basis of 1 new share for each 25 shares already held.

Outlook

We are still focused on returning value to shareholders in 2010 but that must now be qualified by the unprecedented global financial stringency, the repercussions from which are likely to continue to emerge for some time to come.

Ron Brierley
Chairman
27 February 2009

Financial Profile of Operations

Operating Subsidiaries	GPG holding 31 December 2008 %	Consolidated figures year ended 31 December 2008: Net profit/(loss) before minority interests £m	Group turnover £m	Consolidated figures at 31 December 2008: Total assets £m	Shareholders' funds (GPG share) £m
UNITED KINGDOM					
Coats Group Ltd *Thread manufacturer*	100.0%	(2)	888	1,036	307
NEW ZEALAND					
Turners & Growers Ltd *Fresh produce wholesaler*	65.9%	6	219	146	62
AUSTRALIA					
Gosford Quarry Holdings Ltd *Quarry operator*	100.0%	(8)	13	18	12
Capral Ltd *Aluminium extrusions*	75.6%	(54)	241	148	44
Canberra Investment Corporation Ltd *Property developer*	68.8%	1	11	83	29
TAFMO Ltd *Electronic products and services*	56.0%	(4)	3	5	1
UNITED STATES OF AMERICA					
Staveley Inc. *Testing services*	100.0%	5*	4	6†	4†

* Excluding Group interest receivable from GPG of £2 million.
† Includes cash of £3 million.

Significant Associated Undertakings and Joint Ventures*	GPG holding 31 December 2008 %	GPG share of income/(loss) year ended 31 December 2008 £m	GPG book value at 31 December 2008 £m	Latest published shareholders' funds £m
UNITED KINGDOM				
Autologic Holdings plc	23.5%	(8)	5	20
AUSTRALIA				
Green's General Foods Pty Ltd	72.5%	(3)	17	23
Australian Country Spinners Ltd	50.0%	0	(3)	4
Rattoon Holdings Ltd	44.4%	(12)	18	34
MMC Contrarian Ltd	26.4%	0	13	88
The Maryborough Sugar Factory Ltd	24.0%	0	13	46
Peanut Company of Australia Ltd	23.8%	0	5	15
NEW ZEALAND				
Tower Ltd	35.0%	5	65	104

* Held by GPG and its investment subsidiaries ("Parent Group").

Summary of Principal Quoted Investments

Disclosed Shareholdings as at 25 March 2009

	Shareholding
SUBSIDIARY UNDERTAKINGS	
Capral Ltd	75.6%
Canberra Investment Corporation Ltd	69.9%
Turners & Growers Ltd	65.1%
OTHER SHAREHOLDINGS	
United Kingdom	
Newbury Racecourse plc	29.0%
Autologic Holdings plc	23.5%
Dawson International plc	15.2%
Young & Co.'s Brewery P.L.C. ('A' Shares)	10.2%
Inspired Gaming plc	10.1%
Nationwide Accident Repair Services plc	7.0%
Thwaites (Daniel) plc	6.0%
Ashley House plc	5.0%
Fiberweb plc	3.2%
Shepherd Neame plc ('A' Shares)	3.1%
Australia	
Rattoon Holdings Ltd	44.4%
MMC Contrarian Ltd	26.4%
Tooth & Co. Ltd	24.9%
The Maryborough Sugar Factory Ltd	24.0%
Eservglobal Ltd	19.7%
Tandou Ltd	17.0%
Farm Pride Foods Ltd	13.2%
NSX Ltd	12.1%
Capilano Honey Ltd	9.4%
Symex Holdings Ltd	8.8%
Metals X Ltd	8.0%
AVJennings Ltd	7.9%
GME Resources Ltd	5.6%
New Zealand	
Tower Ltd	35.0%
Turners Auctions Ltd	19.4%
Singapore	
Pertama Holdings Ltd	17.3%
United States of America	
Santa Fe Financial Corporation	6.4%

value

Analysis of Total Holdings in above Companies as at 25 March 2009

	Cost £m	Market £m
Subsidiaries	131	51
Associated undertakings	106	61
Other	61	61
TOTAL	298	173

Board of Directors

Sir Ron Brierley, Chairman

Sir Ron Brierley (71) implemented his investment approach successfully having founded Brierley Investments Ltd in 1961. Following his appointment to the Board of Guinness Peat Group plc in March 1990, Sir Ron has continued to apply and develop this approach within the Company.

Chairman of the Remuneration Committee

A. I. Gibbs, Executive Director

Tony Gibbs (61) has been involved with public company boards for many years. His experience includes mergers, acquisitions and divestments. He is chairman of Tower Ltd and Turners & Growers Ltd, and a director of Coats plc.

Appointed to the Board May 1996.

B. A. Nixon, Executive Director

Blake Nixon (48) has wide experience of corporate finance both in the UK and Australia. He is a director of Coats plc. He acts as a trustee on each of the Group's UK pension schemes.

Appointed to the Board March 1990. Chairman of the Audit Committee and Member of the Remuneration Committee

Dr G. H. Weiss, Executive Director

Gary Weiss (55) has considerable experience in the international business scene. He is chairman of Coats plc and a director of various public companies including Westfield Group.

Appointed to the Board November 1990. Member of the Remuneration Committee

Directors' Report

The directors present their annual report and audited financial statements for the year ended 31 December 2008.

Business Review

The Company is a strategic investment holding company. Comments on the Group's activities during 2008 and also on the outlook for 2009 are set out on pages 2 and 3 in the Chairman's Statement which forms part of this Directors' Report.

The Chairman's Statement refers to the net asset value of £729 million from the 7 January 2009 Market Update announcement. The principal differences between this valuation and that shown by the balance sheet on pages 10 and 11 are: the bases for valuing subsidiary and associated undertakings and joint ventures, the impact of foreign exchange rates and the inclusion of a contingency.

The Group's major operating subsidiaries (being Canberra Investment Corporation, Capral, Coats and Turners & Growers) produce their own Annual Reports in which can be found reports on their business operations.

The Company's key performance indicators ("KPIs"), comprising the chart showing the movement in Shareholders' Funds since 1998 and the chart showing compound movement in GPG's Net Asset Value per share, appear in the charts within the Chairman's Statement on pages 2 and 3. In addition, Net Asset Backing per share is shown on page 11.

Further information can be found in the Corporate Governance report on pages 62 to 64 under the headings 'Internal Controls' and 'Business Review', including commentary on the way the Group manages the risks inherent in its activities and those of its operating subsidiaries. A further description of the principal risks and uncertainties that the Group faces can be found in note 40 to the financial statements.

Going Concern

The directors' consideration of the going concern assumption is discussed on page 65.

Significant Events

During the year, GPG sold its shareholding in Tower Australia Group Limited and acquired the entire issued share capital of Gosford Quarry Holdings Limited. GPG's holding in Tower Limited increased during the year to 35.0%, and it became an associated undertaking.

Results and Dividends

The results of the Group are shown on page 9 and movements on reserves are set out in note 31 to the financial statements. The loss for the year of £50 million includes a deferred tax charge of £26 million in respect of the de-recognition of deferred tax assets following a reduction during the year in unrealised investment gains on the investment portfolio. The loss for the year also reflects net charges totalling £19 million arising from the revaluation of inter company loan accounts. The retranslation of the Group's foreign currency investments gave rise to a net gain of £114 million, including £105 million in respect of subsidiaries, which has been transferred directly to reserves, see note 31. An interim dividend of 1.0p per Ordinary Share for the

Directors' Report – continued

year ended 31 December 2008 has been declared, payable on 18 May 2009, and this represents the total payable for the year. In respect of the year ended 31 December 2007, GPG paid an interim dividend of 0.91p, as adjusted for the 2008 Capitalisation Issue, in May 2008. This was the only dividend for that year.

A scrip dividend alternative of 1 new Ordinary Share for every 25 held is being offered in lieu of the interim cash dividend for the year ended 31 December 2008.

Share Capital

Details of the Company's authorised and issued share capital, together with details of the movements in the Company's issued share capital during the year, are shown in note 30. The Company has one class of ordinary shares which do not carry the right to receive fixed income. Each share carries the right to one vote at general meetings of the Company. There are no specific restrictions on the size of a holding, on the transfer of shares, nor on voting rights, all of which are governed by the provisions of the Articles of Association and prevailing legislation.

At the Annual General Meeting of the Company to be held on 22 May 2009 ("the 2009 AGM"), shareholders will be asked to approve a resolution* (Resolution 6), in accordance with Section 80 of the Companies Act 1985 ("the Act"), which authorises the directors to exercise all the powers of the Company to allot relevant securities without first offering them to existing shareholders. The resolution also preserves a similar authority conferred by Resolution 9 passed at the Annual General Meeting held in 2004. This is in addition to the general authority described below. The directors have no present intention to exercise these powers.

At the 2009 AGM a resolution* (Resolution 7) will be proposed authorising the directors in respect of the 2009 Capitalisation Issue to allot up to 149,874,880 further shares on or before 31 December 2009 in a ratio of 1 new Ordinary Share for every 10 Ordinary Shares held. The directors will also propose a resolution* (Resolution 8) extending the existing authority which enables the directors to allot, in lieu of the cash dividend payable in any year, Ordinary Shares. The directors propose to extend this authority to the fifth annual general meeting following the 2009 AGM, the maximum period permitted by the Company's Articles of Association.

At the Annual General Meeting held on 13 May 2008 ("the 2008 AGM") shareholders gave limited authority to the directors, pursuant to Section 95 of the Act, to allot unissued shares for cash and to do so without regard to the statutory rights of pre-emption of existing shareholders. Such authority was limited to the allotment of shares in connection with, *inter alia*, a rights issue where the proposed allotment may not reflect exactly shareholders' pre-emptive rights or a placement of up to an aggregate nominal value not exceeding £3,359,225. It is intended that the directors be authorised at the 2009 AGM to allot unissued shares for cash in similar circumstances. A special resolution relating to the powers of directors to allot shares pursuant to Section 95 of the Act (as described above) will be put to the 2009 AGM* (Resolution 9). The number of shares which may be so allotted for cash will be up to an aggregate nominal value of £3,556,932 representing 5% of the issued share capital of the Company. Such authority, unless renewed or varied by the Company in general meeting, will expire on 22 May 2014.

The Company's Ordinary Shares are listed on the London and New Zealand Stock Exchanges and on the Australian Securities Exchange. The main and branch share registers are maintained in the countries where the Company's Ordinary Shares are listed and the respective addresses are set out on page 80.

Authority to Purchase Own Shares

A special resolution* (Resolution 10) renewing GPG's general authority to purchase its own issued Ordinary Shares will also be proposed at the 2009 AGM. This authority is limited to purchases through the markets on which these shares are traded as set out above at a price of not less than 5p per Ordinary Share and not more than 5% above the average of the middle-market quotations of the Company's Ordinary Shares as shown in the London Stock Exchange Daily Official List for the 5 business days before the purchase is made. It will cover a maximum number of 213,273,695 Ordinary Shares, being no more than 14.99% of the Company's current issued ordinary share capital.

The directors would not propose to exercise the authority to make purchases unless the expected effect of the purchase would be generally in the best interests of shareholders. The directors presently intend that a resolution to renew this authority will be proposed at each succeeding Annual General Meeting.

The total number of options that are outstanding under the Group's share option schemes is 104,685,518. These options equate to 7.4% of the issued share capital. If

* See Explanatory Note to the Notice of Annual General Meeting on page 77 for further information relating to Resolutions 6 to 11 inclusive.

Directors' Report – continued

the full authority to purchase on market 14.99% of its increased issued Ordinary Shares were to be exercised by the Company, these options would then represent 8.66% of the reduced issued share capital.

Notice Period for Shareholder Meetings

In view of a change to UK company law being introduced as a result of the EU Shareholder Rights Directive, a resolution (Resolution 11) will be put to the 2009 AGM permitting the directors to continue to call general meetings (other than annual general meetings) on a minimum of 14 clear days' notice. Further details are set out on page 77.

Circular to Shareholders

A Circular dated 27 March 2009 dealing with resolutions extending by a further year the current 5-year authority granted at the 2008 AGM allowing the directors to operate a scrip dividend alternative in lieu of the cash dividend whenever such a dividend is paid, and a further resolution dealing with the proposed 2009 Capitalisation Issue is being sent to shareholders with this Annual Report.

Substantial Interests

Notification has been received by the Company and is maintained in its Register of Substantial Share Interests, as required under the Act, that as at 30 March 2009 Sir Ron Brierley held 45,108,190 Ordinary Shares, 3.18% of GPG's issued share capital.

In addition, the Company has received notification under the Disclosure and Transparency Rules from Franklin Resources Inc. that as at 18 March 2009 they held 71,631,859 Ordinary Shares (5.0% of GPG's issued share capital), from Accident Compensation Corporation that as at 15 March 2009 they held 56,363,737 Ordinary Shares, (4.0% of GPG's issued share capital), and from Black Rock Inc. that as at 18 March 2009 they held 53,448,382 Ordinary Shares (3.8% of GPG's issued share capital).

Property, Plant and Equipment

Details of property, plant and equipment are set out in note 15 to the financial statements.

Financial Instruments

Disclosure of the use of financial instruments by the Group can be found in note 40.

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 2008, the Company's trade creditors (excluding amounts attributable to investments) represented 27 days' purchases (2007: 6 days).

Employees

Participation in the conduct and affairs of relevant employing companies is encouraged: arrangements for communication vary within 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 aptitude, 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 2008, the Group made charitable donations of £136,949 (2007: £131,229), principally to local charities serving the communities in which the Group operates. Contributions of £8,761 were made to non-EU political parties during the year (2007: £11,841).

Directors and their Responsibilities

The directors who all served throughout the year are those whose details appear on page 6. In addition, Graeme Cureton served as a director until 29 August 2008 when he retired.

A report on Directors' Responsibilities and a statement regarding the disclosure of information to the auditor appear on page 72.

Further discussion of the Board's activities, powers and responsibilities, and information on compensation for loss of office, appear within the Corporate Governance report on pages 62 to 70.

Auditor

The auditor, Deloitte & Touche LLP, has changed its name in the past year to Deloitte LLP. A resolution to re-appoint Deloitte LLP as auditor will be proposed at the 2009 AGM.

By order of the Board
Richard Russell
Secretary
30 March 2009

Consolidated Income Statement

Year ended 31 December	Notes	2008 IFRS £m	2007 IFRS £m
Continuing operations			
Revenue	2,3	**1,381**	1,319
Cost of sales	5	**(964)**	(911)
Gross profit		**417**	408
Profit on disposal of investments and other net investment income	4	**61**	145
Distribution costs	5	**(180)**	(163)
Administrative expenses	5	**(276)**	(235)
Operating profit	5	**22**	155
Share of profit/(loss) of joint ventures	16	**1**	(3)
Share of (loss)/profit of associated undertakings	16	**(9)**	11
Profit on sale of business – continuing operations		**–**	25
Finance costs (net)	7	**(43)**	(38)
(Loss)/profit before taxation from continuing operations	6	**(29)**	150
Tax on (loss)/profit from continuing operations	9	**(48)**	(32)
(Loss)/profit for the year from continuing operations		**(77)**	118
Discontinued operations			
Gain on discontinued operations	37	**4**	8
(LOSS)/PROFIT FOR THE YEAR		**(73)**	126
Attributable to:			
EQUITY HOLDERS OF THE PARENT		**(50)**	**129**
Minority interests		**(23)**	(3)
		(73)	126
(LOSS)/EARNINGS PER ORDINARY SHARE FROM CONTINUING AND DISCONTINUED OPERATIONS:			
Basic	11	**(3.56)p**	9.28p
Diluted	11	**(3.56)p**	8.05p
(LOSS)/EARNINGS PER ORDINARY SHARE FROM CONTINUING OPERATIONS:			
Basic	11	**(3.86)p**	8.73p
Diluted	11	**(3.86)p**	7.62p

Notes on pages 15 to 61 form part of these financial statements

Consolidated Balance Sheet

31 December	Notes	2008 IFRS £m	2007 IFRS £m
NON-CURRENT ASSETS			
Intangible assets	14	**218**	204
Property, plant and equipment	15	**508**	414
Investments in associated undertakings	16	**126**	149
Investments in joint ventures	16	**59**	45
Fixed asset investments	16	**177**	328
Derivative financial instruments	22	**–**	4
Deferred tax assets	18	**11**	8
Pension surpluses	10	**29**	34
Trade and other receivables	20	**25**	18
		1,153	1,204
CURRENT ASSETS			
Inventories	19	**261**	227
Trade and other receivables	20	**302**	254
Current asset investments	21	**7**	12
Derivative financial instruments	22	**7**	5
Cash and cash equivalents		**362**	318
		939	816
Non-current assets classified as held for sale	37	**7**	5
TOTAL ASSETS		**2,099**	2,025
CURRENT LIABILITIES			
Trade and other payables	23	**306**	294
Current income tax liabilities		**8**	10
Capital notes	25	**–**	83
Other borrowings	26	**109**	94
Derivative financial instruments	24	**20**	4
Provisions	28	**79**	84
		522	569
NET CURRENT ASSETS		**417**	247
NON-CURRENT LIABILITIES			
Trade and other payables	23	**18**	14
Deferred tax liabilities	27	**21**	17
Capital notes	25	**172**	133
Other borrowings	26	**295**	168
Derivative financial instruments	24	**7**	1
Retirement benefit obligations:			
Funded schemes	10	**32**	1
Unfunded schemes	10	**64**	51
Provisions	28	**19**	26
		628	411
TOTAL LIABILITIES		**1,150**	980
NET ASSETS		**949**	1,045

Notes on pages 15 to 61 form part of these financial statements

31 December EQUITY	Notes	2008 IFRS £m	2007 IFRS £m
Share capital	30	**71**	64
Share premium account	31	**61**	61
Translation reserve	31	**118**	13
Unrealised gains reserve	31	**36**	94
Other reserves	31	**281**	295
Retained earnings	31	**311**	424
EQUITY SHAREHOLDERS' FUNDS		**878**	**951**
Minority interests		**71**	94
TOTAL EQUITY		**949**	1,045
Net asset backing per share*		**61.85p**	67.86p*

* The net asset backing per share at 31 December 2007 has been adjusted for the 2008 Capitalisation Issue.

Blake Nixon, Director
Approved by the Board on 30 March 2009

Notes on pages 15 to 61 form part of these financial statements

Company Balance Sheet

31 December FIXED ASSETS	Notes	2008 UK GAAP £m	2007 UK GAAP £m
Tangible assets	15	**–**	3
Investments	16	**819**	472
TOTAL FIXED ASSETS		**819**	475
CURRENT ASSETS			
Derivative financial instruments (due after more than one year)	22	**–**	4
Loans to subsidiary undertakings		**186**	235
Other receivables	20	**42**	5
TOTAL CURRENT ASSETS		**228**	244
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
Derivative financial instruments	24	**(15)**	(2)
Loans from subsidiary undertakings		**(134)**	(171)
TOTAL CURRENT LIABILITIES		**(149)**	(173)
NET CURRENT ASSETS		**79**	71
TOTAL ASSETS LESS CURRENT LIABILITIES		**898**	546
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR			
Loans from subsidiary undertakings		**(565)**	(120)
PROVISIONS FOR LIABILITIES	28	**(1)**	(2)
NET ASSETS		**332**	**424**
CAPITAL AND RESERVES			
Share capital	30	**71**	64
Share premium account	31	**61**	61
Unrealised gains reserve	31	**(9)**	(4)
Other reserves	31	**185**	189
Profit and loss account	31	**24**	114
EQUITY SHAREHOLDERS' FUNDS		**332**	**424**

Blake Nixon, Director
Approved by the Board on 30 March 2009

Notes on pages 15 to 61 form part of these financial statements

Consolidated Statement of Recognised Income and Expense

Year ended 31 December	2008 IFRS £m	2007 IFRS £m
Gains on revaluation of fixed asset investments	**22**	35
Losses on cash flow hedges	**(11)**	(2)
Exchange gains on translation of foreign operations	**114**	37
Actuarial (losses)/gains on retirement benefit schemes	**(58)**	7
Net income recognised directly in equity	**67**	77
Transfers		
Transferred to profit or loss on sale of fixed asset investments	**(80)**	(129)
Transferred to profit or loss on sale of businesses	**(9)**	1
Transferred to profit or loss on cash flow hedges	**1**	(2)
(Loss)/profit for the year	**(73)**	126
TOTAL RECOGNISED INCOME AND EXPENSE FOR THE YEAR	**(94)**	**73**
Attributable to:		
EQUITY SHAREHOLDERS OF THE COMPANY	**(71)**	**77**
Minority interests	**(23)**	(4)
	(94)	**73**

Notes on pages 15 to 61 form part of these financial statements

Consolidated Cash Flow Statement

Year ended 31 December	Notes	2008 IFRS £m	2007 IFRS re-stated £m
Cash inflow from operating activities			
Net cash inflow from operating activities	34a)	**161**	219
Interest paid		**(55)**	(49)
Taxation paid	34b)	**(25)**	(21)
Net cash generated by operating activities		**81**	149
Cash outflow from investing activities			
Dividends received from joint ventures	34c)	**7**	6
Capital expenditure and financial investment	34d)	**(32)**	(47)
Acquisitions and disposals	34e)	**(23)**	(21)
Net cash absorbed in investing activities		**(48)**	(62)
Cash outflow from financing activities			
Issue of ordinary shares	34f)	**–**	1
Equity dividends paid to the Company's shareholders	34g)	**(4)**	(4)
Dividends paid to minority interests		**(4)**	(4)
Decrease in debt	34h)	**(8)**	(14)
Net cash absorbed in financing activities		**(16)**	(21)
Net increase in cash and cash equivalents		**17**	66
Cash and cash equivalents at beginning of the year		**309**	241
Exchange gains on cash and cash equivalents		**21**	2
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**347**	**309**
Cash and cash equivalents per the balance sheet		**362**	318
Bank overdrafts (note 26)		**(15)**	(9)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**347**	**309**

Notes on pages 15 to 61 form part of these financial statements

Notes to Financial Statements

1. Principal Accounting Policies

The following are the principal accounting policies adopted in preparing the financial statements.

GROUP

CRITICAL ACCOUNTING POLICIES

The principal accounting policies adopted by the Group are set out in this note to the financial statements. Certain of the Group's accounting policies inherently rely on subjective assumptions and judgements, such that it is possible that over time the actual results upon which the assumptions and judgements are based could differ from the estimates used by the Group. Due to the size of the amounts involved, whilst not particularly sensitive to any one factor, changes in the assumptions relating to the following policies could potentially have a significant impact on the result for the period and/or the carrying values of assets and liabilities in the consolidated financial statements:

Pension obligations

The retirement benefit obligations recognised in the balance sheet in respect of defined benefit pension plans are the present values of the defined benefit obligations at the balance sheet date less the fair value of any plan assets. Key assumptions involved in the determination of the present values of the defined benefit obligations include discount rates, mortality and pensions in payment inflation rates. Changes in any or all of these assumptions could materially change the retirement benefit obligations recognised in the balance sheet.

Carrying value of brands and goodwill

The carrying values of these intangible assets are dependent on the calculation of discounted cash flows arising from the cash-generating units related to each of the trading units to which those assets relate. Changes in either the discount rates applied or the estimated cash flows could materially change the carrying values of these intangible assets.

Carrying value of fixed asset investments

Fixed asset investments are carried at market value, and temporary fluctuations in value are dealt with through the unrealised gains reserve. Where a reduction in value of a particular fixed asset investment is determined to be permanent, the write-down is dealt with as an impairment through the income statement.

a) ACCOUNTING CONVENTION AND FORMAT

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, which comprise standards and interpretations approved by the International Accounting Standards Board ("IASB") and International Accounting Standards and Standing Interpretations Committee interpretations approved by the predecessor International Accounting Standards Committee that have been subsequently authorised by the IASB and remain in effect.

With the exception of cash flow (see r) below), the accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

b) BASIS OF PREPARATION

Subsidiaries

The principal subsidiaries are listed in note 17. Subsidiaries are consolidated from the date on which control over the operating and financial decisions is obtained and cease to be consolidated from the date on which control is transferred out of the Group. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain economic benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered in determining the existence or otherwise of control. Where subsidiaries are not 100% owned by the Group, the share attributable to outside shareholders is reflected in minority interests.

Associated Undertakings

The Group's investment in associated undertakings is accounted for under the equity method of accounting. These are entities in which the Group has the ability to exert significant influence and which are neither subsidiaries nor joint ventures. The investment in associated undertakings is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associated undertakings, less any impairment in value. The income statement reflects the share of the results of operations of associated undertakings.

If the Group's share of losses exceeds the carrying amount of an associated undertaking, the carrying amount is reduced to

Notes to Financial Statements – continued

nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the undertaking.

Where there has been a change recognised directly in the associated undertaking's equity, the Group recognises its share of any changes and discloses this, where applicable, in the statement of recognised income and expense.

Joint Ventures

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Group reports its interests in jointly controlled entities using the equity method as allowed under the 'alternative accounting rules' set out in IAS 31 – Interests in Joint Ventures.

Where a Group entity undertakes its activities under joint venture arrangements directly, the Group's share of jointly controlled assets and any liabilities incurred jointly with the other venturers are recognised in the financial statements of the relevant entity and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accruals basis. Income from the sale or use of the Group's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognised when it is probable that the economic benefits associated with the transactions will flow to/from the Group and their amount can be measured reliably.

c) FOREIGN CURRENCIES

Foreign currency translation

The Company's functional and the Group's presentation currency is the Pound Sterling. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. All currency differences are taken to the income statement with the exception of differences on receivables and payables that represent a net investment in a foreign operation, which are taken directly to equity until disposal of the net investment, at which time they are recycled through the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction.

Group companies

Assets and liabilities of overseas subsidiaries are translated into the Group's presentation currency at the rate of exchange ruling at the balance sheet date and their income statements are translated at the average exchange rates for the year. The exchange differences arising on the retranslation since 1 January 2004 are taken to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity since 1 January 2004 relating to that particular foreign operation is recycled through the income statement. Translation differences that arose before the date of transition to IFRS in respect of all foreign entities are not presented as a separate component of equity.

Goodwill and fair value adjustments arising on acquisition of a foreign operation are regarded as assets and liabilities of the foreign operation, expressed in the functional currency of the foreign operation and recorded at the exchange rate at the date of the transaction and subsequently retranslated at the applicable closing rates.

d) SEGMENT REPORTING

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other geographic economic environments.

e) PROPERTY, PLANT AND EQUIPMENT

Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairments.

Leased assets

Finance leases, which transfer to the Group substantially all the risks and benefits of ownership of the leased items, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the income statement as an expense as incurred.

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of property, plant and equipment, and major components that are accounted for separately. Land is not depreciated. The estimated useful lives are as follows:

Freehold buildings	– 50 years to 100 years
Leasehold buildings	– 10 years to 50 years or over the term of the lease if shorter
Plant and equipment	– 3 years to 20 years
Vehicles and office equipment	– 2 years to 10 years

Assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The cost of mineral rights is amortised over the expected extraction period.

f) INTANGIBLE ASSETS

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or joint venture at the date of acquisition. Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed. On disposal of a subsidiary, associate undertakings or joint venture, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill is allocated to cash-generating units ("CGUs") for the purpose of impairment testing. CGUs represent the Group's investment in each of its business segments.

In respect of acquisitions prior to 1 January 2004, goodwill is included on the basis of its deemed cost, which represents the amount recorded previously under UK GAAP.

Negative goodwill is recognised immediately in the income statement.

Brands

Brands with finite useful lives are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over their useful lives of up to 10 years. Brands with indefinite useful lives are carried at cost less any accumulated impairment losses.

Other intangibles

Acquired computer software licences and computer software development costs are capitalised on the basis of the costs incurred to acquire and bring to use the specific software and are amortised over their estimated useful lives of up to 5 years.

Intellectual property, comprising trademarks, designs, patents and product development which have a finite useful life, are carried at cost less accumulated amortisation and impaired losses. Amortisation is calculated using the straight-line method to allocate the cost over the assets' useful lives, which vary from 5 to 10 years.

Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. For the purposes of assessing impairment, assets are measured at the CGU level.

Notes to Financial Statements – continued

Research and development

All research and development costs are expensed as incurred.

g) FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the relevant financial instrument.

Financial assets

(i) Investments

Investments are recognised and derecognised on a trade date basis and are initially measured at fair value, plus directly attributable transaction costs for fixed asset investments. Investments are classified as either current assets (held-for-trading) or fixed assets (available-for-sale), dependent upon the Group's intention at the time of purchase, and are measured at subsequent reporting dates at fair value. Gains and losses arising from changes in fair value of current asset investments are included in the income statement for the period. For fixed asset investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the income statement for the period. Impairment losses recognised in profit or loss for equity investments classified as fixed asset investments are not subsequently reversed through the income statement until such time as the equity investment is disposed of.

Net gains and losses recognised in profit or loss on disposal of investments do not incorporate dividends or interest receivable on those assets.

Listed investments held as part of the Group's investment portfolio are stated at market value.

Unlisted investments are stated at fair value.

(ii) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purposes of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(iii) Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectable amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Financial liabilities

(i) Trade payables

Trade payables are not interest-bearing and are stated at nominal value.

(ii) Borrowings

Interest-bearing loans and overdrafts are initially measured at fair value, net of direct issue costs. These financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis over the period of the relevant liabilities.

(iii) Compound instruments

The component parts of compound instruments are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument, and this amount is recorded as a liability at amortised cost. The equity component is the fair value of the compound instrument as a whole less the amount of the liability component, and is recognised in equity, net of income tax effect, without subsequent remeasurement.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts, and the host contracts are not measured at fair value with changes in fair value being recognised in profit or loss.

(iv) Derivative financial instruments and hedge accounting

The Group's activities expose it to the financial risks of changes in foreign exchange rates and interest rates.

The use of financial derivatives is regulated by the Board of GPG or that of the relevant operating subsidiary in accordance with their respective risk management strategies. Changes in values of all derivatives of a financing nature are included within investment income and finance costs in the income statement.

Derivative financial instruments are initially measured at fair value at contract date and are remeasured at each reporting date.

The Group designates hedging instruments as either fair value hedges, cash flow hedges or hedges of net investments in foreign operations. Hedges of currency risk on fixed commitments are accounted for as cash flow hedges.

At the inception of each hedge transaction the issuing entity documents the relationship between the hedging instrument and the hedged item and the anticipated effectiveness of the hedge transaction, and monitors the ongoing effectiveness over the period of the hedge. Hedge accounting is discontinued when the issuing entity revokes the hedging relationship, the hedge instrument expires, is sold, exercised or otherwise terminated, and the adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised through the income statement from that date.

(v) Fair value hedges
Changes in the fair values of derivatives that are designated and qualify as fair value hedges are recognised immediately through the income statement, together with any changes in the fair value of the related hedged items due to changes in the hedged risks. On discontinuation of the hedge the adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised through the income statement from that date.

(vi) Cash flow hedges
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. Once the related hedged item is recognised in the income statement, the amounts deferred in equity are recycled through the income statement. The gain or loss arising from any ineffective portion of the hedge is recognised immediately through the income statement.

(vii) Hedges of net investments in foreign operations
Gains and losses on hedging instruments relating to the effective portion of such hedges are recognised through the translation reserve, and recycled through the income statement on disposal of the respective foreign operations. The gain or loss arising from any ineffective portion of such hedges is recognised immediately through the income statement.

h) REVENUE
Revenue comprises the fair value of the sale of goods and services, net of VAT, discounts, and after eliminating sales within the Group. Revenue is recognised as follows:

(i) Sales of goods
Sales of goods are recognised in revenue when the associated risks and rewards of ownership of the goods have been transferred to the buyer.

(ii) Sales of services
Sales of services are recognised in the period in which the services are rendered, by reference to the stage of completion of those services at the balance sheet date.

(iii) Income from sales of property
Income from sales of property is recognised on completion when legal title of the property passes to the buyer.

(iv) Investment revenue
Investment revenue comprises proceeds receivable from the sale of current asset investments during the year.

i) INVENTORIES
Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials are valued at cost on a first-in, first-out basis, with the exception of aluminium billet and log which is valued at moving average of direct purchase cost.

Finished goods and work in progress – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Provision is made for obsolete, slow-moving and defective inventories.

Progress payments in excess of the value of the work performed are included in creditors as payments on account.

Land for resale, which is included in 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.

Notes to Financial Statements – continued

j) EMPLOYEE BENEFITS

Pension obligations

The retirement benefit obligation recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of any plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms of maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged directly to equity in the year in which they arise. Past service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension plans on a mandatory, contractual or voluntary basis. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Share-based compensation

The Group operates equity-settled compensation plans for the granting of non-transferable options to employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant dates of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the shares that will eventually vest and adjusted for the effect of non market-based vesting conditions, with a corresponding increase in equity. For shares granted to employees, the fair value of the shares is measured as the market price of the shares, adjusted to take into account the terms and conditions upon which the shares were granted. The fair value of share options is measured using an adjusted version of the Black-Scholes pricing model to reflect the terms and conditions of the options granted, based on management's best estimate of the effects of non-transferability, exercise restrictions and behavioural considerations.

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

k) TAXATION

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred taxation is measured on a non-discounted basis. The following temporary differences are not provided for: goodwill not deducted for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

The carrying values of deferred tax assets are reviewed at each balance sheet date.

Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity in which case the deferred tax is also dealt with in equity.

l) INVESTMENT INCOME

Income from equity investments is recognised when the legal entitlement vests. 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 the Group's investments are included as income in the income statement and, where appropriate, an impairment provision is recognised against the investment.

m) BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment or specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs, except where otherwise stated, are recognised in the income statement in the period in which they are incurred.

n) PROVISIONS

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, a provision is determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

o) ONEROUS CONTRACTS

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

p) RESTRUCTURING

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

q) NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Non-current assets and businesses which are to be sold ("disposal groups") classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets (and disposal groups) are classified as held for sale if their carrying amount is expected to be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when such a sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets are classified as held for sale from the date these conditions are met, and such assets are no longer depreciated.

Discontinued operations are classified as held for sale and are either a separate business segment or a geographical area of operations that is part of a single coordinated plan to sell. Once an operation has been identified as discontinued, or is reclassified as discontinued, the comparative information is restated.

Notes to Financial Statements – continued

r) CASH FLOW

The presentation of items within the Consolidated Cash Flow Statement has been revised this year, to reflect cash flows arising in the normal course of the Parent Group's investment business as part of operating cash flows.

Previously, certain cash flows relating to acquisitions and disposals of fixed asset investments, and associated and joint venture undertakings, together with dividends received from associated and joint venture undertakings, were included within cash flows from investing activities, whereas investment income, and the profits and losses resulting from the sales of such investments, were included within operating cash flows.

The Directors believe that all cash flows arising in the ordinary course of the Parent Group's investment business should be reflected within net cash flow from operating activities.

Acquisitions and disposals of fixed asset investments, and associated and joint venture undertakings, together with dividends received from associated and joint venture undertakings, in respect of the Group's Operating Subsidiaries, remain within cash flows from investing activities, as these are strategic investments by those subsidiaries rather than being held in the ordinary course of investment business.

NEW IFRS ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The following published standards and interpretations to existing standards, which are not yet in effect, are not expected to have any significant future impact on the Group's accounts:

IFRS 8, IAS 1 (as amended), IAS 23 (as amended), IAS 27 (as amended), IAS 32 (as amended), IAS 39 (as amended), IFRS 1 (as amended), IFRS 2 (as amended) and IFRIC 16.

IFRS 3 (as amended), which deals with business combinations, may have an impact on the Group's financial statements dependent upon the investment decisions that the Group may take in the future.

IFRIC 12, 15, 17 and 18 are published interpretations to existing standards that are not relevant to the Group's operations.

COMPANY

The financial statements comply with applicable UK law and accounting standards, modified where appropriate to present a true and fair view, and have been prepared under the historical cost convention, except for the revaluation of certain financial instruments.

a) TANGIBLE FIXED ASSETS

Tangible fixed assets are stated at cost less accumulated depreciation.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of tangible fixed assets. Land is not depreciated. The estimated useful lives are as follows:

Freehold buildings – 50 years to 100 years
Vehicles and office equipment – 2 years to 10 years

Assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

b) FIXED ASSETS – INVESTMENTS

Investments acquired with the intention of being held for the long term (excluding investments in subsidiaries and associated undertakings) are recorded as fixed asset investments and are stated at fair value. Gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in profit or loss for the period.

Investments in subsidiary undertakings and associated undertakings are reflected at cost less amounts written off and provisions for any impairment.

c) DERIVATIVE FINANCIAL INSTRUMENTS

The use of financial derivatives is regulated by the Board in accordance with its risk management strategy.

Changes in values of all derivatives of a financing nature are included within investment income and finance costs in the profit and loss account.

Derivative financial instruments are initially measured at fair value at contract date and are remeasured at each reporting date.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts, and the host contracts are not measured at fair value with changes in fair value being recognised in the profit and loss account.

d) INVESTMENT INCOME

Income from equity investments is recognised when the legal entitlement vests. 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 the Company's investments are included as income in the profit and loss account and, where appropriate, an impairment provision is recognised against the investment.

e) SHARE-BASED PAYMENTS

The Company operates an equity-settled compensation plan for the granting of non-transferable options to directors and other employees. For share options granted, the fair value of the shares is measured at the market price of GPG shares, adjusted to take into account the terms and conditions upon which the share options were granted, using an adjusted version of the Black-Scholes model, based on management's best estimate of the effects of non-transferability, exercise restrictions and behavioural considerations. The charge to income has no impact on net assets since the credit is reflected in equity.

f) TAXATION

Provision is made for taxation assessable on the profit or loss 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 measured on a non-discounted basis.

g) DIVIDENDS PAYABLE

Dividends proposed are recognised in the period in which they are formally approved for payment.

Notes to Financial Statements – continued

2. Segmental Analysis

ANALYSIS BY ACTIVITY – 2008

	Investment £m	Thread manufacture £m	Fruit/produce distribution £m	Aluminium extrusion £m	Eliminations £m	Unallocated £m	Non-operating (see note (i)) £m	Total £m
Revenue:								
External sales	**2**	**888**	**219**	**241**	**–**	**31**	**–**	**1,381**
Interest receivable	**16**	**–**	**–**	**–**	**–**	**–**	**4**	**20**
Other (see note (ii) below)	**116**	**–**	**–**	**–**	**–**	**–**	**–**	**116**
	134	**888**	**219**	**241**	**–**	**31**	**4**	**1,517**
Operating result:								
Continuing operations (before goodwill impairment)	**35**	**32**	**12**	**(9)**	**–**	**(7)**	**4**	**67**
Goodwill impairment	**–**	**–**	**–**	**(37)**	**–**	**(8)**	**–**	**(45)**
Continuing operations (after goodwill impairment)	**35**	**32**	**12**	**(46)**	**–**	**(15)**	**4**	**22**
Share of associated undertakings' and joint ventures' results	**(13)**	**1**	**1**	**–**	**–**	**3**	**–**	**(8)**
Discontinued operations	**–**	**(2)**	**–**	**–**	**–**	**6**	**–**	**4**
Assets	**523**	**941**	**132**	**141**	**–**	**69**	**293**	**2,099**
Tangible additions	**–**	**26**	**7**	**3**	**–**	**18**	**–**	**54**
Intangible additions	**–**	**3**	**1**	**–**	**–**	**–**	**–**	**4**
Share of associated undertakings' and joint ventures' net assets	**134**	**11**	**7**	**–**	**–**	**33**	**–**	**185**
Liabilities	**(63)**	**(369)**	**(23)**	**(50)**	**–**	**(14)**	**(631)**	**(1,150)**
Depreciation charge	**–**	**(31)**	**(6)**	**(6)**	**–**	**(2)**	**–**	**(45)**
Amortisation charge	**–**	**(5)**	**(1)**	**(2)**	**–**	**(2)**	**–**	**(10)**
Investment valuation	**(70)**	**–**	**–**	**–**	**–**	**–**	**(2)**	**(72)**

ANALYSIS BY ACTIVITY – 2007

	Investment £m	Thread manufacture £m	Fruit/produce distribution £m	Aluminium extrusion £m	Eliminations £m	Unallocated £m	Non-operating (see note (i)) £m	Total £m
Revenue:								
External sales	25	840	189	236	–	29	–	1,319
Interest receivable	14	–	–	–	–	–	3	17
Other (see note (ii) below)	126	–	–	–	–	–	–	126
	165	840	189	236	–	29	3	1,462
Operating result:								
Continuing operations (before goodwill impairment)	96	59	9	(9)	–	–	3	158
Goodwill impairment	–	–	–	(3)	–	–	–	(3)
Continuing operations (after goodwill impairment)	96	59	9	(12)	–	–	3	155
Share of associated undertakings' and joint ventures' results	9	(2)	1	–	–	–	–	8
Discontinued operations	–	7	–	–	–	1	–	8
Assets	619	792	110	189	–	40	275	2,025
Tangible additions	–	26	11	7	–	17	–	61
Intangible additions	–	7	1	2	–	–	–	10
Share of associated undertakings' and joint ventures' net assets	122	6	7	–	–	59	–	194
Liabilities	(35)	(341)	(27)	(50)	–	(8)	(519)	(980)
Depreciation charge	–	(31)	(5)	(3)	–	–	–	(39)
Amortisation charge	–	(4)	(1)	(1)	–	(2)	–	(8)
Investment valuation	(13)	–	–	–	–	–	–	(13)

2. Segmental Analysis - continued

ANALYSIS BY GEOGRAPHICAL REGION – 2008

	UK & Western Europe £m	USA £m	Asia & Africa £m	Australasia £m	Eliminations £m	Unallocated £m	Non-operating (see note (i)) £m	Total £m
Revenue – by origin:								
External sales	**187**	**132**	**313**	**493**	**–**	**256**	**–**	**1,381**
Interest receivable	**15**	**–**	**–**	**1**	**–**	**–**	**4**	**20**
Other (see note (ii) below)	**116**	**–**	**–**	**–**	**–**	**–**	**–**	**116**
	318	**132**	**313**	**494**	**–**	**256**	**4**	**1,517**
Revenue – by destination:								
External sales	**228**	**146**	**329**	**417**	**–**	**261**	**–**	**1,381**
Interest receivable	**15**	**–**	**–**	**1**	**–**	**–**	**4**	**20**
Other (see note (ii) below)	**–**	**–**	**102**	**14**	**–**	**–**	**–**	**116**
	243	**146**	**431**	**432**	**–**	**261**	**4**	**1,517**
Assets	**653**	**99**	**329**	**450**	**(22)**	**297**	**293**	**2,099**
Tangible additions	**2**	**2**	**13**	**27**	**–**	**10**	**–**	**54**
Intangible additions	**1**	**–**	**2**	**1**	**–**	**–**	**–**	**4**

ANALYSIS BY GEOGRAPHICAL REGION – 2007

	UK & Western Europe £m	USA £m	Asia & Africa £m	Australasia £m	Eliminations £m	Unallocated £m	Non-operating (see note (i)) £m	Total £m
Revenue – by origin:								
External sales	198	136	283	467	–	235	–	1,319
Interest receivable	14	–	–	–	–	–	3	17
Other (see note (ii) below)	55	–	–	71	–	–	–	126
	267	136	283	538	–	235	3	1,462
Revenue – by destination:								
External sales	255	155	225	391	–	293	–	1,319
Interest receivable	14	–	–	–	–	–	3	17
Other (see note (ii) below)	55	–	–	71	–	–	–	126
	324	155	225	462	–	293	3	1,462
Assets	742	93	258	425	(20)	252	275	2,025
Tangible additions	3	3	14	34	–	7	–	61
Intangible additions	5	1	1	3	–	–	–	10

Notes:

(i) Non-operating items comprise:
Profit on disposal of other non-current investments, and investment valuation provisions – in trading subsidiaries, which are classified as financial operations;
Interest receivable – in trading subsidiaries, which are classified as financial operations;
Operating results – interest and investment income in trading subsidiaries, which are not considered to be financial operations;
Assets – cash and cash equivalents, derivatives and investments held by trading subsidiaries, which are not considered to be financial operations, plus taxation assets and non-current assets classified as held for sale; and
Liabilities – borrowings, taxation liabilities and liabilities directly associated with non-current assets classified as held for sale.

(ii) Other revenue includes profit on disposal of other non-current investments and associated undertakings (note 4).

Notes to Financial Statements – continued

3. Revenue

Year ended 31 December	Existing operations 2008 £m	Acquisitions 2008 £m	Total 2008 £m	Total 2007 £m
Sale of investments	**2**	**–**	**2**	25
Sale of thread	**888**	**–**	**888**	840
Fruit/produce distribution	**215**	**4**	**219**	189
Aluminium extrusion	**241**	**–**	**241**	236
Other	**18**	**13**	**31**	29
	1,364	**17**	**1,381**	1,319

4. Profit on Disposal of Investments and Other Net Investment Income

Year ended 31 December	Existing operations 2008 £m	Acquisitions 2008 £m	Total 2008 £m	Total 2007 £m
Interest receivable	**20**	**–**	**20**	17
Profit on disposal of shares in associated undertakings	**55**	**–**	**55**	–
Profit on disposal of other non-current investments	**61**	**–**	**61**	126
Income from listed and unlisted investments	**12**	**–**	**12**	12
Net non-current investment impairment provision	**(66)**	**–**	**(66)**	(11)
Net current investment impairment provision	**(6)**	**–**	**(6)**	(2)
Loss on derivatives	**(21)**	**–**	**(21)**	(5)
Net gain on other financial assets/liabilities held at fair value through income statement	**–**	**–**	**–**	1
Other income	**6**	**–**	**6**	7
	61	**–**	**61**	145

5. Operating Profit

Year ended 31 December	Existing operations 2008 £m	Acquisitions 2008 £m	Total 2008 £m	Total 2007 £m
Cost of sales	**(950)**	**(14)**	**(964)**	(911)
Gross profit	**414**	**3**	**417**	408
Distribution costs	**(179)**	**(1)**	**(180)**	(163)
Administrative expenses	**(265)**	**(11)**	**(276)**	(235)
Net operating expenses	**(444)**	**(12)**	**(456)**	(398)
Profit on disposal of investments and other net investment income	**61**	**–**	**61**	145
Operating profit/(loss)	**31**	**(9)**	**22**	155

6. (Loss)/Profit Before Taxation from Continuing Operations

Year ended 31 December	2008 £m	2007 £m
(Loss)/profit before taxation is stated after charging/(crediting):		
Impairment of intangible assets	**45**	3
Release of negative goodwill	**(14)**	(5)
Depreciation of property, plant and equipment	**45**	39
Impairment of property, plant and equipment	**1**	1
Group audit fees:		
Fees payable for the audit of the Company's annual accounts*	**–**	–
Fees payable for the audit of the Company's subsidiaries	**2**	1
Other Deloitte LLP services:		
Taxation services	**1**	1
Operating lease rentals:		
Plant and equipment	**4**	4
Other	**15**	20
Share-based payments	**2**	2
Research and development expenditure	**1**	1
Bad and doubtful debts	**2**	4
Net foreign exchange losses	**4**	8
Rental income from land and buildings	**(2)**	(3)

*The audit fee payable to the Company's auditors for the audit of the Company's annual accounts is £196,000 (2007: £195,000).

The Company-only charge for share-based payments is £1,786,000 (2007: £2,120,000).

7. Finance Costs

Year ended 31 December	2008 £m	2007 £m
Interest payable on bank loans and overdrafts	**(39)**	(34)
Net finance income on pension scheme net assets	**15**	15
Unwinding of discount on provisions	**(1)**	(1)
Interest payable on Capital Notes (note 25)	**(19)**	(18)
	(44)	(38)
Interest capitalised	**1**	–
	(43)	(38)

The cumulative amount of capitalised interest included in development land held at 31 December 2008 was £1 million (2007: £Nil).

8. Employee Information

Year ended 31 December	2008	2007
The average monthly number of employees (including executive directors) in the Group during the year was:		
Continuing operations:		
Investment/corporate	**37**	39
Fruit/produce distribution	**1,479**	1,246
Aluminium extrusion	**1,104**	1,185
Thread manufacture	**23,385**	23,335
Other	**279**	143
	26,284	25,948
Discontinued operations	**187**	230
TOTAL NUMBER OF EMPLOYEES	**26,471**	26,178
The average monthly number of employees (including executive directors) in the Company during the year was:		
Investment/corporate	**17**	17

Notes to Financial Statements – continued

8. Employee Information - continued

Employment costs – all employees including directors:

Year ended 31 December	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Aggregate gross wages and salaries	**264**	254	**1**	9
Employer's national insurance contributions or foreign equivalents	**27**	27	**–**	1
Employer's pension cost*	**13**	11	**–**	–
	304	292	**1**	10

* Excludes net finance income on pension plan net assets and actuarial gains and losses.

Directors' emoluments	2008	2007
Aggregate emoluments	**3**	9
Gains made on exercise of share options	**–**	1
Pension contributions	**–**	–
	3	10

The aggregate emoluments for the highest paid director were £859,598 (2007: £2,738,896) excluding gains on share options exercised. Contributions paid to money purchase pension schemes in respect of the highest paid director were £47,522 (2007: £49,402).

Further details of directors' emoluments are provided under the heading 'Report on Remuneration and Related Matters' on pages 65 to 67.

9. Tax on (Loss)/Profit from Continuing Operations

Year ended 31 December	2008 £m	2007 £m
Current tax:		
UK corporation tax at 28.5% (2007: 30%)	**2**	–
Overseas tax	**(18)**	(26)
	(16)	(26)
Deferred tax	**(32)**	(6)
TOTAL TAX CHARGE	**(48)**	(32)
The tax charge for the year can be reconciled as follows:		
(Loss)/profit before taxation from continuing operations	**(29)**	150
(Loss)/profit before taxation multiplied by standard rate of tax in the UK of 28.5% (2007: 30%)	**(8)**	45
Non-taxable income	**(31)**	(24)
Impact of tax losses	**72**	7
Impact of impairment and other non-deductible expenses	**11**	5
Adjustments in respect of prior years	**–**	2
Associated undertakings and joint ventures	**4**	(3)
TOTAL TAX CHARGE	**48**	32

The impact of tax losses includes £26 million in respect of the de-recognition of deferred tax assets relating to tax losses following a reduction during the year in unrealised investment gains. The balance represents unrelieved losses in certain subsidiary undertakings.

10. Pension Costs

The charge for the year in respect of the Group's defined contribution arrangements was £6 million (2007: £5 million).

The Group operates three significant defined benefit schemes in the UK, namely the Brunel Holdings Pension Scheme ("Brunel"), the Staveley Industries Retirement Benefits Scheme ("SIRBS") and the Coats Pension Plan ("Coats UK") which offer both pensions in retirement and death benefits to members. In addition, Coats operates the Coats North America Pension Plan ("Coats US") in the US as well as various pension and other post-employment arrangements around the globe (most significantly in Germany).

10. Pension Costs - continued

The following disclosures are made solely for the purposes of IAS 19 – Employee benefits and do not include information in respect of schemes operated by associated undertakings and joint ventures.

The Group has opted for all of the plans it operates to recognise all actuarial gains and losses immediately via the Statement of Recognised Income and Expense ("SORIE").

Full actuarial valuations of each scheme have been updated to 31 December 2008 by qualified independent actuaries. The major assumptions used by the actuaries were (in nominal terms) as follows:

	31 December 2008	31 December 2007	31 December 2006
Discount rate	**6.5%**	6.1%	5.4%
Rate of salary increase	**3.8%**	4.2%	3.9%
Rate of increase to pensions in payment	**various**	various	various
Rate of inflation	**2.8%**	3.2%	2.9%

The assumptions used in determining the overall expected return on the schemes' assets have been set with reference to yields available on government bonds and appropriate risk margins.

The assets in the schemes and the expected rates of return were:

	Long term expected rate of return at 31 December 2008	**Value as at 31 December 2008 £m**	Long term expected rate of return at 31 December 2007	Value as at 31 December 2007 £m	Long term expected rate of return at 31 December 2006	Value as at 31 December 2006 £m
Equities	**9.2%**	**539**	8.2%	792	7.9%	792
Bonds	**6.0%**	**1,002**	4.9%	1,089	4.6%	1,051
Other	**6.2%**	**172**	4.6%	71	5.5%	113
		1,713		1,952		1,956

The amounts recognised in the balance sheet are as follows:

31 December	**2008 £m**	2007 £m	2006 £m
Present value of funded obligations	**(1,642)**	(1,715)	(1,833)
Fair value of assets	**1,713**	1,952	1,956
Surplus	**71**	237	123
Effect of surplus cap	**(72)**	(204)	(105)
NET FUNDED (DEFICIT)/SURPLUS	**(1)**	33	18
Present value of unfunded obligations:			
Current (within other payables)	**(9)**	(9)	(8)
Non-current	**(64)**	(51)	(58)
	(73)	(60)	(66)
Net pension liability in balance sheet	**(74)**	(27)	(48)
Funded schemes			
– surpluses:			
current (within other receivables)	**3**	–	–
non-current	**29**	34	32
	32	34	32
– deficits:			
current (within other payables)	**(1)**	–	–
non-current	**(32)**	(1)	(14)
	(33)	(1)	(14)
NET FUNDED (DEFICIT)/SURPLUS	**(1)**	33	18
Actual (loss)/return on assets held	**(187)**	110	112

Notes to Financial Statements – continued

10. Pension Costs - continued

Reconciliation of opening and closing balances of the present value of the defined benefit obligations (funded and unfunded):

Year ended 31 December	**2008 £m**	2007 £m	2006 £m
Benefit obligations at beginning of year	**1,775**	1,899	2,013
Current service cost	**7**	6	9
Interest cost – unwinding of discount	**105**	99	97
Contributions by scheme participants	**1**	1	1
Actuarial gain	**(117)**	(110)	(83)
Benefits paid	**(125)**	(118)	(124)
Curtailments and settlements	**(1)**	(1)	(3)
Business combinations	**–**	–	5
Exchange loss/(gain)	**70**	(1)	(16)
Benefit obligations at end of year	**1,715**	1,775	1,899
Less: unfunded obligations	**(73)**	(60)	(66)
Funded obligations	**1,642**	1,715	1,833

Reconciliation of opening and closing balances of the fair value of scheme assets (all funded):

Year ended 31 December	**2008 £m**	2007 £m	2006 £m
Fair value of scheme assets at beginning of year	**1,952**	1,956	1,969
Expected return on scheme assets	**120**	114	106
Assets acquired in business combinations	**–**	–	6
Actuarial (loss)/gain	**(307)**	(4)	6
Contributions by employers	**7**	6	11
Contributions by scheme participants	**1**	1	1
Benefits paid	**(125)**	(118)	(124)
Settlements	**(1)**	(1)	(3)
Receipt of bulk transfer value	**–**	1	–
Exchange gain/(loss)	**66**	(3)	(16)
Fair value of plan assets at end of year	**1,713**	1,952	1,956

The amounts recognised in the income statement are:

Year ended 31 December	**2008 £m**	2007 £m	2006 £m
Interest on obligation – unwinding of discount	**(105)**	(99)	(97)
Expected return on scheme assets	**120**	114	106
Net finance income (note 7)	**15**	15	9
Current service cost	**(7)**	(6)	(9)
Total net income	**8**	9	–

Actuarial (losses)/gains recognised in the SORIE:

Year ended 31 December	**2008 £m**	2007 £m	2006 £m
Actuarial (losses)/gains	**(190)**	106	89
Limit on recognition of surplus	**132**	(99)	(80)
	(58)	7	9

10. Pension Costs - continued

History of scheme assets, obligations and experience adjustments:

Year ended 31 December	**2008 £m**	2007 £m	2006 £m	2005 £m	2004 £m
Defined benefit obligations	**(1,715)**	(1,775)	(1,899)	(2,013)	(1,941)
Scheme assets	**1,713**	1,952	1,956	1,969	1,842
Net (liability)/surplus in the schemes (before effect of surplus cap)	**(2)**	177	57	(44)	(99)
Experience (losses)/gains arising on scheme liabilities	**(7)**	(7)	27	(10)	11
Experience (losses)/gains arising on scheme assets	**(307)**	(4)	6	117	47
Cumulative actuarial gain recognised in SORIE since adoption of IAS19	**2**	60	53	44	N/A

The estimated contributions expected to be paid to the schemes during 2009 is £8 million.

11. (Loss)/earnings per Ordinary Share

Basic (loss)/earnings per share ("EPS") is calculated by dividing the (loss)/earnings attributable to equity holders of the parent company of £50 million (2007: earnings of £129 million) by the weighted average number of Ordinary Shares in issue during the year of 1,412,703,249 (2007: 1,396,110,347).

For the calculation of diluted EPS, the weighted average number of Ordinary Shares in issue is adjusted to assume conversion of all dilutive potential Ordinary Shares, being share options granted to employees and Capital Notes.

Year ended 31 December	**Loss 2008 £m**	**Shares 2008 m**	**Amount per share (pence)**
Continuing and discontinued operations:			
Loss attributable to equity holders of the parent company	**(50)**	**1,413**	**(3.56)p***
Effect of dilutive securities:			
Share options	**–**	**–**	
Capital Notes	**–**	**–**	
	(50)	**1,413**	**(3.56)p***

Year ended 31 December	Earnings 2007 £m	Shares 2007 m	Amount per share (pence)
Continuing and discontinued operations:			
Earnings attributable to equity holders of the parent company	129	1,396	9.28p*
Effect of dilutive securities:			
Share options	–	37	
Capital Notes	13	336	
	142	1,769	8.05p*

Year ended 31 December	**Loss 2008 £m**	**Shares 2008 m**	**Amount per share (pence)**
Continuing operations:			
Loss attributable to equity holders of the parent company	**(54)**	**1,413**	**(3.86)p***
Effect of dilutive securities:			
Share options	**–**	**–**	
Capital Notes	**–**	**–**	
	(54)	**1,413**	**(3.86)p***

Notes to Financial Statements – continued

11. (Loss)/earnings per Ordinary Share - continued

Year ended 31 December	Earnings 2007 £m	Shares 2007 m	Amount per share (pence)
Continuing operations:			
Earnings attributable to equity holders of the parent company	121	1,396	8.73p*
Effect of dilutive securities:			
Share options	–	37	
Capital Notes	13	336	
	134	1,769	7.62p*

* Calculations based on results to the nearest £'000s.

The comparatives for the year ended 31 December 2007 have been adjusted for the 2008 Capitalisation Issue.

12. Dividends

The directors of GPG have declared an interim dividend of 1.00p per share for the year (2007: 0.91p, adjusted for the 2008 Capitalisation Issue).

13. Results of Holding Company

A loss of £85 million (2007: profit of £10 million) has been dealt with in the accounts of the Company. As permitted by Section 230 of the Companies Act 1985, the Company has not published a separate profit and loss account in these financial statements.

14. Intangible Assets

COST	Goodwill £m	Brands £m	Other intangibles £m	Total £m
At 1 January 2007	38	140	50	228
Currency translation differences	3	(1)	3	5
Acquisition of subsidiaries	2	1	–	3
Additions	–	–	10	10
Reclassifications	–	–	1	1
Disposals	–	–	(1)	(1)
AT 31 DECEMBER 2007	43	140	63	246
Currency translation differences	**4**	**50**	**14**	**68**
Acquisition of subsidiaries	**8**	**–**	**–**	**8**
Additions	**–**	**–**	**4**	**4**
Reclassifications	**–**	**–**	**1**	**1**
Disposals	**–**	**–**	**(1)**	**(1)**
AT 31 DECEMBER 2008	**55**	**190**	**81**	**326**

14. Intangible Assets - continued

CUMULATIVE AMOUNTS CHARGED	Goodwill £m	Brands £m	Other intangibles £m	Total £m
At 1 January 2007	–	2	28	30
Currency translation differences	–	–	2	2
Impairment	3	–	–	3
Amortisation charge for the year	–	–	8	8
Disposals	–	–	(1)	(1)
AT 31 DECEMBER 2007	3	2	37	42
Currency translation differences	**2**	**–**	**10**	**12**
Impairment	**45**	**–**	**–**	**45**
Amortisation charge for the year	**–**	**1**	**9**	**10**
Disposals	**–**	**–**	**(1)**	**(1)**
AT 31 DECEMBER 2008	**50**	**3**	**55**	**108**
NET BOOK VALUE AT 31 DECEMBER 2008	**5**	**187**	**26**	**218**
NET BOOK VALUE AT 31 DECEMBER 2007	40	138	26	204

Goodwill impairment comprises the write-off of all goodwill in each of Capral (£37 million) and Gosford Quarry Holdings (£8 million), following re-assessment of estimated future operating cashflows in the light of poor trading conditions.

Contained within brands at 31 December 2008 is a balance of £183 million (2007: £134 million) which has been assessed as having an indefinite useful life. The recoverable amount of these brands has been estimated using the value in use and is re-assessed annually by reference to the discounted cash flow arising from the royalties generated by those brands. The valuation has been based on management's recent budgets and forecasts covering the period to 31 December 2011, applying a pre-tax weighted average cost of capital of the relevant business unit and a terminal value including no growth.

The pre-tax weighted average costs of capital applied above are in the range of 12.5 - 13.0%.

15. Property, Plant and Equipment

Group

COST	Land and buildings £m	Mineral rights £m	Plant and equipment £m	Vehicles and office equipment £m	Land for development £m	Total £m
At 1 January 2007	188	1	530	96	4	819
Currency translation differences	10	–	29	5	–	44
Additions	13	–	28	4	16	61
Transfer to current assets	–	–	–	–	(6)	(6)
Transfer to non-current assets held for sale	(8)	–	–	–	–	(8)
Reclassifications	–	–	(1)	–	–	(1)
Disposals	(1)	–	(29)	(4)	–	(34)
AT 31 DECEMBER 2007	202	1	557	101	14	875
Currency translation differences	**44**	**–**	**121**	**24**	**2**	**191**
Acquisition of subsidiaries	**19**	**–**	**15**	**1**	**–**	**35**
Additions (including £1m interest capitalised)	**9**	**–**	**25**	**4**	**16**	**54**
Transfer to current assets	**–**	**–**	**–**	**–**	**(8)**	**(8)**
Transfer to non-current assets held for sale	**(17)**	**–**	**(8)**	**(4)**	**–**	**(29)**
Reclassifications	**–**	**–**	**(1)**	**–**	**–**	**(1)**
Disposals	**(3)**	**–**	**(20)**	**(8)**	**–**	**(31)**
AT 31 DECEMBER 2008	**254**	**1**	**689**	**118**	**24**	**1,086**

Notes to Financial Statements – continued

15. Property, Plant and Equipment - continued

ACCUMULATED DEPRECIATION						
At 1 January 2007	58	–	289	81	–	428
Currency translation differences	2	–	18	3	–	23
Impairment charge for the year	–	–	1	–	–	1
Depreciation charge for the year	6	–	28	5	–	39
Transfer to non-current assets held for sale	(2)	–	–	–	–	(2)
Disposals	–	–	(24)	(4)	–	(28)
AT 31 DECEMBER 2007	64	–	312	85	–	461
Currency translation differences	**17**	**–**	**66**	**22**	**–**	**105**
Acquisition of subsidiaries	**3**	**–**	**5**	**–**	**–**	**8**
Impairment charge for the year	**1**	**–**	**–**	**–**	**–**	**1**
Depreciation charge for the year	**6**	**–**	**34**	**5**	**–**	**45**
Transfer to non-current assets held for sale	**(7)**	**–**	**(5)**	**(3)**	**–**	**(15)**
Disposals	**(1)**	**–**	**(18)**	**(8)**	**–**	**(27)**
AT 31 DECEMBER 2008	**83**	**–**	**394**	**101**	**–**	**578**
NET BOOK VALUE AT 31 DECEMBER 2008	**171**	**1**	**295**	**17**	**24**	**508**
NET BOOK VALUE AT 31 DECEMBER 2007	138	1	245	16	14	414
Assets pledged as security for borrowings:						
31 December 2008	**91**	**–**	**22**	**3**	**–**	**116**
31 December 2007	81	–	26	2	–	109
Assets held as lessor under operating lease arrangements:						
31 December 2008	**5**	**–**	**–**	**–**	**–**	**5**
31 December 2007	6	–	–	–	–	6

Group

31 December	**2008 £m**	2007 £m
ANALYSIS OF NET BOOK VALUE OF LAND AND BUILDINGS		
Freehold	**146**	123
Leasehold:		
Over 50 years unexpired	**6**	1
Under 50 years unexpired	**19**	14
	171	138

Company

	Land and buildings £m
COST	
At 1 January 2008	3
Disposals	(3)
At 31 December 2008	–
ACCUMULATED DEPRECIATION	
At 1 January and 31 December 2008	–
NET BOOK VALUE AT 31 DECEMBER 2008	**–**
NET BOOK VALUE AT 31 DECEMBER 2007	3

16. Non-current Investments

31 December	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Interests in associated undertakings (see note a) below)	**126**	149	**18**	12
Interests in joint ventures (see note a) below)	**59**	45	**–**	–
Fixed asset investments (see notes b) and c) below):				
listed investments	**168**	315	**69**	101
unlisted investments	**9**	13	**–**	–
Interests in group undertakings (see note c) below)	**–**	–	**732**	359
	362	522	**819**	472

a) Group – Interests in associated undertakings and joint ventures

	Associated undertakings £m	Joint ventures £m
At 1 January 2008	149	45
Currency translation differences	16	8
Transferred from fixed asset investments	47	–
Transferred to fixed asset investments	(54)	–
Additions	24	14
Acquisition of subsidiaries	1	–
Dividends receivable	(4)	(7)
Share of (loss)/profit after tax and minorities	(9)	1
Amounts written off	(2)	(2)
Negative goodwill released to income statement	5	–
Share of unrealised investment gains	10	–
Share of unrealised hedging losses	(2)	–
Disposals	(55)	–
AT 31 DECEMBER 2008	**126**	**59**

Additions to associated undertakings, including any amounts reclassified from fixed asset investments, are analysed in note 36.

Additions to joint ventures comprise £2 million in respect of Green's General Foods (Pty) Limited and £12 million by Canberra Investment Corporation Ltd in certain property development joint ventures.

31 December	Associated undertakings 2008 £m	Associated undertakings 2007 £m	Joint ventures 2008 £m	Joint ventures 2007 £m
Share of net assets on acquisition	**84**	76	**74**	56
Share of post-acquisition retained profits/(losses)	**11**	22	**(15)**	(11)
Share of net assets	**95**	98	**59**	45
Goodwill	**31**	51	**–**	–
	126	149	**59**	45

Goodwill	Associated undertakings £m	Joint ventures £m
At 1 January 2008	51	–
Acquisitions (note 36)	31	–
Goodwill written off	(6)	–
Disposals	(45)	–
AT 31 DECEMBER 2008	**31**	**–**

Notes to Financial Statements – continued

16. Non-current Investments - continued

The Group's significant associated undertakings at 31 December 2008 are listed below:

INVESTMENT	Capital and reserves m	Latest profit/(loss) m	Date of last audited accounts	Country of incorporation	Nature of business	GPG shareholding	Class
Autologic Holdings plc*	£24	£(23)	31.12.07	England	Vehicle logistics	23.5%	Ordinary
MMC Contrarian Ltd*	A$183	A$43	30.06.08	Australia	Investment	26.4%	Ordinary
Rattoon Holdings Ltd	A$71	A$(63)	30.06.08	Australia	Investment	44.4%	Ordinary
The Maryborough Sugar Factory Ltd	A$95	A$(5)	30.06.08	Australia	Sugar milling	24.0%	Ordinary
Peanut Company of Australia Ltd*	A$33	A$2	31.03.08	Australia	Peanut supply	23.8%	Ordinary
Tower Ltd	NZ$291	NZ$40	30.11.08	New Zealand	Insurance	35.0%	Ordinary

* owned directly by the Company

The market value of the Group's listed associated undertakings at 31 December 2008 was £74 million (2007: £150 million), and their carrying value at that date was £126 million (2007: £149 million).

The following table provides summarised financial information on the Group's share of its associated undertakings, relating to the period during which they were associated undertakings, and excludes goodwill and loans from the Group.

Year ended 31 December **SUMMARISED INCOME STATEMENT INFORMATION**	**2008 £m**	2007 £m
Revenue	**104**	174
(Loss)/profit before tax	**(12)**	15
Taxation	**3**	(4)
(LOSS)/PROFIT AFTER TAX	**(9)**	11

31 December **SUMMARISED BALANCE SHEET INFORMATION**	**2008 £m**	2007 £m
Non-current assets	**52**	91
Current assets	**110**	428
	162	519
Liabilities due within one year	**(35)**	(90)
Liabilities due after more than one year	**(32)**	(331)
NET ASSETS	**95**	98

The Group's share of associated undertakings' borrowings is £31 million, of which £8 million is repayable within one year. Other than £6 million guaranteed by Turners & Growers Ltd, these borrowings have not been guaranteed by GPG or by any of its subsidiary undertakings.

16. Non-current Investments - continued

There were three shareholdings at year end of 20% or more of the voting rights which were not treated as associated undertakings. The directors consider that the Group is not able to exercise significant influence over these companies due to the dominant influence of other members and the composition of the respective Boards. The details are as follows:

	Capital and reserves m	Latest profit/(loss) m	Date of last audited accounts	Country of incorporation	Nature of business	GPG shareholding	Class
Tooth & Co. Ltd	A$-	A$5	30.06.08	Australia	Investment	25.0%	Ordinary
Dolfus Mieg et Cie	See Note	See Note	See Note	France	Textiles	24.3%	Ordinary
Newbury Racecourse plc	£12	£(2)	31.12.07	England	Racecourse operation	27.7%	Ordinary

Note:
Dolfus Mieg et Cie was placed in receivership on 5 May 2008.

The Group's significant joint ventures at 31 December 2008 are listed below:

INVESTMENT	Capital and reserves m	Latest loss m	Date of last audited accounts	Country of incorporation	Nature of business	GPG shareholding	Class
Green's General Foods Pty Ltd	A$48	A$(8)	31.12.08	Australia	Food processing	72.5%	Ordinary
Australian Country Spinners Ltd	A$10	A$(3)	31.12.06	Australia	Yarn manufacturers	50.0%	Ordinary

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

Year ended 31 December	**2008 £m**	2007 £m
SUMMARISED INCOME STATEMENT INFORMATION		
Revenue	**71**	62
Profit/(loss) before tax	**1**	(3)
Taxation	**–**	–
PROFIT/(LOSS) AFTER TAX	**1**	(3)

31 December	**2008 £m**	2007 £m
SUMMARISED BALANCE SHEET INFORMATION		
Non-current assets	**62**	46
Current assets	**28**	21
	90	67
Liabilities due within one year	**(26)**	(14)
Liabilities due after more than one year	**(5)**	(8)
NET ASSETS	**59**	45

The Group's share of joint ventures' borrowings is £2 million (2007: £4 million).

None of the Group's joint ventures at 31 December 2008 were listed (2007: none).

No joint ventures are held directly by GPG.

See note 32 for details of a guarantee provided by the Group in respect of the banking facilities of Australian Country Spinners Ltd.

Notes to Financial Statements – continued

16. Non-current Investments - continued

b) Group – Fixed asset investments

	Listed investments £m	Unlisted investments £m	Total £m
At 1 January 2008	315	13	328
Currency translation differences	12	1	13
Additions	68	–	68
Transferred from associated undertakings	54	–	54
Transferred to associated undertakings	(47)	–	(47)
Impairment charge	(55)	–	(55)
Mark-to-market valuation adjustments	(45)	(5)	(50)
Disposals	(111)	–	(111)
Repayment of capital by investees	(15)	–	(15)
Disposal of subsidiary undertakings	(8)	–	(8)
AT 31 DECEMBER 2008	**168**	**9**	**177**

c) Company

	Investments in subsidiary undertakings £m	Investments in associated undertakings £m	Listed investments £m	Total £m
At 1 January 2008	359	12	101	472
Additions	373	4	33	410
Transfers	–	5	(5)	–
Disposals	–	–	(1)	(1)
Impairment charge	–	(4)	(39)	(43)
Mark-to-market valuation adjustments	–	1	(13)	(12)
Share buy-backs	–	–	(5)	(5)
Repayment of capital by investees	–	–	(2)	(2)
AT 31 DECEMBER 2008	**732**	**18**	**69**	**819**

17. Principal Subsidiary Undertakings

The Group's principal subsidiary undertakings at 31 December 2008, 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 (UK) Holdings plc	England	100% ordinary shares	Investment company
GPG Finance plc*	England	100% ordinary shares	Finance
GPG Securities Trading Ltd*	England	100% ordinary shares 100% preference shares	Securities trading
Coats plc*	England	100% ordinary shares	Thread manufacture
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	68.8% ordinary shares	Property development
Capral Ltd*	Australia	75.6% ordinary shares	Aluminium extrusion
Gosford Quarry Holdings Ltd*	Australia	100% ordinary shares	Quarry operator
TAFMO Ltd*	Australia	56.0% ordinary shares	Electronic products and services
Guinness Peat Group New Zealand Ltd*	New Zealand	100% ordinary shares 100% preference shares	Securities trading
Turners & Growers Ltd*	New Zealand	65.9% ordinary shares	Fresh produce wholesaler

*These subsidiaries are owned indirectly by the Company.

18. Deferred Tax Assets

31 December	2008 £m	Group 2007 £m
Deferred tax assets	**11**	8

The deferred tax assets for the Group are included within the analysis in note 27.

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

	2008 £m	2007 £m
At 1 January	**8**	6
Currency translation differences	**3**	–
Credited to the income statement	**–**	2
AT 31 DECEMBER	**11**	8

19. Inventories

31 December	2008 £m	Group 2007 £m
Raw materials and consumables	**63**	48
Work in progress	**48**	47
Finished goods and goods for resale	**142**	126
	253	221
Development work in progress	**8**	6
	261	227

Notes to Financial Statements – continued

20. Trade and Other Receivables

31 December	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Trade receivables	**218**	207	**–**	–
Amounts owed by associated undertakings and joint ventures	**14**	8	**–**	–
Taxation recoverable (of which £6 million after more than one year (2007: £3 million)	**13**	7	**–**	–
Other receivables	**65**	37	**42**	5
Other prepayments and accrued income	**17**	13	**–**	–
	327	272	**42**	5
Amounts shown within non-current assets	**(25)**	(18)	**–**	–
Amounts shown within current assets	**302**	254	**42**	5

The fair value of trade and other receivables is not materially different to the carrying value.

Credit risk is minimised as the exposure is spread over a large number of customers. An allowance has been made for estimated irrecoverable amounts on trade receivables of £16 million (2007: £15 million). This allowance has been determined by reference to past default experience, and the movements in the allowance are analysed as follows:

	Group 2008 £m	Group 2007 £m
At 1 January	**15**	12
Currency translation differences	**6**	1
Charged to the income statement	**2**	4
Amounts written off during the year	**(7)**	(2)
AT 31 DECEMBER	**16**	15

21. Current Asset Investments

31 December	Group 2008 £m	Group 2007 £m
Listed investments	**7**	12

These investments are all quoted on recognised stock exchanges.

22. Derivative Financial Instruments - Assets

Derivative financial instruments within group non-current and current assets comprise:

31 December	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Fair value through the income statement:				
Forward foreign currency contracts	**1**	1	**–**	–
Contracts for differences	**6**	4	**–**	–
Other derivative financial instruments	**–**	4	**–**	4
	7	9	**–**	4

The fair values of these financial instruments are calculated by discounting the future cash flows to net present values using appropriate market interest and foreign currency rates prevailing at the year end.

23. Trade and Other Payables

31 December	Group 2008 £m	Group 2007 £m
AMOUNTS FALLING DUE WITHIN ONE YEAR		
Trade payables	**188**	174
Amounts owed to associated undertakings and joint ventures	**3**	6
Other tax and social security payable	**10**	8
Payments received on account	**1**	1
Other payables	**35**	29
Accruals and deferred income	**47**	50
Employee entitlements (excluding pensions)	**22**	26
	306	294
AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR		
Other payables	**18**	14

The fair value of trade and other payables is not materially different to the carrying value.

24. Derivative Financial Instruments - Liabilities

Derivative financial instruments within group non-current and current liabilities comprise:

31 December	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Fair value through the income statement:				
Forward foreign currency contracts	**4**	1	**–**	–
Equity swaps	**15**	3	**15**	2
Other derivative financial instruments	**8**	1	**–**	–
	27	5	**15**	2

The fair values of these financial instruments are calculated by discounting the future cash flows to net present values using appropriate market interest and foreign currency rates prevailing at the year end.

25. Capital Notes

31 December	Group 2008 £m	Group 2007 £m
Repayable within one year	**–**	83
Repayable between two and five years	**172**	133
	172	216

All the capital notes are issued by GPG Finance plc ("the Issuer"). During the year, the scheduled election date occurred for the capital notes issued in 2003. Noteholders elected not to roll-over NZ$138 million of these notes and consequently the Company re-purchased them and they were cancelled by the Issuer. The remaining NZ$77 million were rolled over to become the 2008 capital notes ("2008 Notes"). The 2008 Notes bear interest at 9% per annum.

The other outstanding issue of capital notes was made in 2006, raising NZ$350 million and bearing interest at a rate of 8.3% per annum ("2006 Notes"). The issue costs for the 2006 Notes amounted to NZ$6 million, and these costs are being charged to the income statement over the initial six year term of the debt. At 31 December 2008 the unamortised balance of these costs was NZ$3.8 million.

Notes to Financial Statements – continued

25. Capital Notes - continued

The 2006 Notes have an initial election date of 15 November 2012, prior to which the Issuer will provide terms and conditions on which noteholders may elect to roll over their 2006 Notes. Noteholders may then elect to retain some or all of their 2006 Notes for a further period on the new terms and conditions and/or to convert some or all of their 2006 Notes into Ordinary Shares. Conversion of the 2006 Notes would be at a price of 97% of the weighted average sale price of an Ordinary Share 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 2006 Notes for their principal amount, together with any accrued interest and unpaid interest. In addition the Company has the right in certain circumstances to purchase for cash some or all of the holder's 2006 Notes paying the principal amount of the notes plus any accrued and unpaid interest and a premium which reduces over the life of the 2006 Notes.

The 2008 Notes have an initial election date of 15 December 2013, prior to which the Issuer will provide terms and conditions on which noteholders may elect to roll over their 2008 Notes. Noteholders may then elect to retain some or all of their 2008 Notes for a further period on the new terms and conditions and/or to convert some or all of their 2008 Notes into GPG Ordinary Shares. Conversion of the 2008 Notes would be at a price of 97% of the weighted average sale price of a GPG Ordinary Share 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 2008 Notes for their principal amount, together with any accrued interest and unpaid interest. In addition, the Issuer or GPG may purchase for cash some or all of the 2008 Notes at any time on giving not less than 180 days' notice and paying the principal amount of the notes to be purchased plus any accrued interest and unpaid interest.

GPG has provided subordinated and unsecured guarantees contingent on liquidation of the Issuer or of the Company itself in respect of the repayment of principal and the payment of interest and unpaid interest due on the 2006 and 2008 Notes. In the event that the Issuer is in liquidation and the Company is not, these guarantees are only enforceable after the scheduled election dates for the 2006 and 2008 Notes which next follows the liquidation of the Issuer. These guarantees are subordinated to all other creditors.

26. Other Borrowings

31 December	Group **2008** **£m**	 2007 £m
Bank overdrafts	**15**	9
Borrowings repayable within one year	**94**	85
Due within one year	**109**	94
Borrowings repayable between one and two years	**75**	69
Borrowings repayable between two and five years	**217**	96
Borrowings repayable after more than five years	**3**	3
Due after more than one year	**295**	168
	404	262
Bank overdrafts	**15**	9
Bank borrowings	**389**	224
Commercial bills	**–**	29
	404	262

Note:
At 31 December 2008, the Group's borrowings comprised £350 million of secured borrowings (2007: £191 million) and £54 million of unsecured borrowings (2007: £71 million). Security comprises a combination of fixed and floating charges over certain Group assets of borrowing entities.

27. Deferred Tax Liabilities

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
At 1 January	**17**	18	**–**	–
Currency translation differences	**5**	–	**–**	–
Charged to the income statement	**32**	8	**1**	4
Credited to reserves	**(33)**	(9)	**(1)**	(4)
AT 31 DECEMBER	**21**	17	**–**	–

31 December **GROUP** **Deferred tax is analysed as follows:**	**2008 Provided £m**	**2008 Unprovided £m**	2007 Provided £m	2007 Unprovided £m
Accelerated tax depreciation	**20**	**(4)**	14	(3)
Short-term timing differences	**(10)**	**(8)**	(16)	(13)
Unrealised investment gains	**–**	**–**	13	–
Revenue losses carried forward	**(13)**	**(206)**	(15)	(126)
Capital losses carried forward	**–**	**(88)**	–	(58)
Unremitted overseas earnings	**8**	**–**	8	–
Retirement benefit obligations	**5**	**–**	5	–
	10	**(306)**	9	(200)

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2008	2007
Deferred tax assets	**(11)**	(8)
Deferred tax liabilities	**21**	17
	10	9

At the balance sheet date, the Group has approximately £1.3 billion (2007: £0.7 billion) of unused tax losses available for offset against future profits. A deferred tax asset has been recognised in respect of £0.1 billion (2007: £0.1 billion) of such losses. No deferred tax asset has been recognised in respect of the remaining £1.2 billion (2007: £0.6 billion) due to lack of certainty regarding the availability of future taxable income. 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.

At the balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is £313 million (2007: £259 million). No deferred tax liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

28. Provisions

31 December	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Provisions are included in the balance sheet as follows:				
Current liabilities	**79**	84	**–**	–
Non-current liabilities	**19**	26	**1**	2
	98	110	**1**	2

GROUP	**£m**
At 1 January 2008	110
Currency translation differences	20
Unwinding of discount	1
Utilised in year	(59)
Charged to the income statement	26
AT 31 DECEMBER 2008	**98**

Notes to Financial Statements – continued

28. Provisions - continued

In September 2007 the European Commission concluded its investigation into European fasteners – the last part of its general investigation into thread and haberdashery markets which began in 2001. It imposed fines against several producers, including a fine against the Coats plc Group of €110.3 million. This fine is in respect of the Commission's allegation of a market sharing agreement in the European haberdashery market. Coats totally rejects this allegation. During the investigation, Coats presented the Commission with ample evidence which refuted this allegation and demonstrated that, in any event, a fine was time-barred. Coats is vigorously contesting the Commission's decision in an appeal which has been lodged with the Court of First Instance in Luxembourg.

Having succeeded in its initial appeal to the Court of First Instance in reducing the needles fine from €30 million to €20 million, Coats was unsuccessful in its further appeal to the European Court of Justice. This fine was paid in the course of 2008.

As in previous years, the Group remains of the view that any anticipated eventual payment of the remaining fine is adequately covered by the existing provision. The Directors believe that disclosure of additional information regarding this provision could be expected to seriously prejudice the Group's position, and consequently a number of the Group's provisions have been disclosed in aggregate as "provisions" in accordance with paragraph 92 of IAS 37. Subject to full resolution of the matters giving rise to this provision, a full analysis will be provided in the relevant future financial statements.

COMPANY	**Onerous leases £m**	**Deferred taxation £m**	**Total £m**
At 1 January 2008	2	–	2
(Credited)/charged to the profit and loss account	(1)	1	–
Credited to reserves	–	(1)	(1)
AT 31 DECEMBER 2008	**1**	**–**	**1**

29. Operating Lease Commitments

31 December	Group **2008 £m**	Group 2007 £m	Company **2008 £m**	Company 2007 £m
Outstanding commitments under non-cancellable operating leases:				
Payable within one year	**30**	26	**–**	–
Payable between one and five years	**61**	52	**2**	2
Payable after more than five years	**50**	49	**3**	4
	141	127	**5**	6

At the balance sheet date, the Group had contracted with tenants for receipt of the following minimum lease payments:

31 December	**2008 £m**	2007 £m
Receivable within one year	**3**	4
Receivable between one and five years	**8**	7
Receivable after more than five years	**5**	3
	16	14

30. Share Capital

31 December	**2008 Number**	**2008 £m**	2007 Number	2007 £m
Authorised				
Ordinary Shares of 5p each	**6,000,000,000**	**300**	6,000,000,000	300
Issued and fully paid				
Ordinary Shares of 5p each	**1,418,778,857**	**71**	1,274,795,176	64

30. Share Capital - continued

The issued ordinary share capital of GPG increased during the year ended 31 December 2008 as follows:

Date of event	Stock event	No. of shares	£m
1 January 2008	Brought forward	1,274,795,176	63.7
Various dates	Exercises of options	1,800,588	0.1
16 May 2008	Scrip dividend	13,380,191	0.7
30 May 2008	Capitalisation Issue	128,802,902	6.4
31 December 2008	**Carried forward**	**1,418,778,857**	**70.9**

Since the year end, the Company has allotted 3,994,297 ordinary shares following the exercise of share options.

Following adjustments for the 2008 Capitalisation Issue and for grants and exercises of options during the year, options outstanding under the Group's various share option schemes at 31 December 2008 were as set out below:

Share Option Scheme	Number	Date granted	Exercise price (p per share)	Exercise period
1992 SHARE OPTION SCHEME				
Ordinary	2,514,599	22.03.99	21.9759	22.03.02 to 21.03.09
Super	1,466,729	22.03.99	21.9759	22.03.04 to 21.03.09
Ordinary	23,577	02.09.99	20.5686	02.09.02 to 01.09.09
Super	18,994,075	02.09.99	20.5686	02.09.04 to 01.09.09
1994 SHARE OPTION SCHEME				
Ordinary	38,899	22.03.99	21.9759	22.03.02 to 21.03.09
Ordinary	47,154	02.09.99	20.5686	02.09.02 to 01.09.09
2001 SHARE OPTION SCHEME				
Ordinary	11,526,615	17.10.01	20.7830	17.10.04 to 16.10.11
Ordinary	487,177	19.03.02	27.4541	19.03.05 to 18.03.12
2002 SHARE OPTION SCHEME				
Ordinary	1,186,932	08.01.03	24.5547	08.01.06 to 08.01.13
Ordinary	2,690,579	21.03.03	27.6593	21.03.06 to 21.03.13
Ordinary	1,014,620	16.10.03	39.4285	16.10.06 to 16.10.13
Ordinary	12,674,644	23.04.04	47.7488	23.04.07 to 23.04.14
Ordinary	1,464,088	27.08.04	46.7864	27.08.07 to 27.08.14
Ordinary	7,027,665	09.03.05	57.4414	09.03.08 to 09.03.15
Ordinary	5,892,986	04.04.05	52.9335	04.04.08 to 04.04.15
Ordinary	11,137,052	24.10.05	60.8565	24.10.08 to 24.10.15
Ordinary	266,197	07.11.05	60.8565	07.11.08 to 07.11.15
Ordinary	33,272	14.12.05	60.8565	14.12.08 to 14.12.15
Ordinary	8,425,134	15.03.06	67.4681	15.03.09 to 15.03.16
Ordinary	266,194	05.05.06	67.6184	05.05.09 to 05.05.16
Ordinary	2,964,498	11.10.06	70.2479	11.10.09 to 11.10.16
Ordinary	10,533,050	09.03.07	67.3554	09.03.10 to 09.03.17
Ordinary	8,029,999	10.04.08	59.5455	10.04.11 to 10.04.18

Super options are normally exercisable after five years from date of grant. Options exercised during the year comprised 1,800,588 under the 1992 scheme and Nil under the 1994, 2001 and 2002 schemes (all adjusted for the 2008 Capitalisation Issue). No options lapsed during the year.

Options granted before 13 December 2002 (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 over shares of Guinness Peat Group plc ("GPG").

Notes to Financial Statements – continued

30. Share Capital - continued

Following the reverse acquisition, certain option holders 'rolled over' their rights and thus became entitled to exercise their options directly into 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 instead of GPGUKH shares, initially on a one-for-one basis, as an automatic consequence of exercise.

Since the year end, options under the 1992 Scheme have been exercised over 3,968,363 shares, and options under the 1994 Scheme have been exercised over 25,934 shares.

31. Reserves

GROUP	Share premium account £m	Translation reserve £m	Unrealised gains reserve £m	Other reserves £m	Retained earnings £m
At 1 January 2008	61	13	94	295	424
Capitalisation issue of shares	–	–	–	(6)	–
Scrip dividend alternative	–	–	–	–	8
Currency translation differences	–	114	–	–	–
Share-based payments	–	–	–	2	–
Increases/(decreases) in fair value	–	–	22	(11)	–
Transfers (from)/to income statement	–	(9)	(80)	1	–
Actuarial losses on retirement benefit schemes	–	–	–	–	(58)
Dividend paid	–	–	–	–	(13)
Retained loss for the year	–	–	–	–	(50)
AT 31 DECEMBER 2008	**61**	**118**	**36**	**281**	**311**

COMPANY	Share premium account £m	Unrealised gains reserve £m	Other reserves £m	Profit and loss account £m
At 1 January 2008	61	(4)	189	114
Capitalisation issue of shares	–	–	(6)	–
Scrip dividend alternative	–	–	–	8
Share-based payments	–	–	2	–
Decreases in fair value	–	(5)	–	–
Dividend paid	–	–	–	(13)
Retained loss for the year	–	–	–	(85)
AT 31 DECEMBER 2008	**61**	**(9)**	**185**	**24**

32. Contingent Liabilities

GPG has guaranteed the repayment of principal, interest and unpaid interest due on the NZ$350 million 2006 Capital Notes and on the NZ$77 million 2008 Capital Notes in the event of a liquidation of the issuing subsidiary undertaking.

The Group has guaranteed the banking facilities of Australian Country Spinners Ltd, on a joint and several basis with the other shareholder. The Group's liability under that guarantee, which is limited to fifty per cent of those facilities, amounts to A$12 million.

Coats plc has provided the EC with payment bonds to cover its exposure to the full extent of the fine of €110.3 million imposed in respect of the investigation into alleged market sharing agreements relating to the European haberdashery market: see note 28. In respect of certain of these obligations, the Company has provided to the bond issuers a counter indemnity for Coats plc's performance.

33. Capital Commitments

As at 31 December 2008, the Group had commitments of £2 million in respect of contracts placed for future capital expenditure (2007: £2 million). Its share of the capital commitments reported by associated undertakings and joint ventures was £Nil (2007: £Nil). The Company did not have any capital commitments as at 31 December 2008 (2007: £Nil).

34. Notes to the Consolidated Cash Flow Statement

a) Reconciliation of pre-tax (loss)/profit to net cash inflow from operating activities

Year ended 31 December	**2008 £m**	2007 £m re-stated
(Loss)/profit before taxation from continuing operations	**(29)**	150
Share of loss/(profit) of associated undertakings	**9**	(11)
Share of (profit)/loss of joint ventures	**(1)**	3
Finance costs	**43**	38
Profit on disposal of business	**–**	(25)
Operating profit	**22**	155
Adjustments for:		
Depreciation	**45**	39
Impairment of property, plant and equipment	**1**	1
Share-based payments	**2**	2
Proceeds on disposal of businesses	**16**	36
Profit on disposal of property, plant and equipment	**(6)**	(4)
Release of negative goodwill	**(14)**	(5)
Dividends received from associated undertakings (Parent Group)	**4**	4
Impairment of intangible assets	**45**	3
Amortisation of intangible assets	**10**	8
Purchase of fixed asset investments (Parent Group)	**(68)**	(120)
Payments arising from the purchase of associated undertakings (Parent Group)	**(24)**	(11)
Payments arising from the purchase of joint ventures (Parent Group)	**(2)**	(16)
Amounts written off against fixed asset investments, associates and joint ventures	**66**	12
Sale of fixed asset investments, at book value (Parent Group)	**58**	100
Sale of shares in associated undertakings, at book value (Parent Group)	**32**	7
Repayment of capital by investees (Parent Group)	**15**	–
Decrease/(increase) in trade and other receivables	**30**	(14)
Increase in land under development	**(8)**	(3)
Decrease/(increase) in inventories	**43**	(16)
Decrease in provisions	**(40)**	(14)
(Decrease)/increase in trade and other payables	**(72)**	31
Decrease/(increase) in derivative financial instruments	**21**	(2)
Decrease in current asset investments	**4**	9
Currency and other adjustments	**(19)**	17
NET CASH INFLOW FROM OPERATING ACTIVITIES	**161***	219

* Reported as £98 million in the Preliminary Results issued on 27 February 2009. See note r) on page 22 for further details.

b) Taxation paid

Overseas tax paid	**(25)**	(21)
UK tax paid	**–**	–
	(25)	(21)

Notes to Financial Statements – continued

34. Notes to the Consolidated Cash Flow Statement - continued

c) Dividends received from joint ventures

Year ended 31 December	**2008 £m**	2007 re-stated £m
Dividends received from joint ventures (Operating Subsidiaries)	**7**	6

d) Capital expenditure and financial investment

Payments to acquire property, plant and equipment	**(38)**	(45)
Receipts from the disposal of property, plant and equipment	**10**	8
Other intangible assets acquired	**(4)**	(10)
	(32)*	(47)

* Reported as £(18) million in the Preliminary Results issued on 27 February 2009. See note r) on page 22 for further details.

e) Acquisitions and disposals

Net receipts from sale of shares in subsidiary undertakings	**8**	–
Net payments arising from the purchase of subsidiary undertakings	**(18)**	(5)
Overdrafts held by subsidiaries acquired	**(1)**	–
Payments arising from the purchase of joint ventures (Operating Subsidiaries)	**(12)**	(16)
	(23)**	(21)

** Reported as £22 million in the Preliminary Results issued on 27 February 2009. See note r) on page 22 for further details.

f) Issue of ordinary shares

Issue of ordinary shares by the Company	**–**	1

g) Equity dividends paid to the Company's shareholders

Dividends payable	**(12)**	(11)
Less: shares issued in lieu of cash dividend	**8**	7
	(4)	(4)

h) Decrease in debt

New loans taken out (including Capital Notes)	**424**	165
Loans repaid	**(432)**	(179)
	(8)	(14)

35. Purchase of Subsidiary Undertakings

a) In March 2008, GPG acquired a controlling interest (62%) in the voting equity shares of Gosford Quarry Holdings Ltd ("GQH") in Australia. Between March and June 2008, GPG acquired the balance of those shares from minority interests. The net assets acquired, and the related goodwill arising on these acquisitions, using the purchase method of accounting, were as follows:

	Book value £m	Provisional fair value adjustments £m	Provisional fair value £m
ACQUISITION SUMMARY			
Intangible assets	3	(3)	–
Property, plant and equipment	20	(7)	13
Inventories	3	(1)	2
Trade and other receivables	4	–	4
Bank overdrafts	(1)	–	(1)
Trade and other payables	(6)	(1)	(7)
Borrowings – current	(6)	–	(6)
Net assets at acquisition	**17**	**(12)**	**5**
Add back losses previously recognised whilst a current investment			2
			7
Goodwill arising on acquisition			8
Total consideration			**15**
Consideration reported above:			
Cash paid in current year			11
Cash paid in prior years			4
Total consideration			15

The goodwill arising on the acquistion of GQH, attributable to intangible assets held by that Group, has been written off in the year.

GQH would have contributed £3 million to the Group's revenue and a loss of £1 million after tax to its results for the year in respect of the period up to the date of acquisition.

GQH contributed a loss of £8 million after tax to the Group's loss for the year.

GQH contributed an inflow of £6 million to the Group's net operating cash flows, paid £Nil in respect of investment activities, and paid £4 million in respect of financing activities.

Notes to Financial Statements – continued

35. Purchase of Subsidiary Undertakings - continued

b) In March 2008, Turners & Growers Ltd acquired the entire voting equity shares of Kerifresh Ltd ("Kerifresh") in New Zealand. The net assets acquired, and the related goodwill arising on this acquisition, using the purchase method of accounting, were as follows:

	Book value £m	Provisional fair value adjustments £m	Provisional fair value £m
ACQUISITION SUMMARY			
Property, plant and equipment	14	–	14
Associated undertakings	1	–	1
Inventories	1	–	1
Trade and other payables	(1)	–	(1)
Borrowings – non-current	(5)	–	(5)
Net assets at acquisition	**10**	**–**	**10**
Negative goodwill, released to the income statement			(3)
Total consideration			**7**
Consideration reported above:			
Cash paid – all in current year			7
Total consideration			**7**

Kerifresh would have contributed £1 million to the Group's revenue and £Nil to its result for the year in respect of the period up to the date of acquisition.

Kerifresh contributed a loss of £1 million after tax to the Group's loss for the year.

Kerifresh contributed £1 million to the Group's net operating cash flows, and paid £1 million in respect of investment and financing activities.

c) The fair values attributed to GQH and Kerifresh are provisional at this stage due to the timing of these acquisitions.

d) In addition, in October 2008 the Group increased its investment in Capral to 75.6%, at a cost of £11 million, on participation in that company's rights issue.

36. Purchase of Associated Undertakings

During the year, the Group increased its investment in three existing associated undertakings and three companies became associated undertakings. GPG increased its stake in Tower Australia Group Ltd ("TAL") from 26.9% to 29.9% (prior to its disposal), in The Maryborough Sugar Factory Ltd ("MSF") from 27.1% to 24.0% of that enlarged company (after its merger with The Mulgrave Central Mill Co. Ltd), and in Autologic Holdings plc from 21.9% to 23.5%. In 2008, Tower Ltd ("Tower"), Peanut Company of Australia Ltd ("PCA") and MMC Contrarian Ltd ("MMC") became associated undertakings when GPG's equity participation in those existing investments increased to 34.9%, 23.8% and 26.4% respectively.

The goodwill arising from these transactions is analysed as follows:

	TAL £m	Tower £m	MSF £m	PCA £m	MMC £m	Autologic £m	Total £m
Fair value of net assets (GPG share)	6	34	6	4	12	–	62
Consideration	(13)	(57)	(7)	(3)	(8)	–	(88)
(GOODWILL)/NEGATIVE GOODWILL	**(7)**	**(23)**	**(1)**	**1**	**4**	**–**	**(26)**

The aggregate consideration of £88 million includes £33 million paid in prior years, £16 million unrealised gains and a further £27 million paid in the current year and transferred from fixed asset investments, less £12 million impairment prior to transfer. The net assets of the associates are based on their published accounts (where available), as adjusted to reflect any identified differences between book values and fair values (including relevant accounting policy adjustments).

Negative goodwill of £5 million has been released to the income statement.

37. Disposal of Businesses

a) Continuing operations

During the year the Group disposed of Anthoan Pty Ltd, an Australian investment subsidiary, to The Maryborough Sugar Factory Ltd through a sale of shares for cash.

The profit on disposal of that business was as follows:

	£m
Fixed asset investments	8
Group share of net assets at disposal	**8**
Consideration received	8
Profit on disposal	**–**

The business was sold for cash, all of which was received in 2008.

b) Discontinued operations

In July 2008, the fluids business of Staveley Inc. was classified as a discontinued operation and sold.

The combined results of discontinued operations were as follows:

	Staveley Inc.		Staveley Industries		Coats Group		Total	
Year ended 31 December	**2008 £m**	2007 £m	**2008 £m**	2007 £m	**2008 £m**	2007 £m	**2008 £m**	2007 £m
Revenue	**6**	9	**–**	–	**–**	–	**6**	9
Cost of sales	**(2)**	(3)	**–**	–	**–**	–	**(2)**	(3)
Expenses	**(4)**	(6)	**–**	–	**–**	–	**(4)**	(6)
Gain on sale of property	**–**	–	**–**	–	**–**	5	**–**	5
Profit for period prior to classification as a discontinued operation*	**–**	–	**–**	–	**–**	5	**–**	5
Gain/(loss) on disposal of discontinued operations:								
Loss arising in period after classification as a discontinued operation	**–**	–	**–**	–	**(2)**	–	**(2)**	-
Gain on disposal of businesses*	**5**	–	**1**	1	**–**	2	**6**	3
	5	–	**1**	1	**(2)**	2	**4**	3
Gain/(loss) on discontinued operations	**5**	–	**1**	1	**(2)**	7	**4**	8

During the year, the discontinued operations contributed an £8 million inflow to the Group's net operating cash flows, contributed £2 million in respect of investing activities and paid £Nil in respect of financing activities.

* There is no material tax impact arising from these discontinued activities nor from the gains on disposals of businesses.

Non-current assets classified as held for sale

The major classes of assets comprising the operations classified as held for sale are as follows:

	2008 £m	2007 £m
Property, plant and equipment	**7**	5

Notes to Financial Statements – continued

38. Related Party Transactions

Remuneration of key management personnel

The remuneration of the directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 – Related Party Disclosures. Further information regarding the remuneration of individual directors is provided in the audited part of the Directors' Remuneration Report on pages 65 to 67.

Year ended 31 December	**2008 £m**	2007 £m
Short-term employee benefits	**2**	9
Share-based payments (as measured in accordance with IFRS 2)	**1**	1
	3	10

Trading transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its associated undertakings and joint ventures are disclosed below.

During the year, certain operating subsidiaries entered into the following transactions with related parties who are not members of the Group:

	Sales of goods		**Purchases of goods**		**Other income**		**Other expenses**	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
Associated undertakings	**27**	35	**5**	5	**–**	–	**–**	–
Joint ventures	**9**	10	**22**	26	**3**	2	**–**	–

Amounts owing by/(to) associated undertakings and joint ventures at the year end are disclosed in notes 20 and 23 respectively.

Other transactions

A I Gibbs, a director of the Company, owns an orchard which sells produce in New Zealand through Turners & Growers Ltd ("T&G"), a subsidiary of GPG. During 2008, T&G earned commission on the sale of such produce totalling £47,735 (2007: £48,973) and charged Mr Gibbs £145,776 (2007: £120,135) for crate hireage fees, produce packing fees and transportation. These transactions were conducted on an arm's length basis and on T&G's normal commercial terms.

At 31 December 2008, Mr Gibbs owed T&G £Nil (2007: £Nil).

39. Post Balance Sheet Events

No significant events requiring disclosure have occurred since the year end.

40. Derivatives and Other Financial Instruments

GPG 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. The currency profile of the Group's financial assets is similarly affected by the timing of investment transactions, and tends to vary during the year.

The Group's main financial instruments comprise:

Financial assets:

- cash and cash equivalents;
- trade and other receivables that arise directly from the Group's operations;
- investments in equity shares with both UK and international exposure. These investments are held as either current or non-current asset investments; and
- derivatives, including forward foreign currency contracts, cross-currency interest rate swaps, interest rate swaps, contracts for differences, equity swaps and equity options.

40. Derivatives and Other Financial Instruments - continued

Financial liabilities:

- trade, other payables and certain provisions that arise directly from the Group's operations;
- capital notes;
- bank borrowings and commercial bills; and
- derivatives, including forward foreign currency contracts, cross-currency interest rate swaps, interest rate swaps, contracts for differences, equity swaps and equity options.

FINANCIAL ASSETS

The Group's financial assets are summarised below:

	2008 £m	2007 £m
Financial assets carried at cost (loans and receivables):		
Cash and cash equivalents	**362**	318
Trade receivables (note 20)	**218**	207
Due from associates and joint ventures (note 20)	**14**	8
Other receivables (note 20)	**65**	36
	659	569
Financial assets carried at fair value through profit or loss:		
Current asset investments (note 21)	**7**	12
Derivative financial instruments (note 22)	**7**	9
	14	21
Other financial assets carried at fair value:		
Non-current asset investments (available-for-sale) (note 16(b))	**177**	328
Total financial assets	**850**	918

FINANCIAL LIABILITIES

The Group's financial liabilities are summarised below:

	2008 £m	2007 £m
Financial liabilities carried at amortised cost:		
Trade payables (note 23)	**188**	174
Due to associates and joint ventures (note 23)	**3**	6
Other financial liabilities	**63**	55
Provisions	**15**	16
Capital notes (note 25)	**172**	216
Other borrowings (note 26)	**404**	262
	845	729
Financial liabilities carried at fair value through profit or loss:		
Derivative financial instruments (note 24)	**27**	5
Total financial liabilities	**872**	734

Other financial liabilities include other payables, other than taxation and other statutory liabilities.

Notes to Financial Statements – continued

40. Derivatives and Other Financial Instruments - continued

FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

31 December	2008 Book value £m	2008 Fair value £m	2007 Book value £m	2007 Fair value £m
Primary financial instruments:				
Cash and cash equivalents	**362**	**362**	318	318
Trade receivables	**218**	**218**	207	207
Due from associates and joint ventures	**14**	**14**	8	8
Other receivables	**65**	**65**	36	36
Investments:				
Current	**7**	**7**	12	12
Non-current	**177**	**177**	328	328
Trade payables	**(188)**	**(188)**	(174)	(174)
Due to associates and joint ventures	**(3)**	**(3)**	(6)	(6)
Other financial liabilities and provisions	**(78)**	**(78)**	(71)	(71)
Capital notes	**(172)**	**(165)**	(216)	(208)
Other borrowings	**(404)**	**(404)**	(262)	(262)
Derivative financial instruments:				
Contracts for differences	**6**	**6**	4	4
Forward foreign currency contracts	**(3)**	**(3)**	–	–
Other net derivative financial instruments	**(23)**	**(23)**	–	–
Net financial (liabilities)/assets	**(22)**	**(15)**	184	192

Investments are held for strategic growth or trading purposes. Market values have been used to derive the fair value of all listed investments and the Capital Notes. Unlisted investments are stated at fair value. For floating rate financial assets and liabilities, and for fixed rate financial assets and liabilities with a maturity of less than three 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 values of the equity options, equity swaps and the forward foreign currency contracts 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 in the income statement until the exposure to which they relate is itself recognised. Such gains and losses are incorporated in the value of the transaction being hedged.

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

- currency risk;
- interest rate risk;
- capital risk;
- market price risk;
- liquidity risk; and
- credit 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.

40. Derivatives and Other Financial Instruments - continued

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 is denominated in currencies other than Sterling, which is the Group's presentation 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, New Zealand and United States 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, Australian dollars and US dollars, being the three 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 and United States dollars. 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.

Coats, Staveley Inc., Capral and T&G use forward foreign currency contracts to mitigate the currency exposure that arises on business transacted in currencies other than their own functional currencies. These companies only enter into such foreign currency 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.

INTEREST RATE RISK

In 2008, the Group financed its operations through shareholders' funds, bank borrowings, commercial bills, and the Capital Notes. The Capital Notes carry fixed interest rates. The Group's trading subsidiaries use a mixture of fixed and floating rate debt. The Group also has access to bank facilities amounting to some £746 million, of which £404 million had been drawn down at year-end. This includes facilities negotiated by certain trading subsidiaries to meet their local needs.

Interest rate risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings using interest rate swap contracts. Hedging activities are evaluated regularly to align with interest rate views and risk appetite.

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.

A one per cent. rise in market interest rates would increase profit before tax by approximately £2 million (2007: £2 million), and would increase shareholders' funds by approximately £6 million (2007: £4 million).

Trade and other receivables and trade and other payables are excluded from the following disclosure (other than the currency disclosures) as there is limited interest rate risk.

CAPITAL RISK MANAGEMENT

The Group manages its capital so as to ensure that the Company and the Group will be able to continue as a going concern, whilst being able to take advantage of opportunities that arise and which are expected to provide profitable returns for shareholders.

The Group's capital structure comprises cash and cash equivalents, borrowings, and share capital and reserves attributable to the equity shareholders of the Company.

Notes to Financial Statements – continued

40. Derivatives and Other Financial Instruments - continued

CURRENCY EXPOSURE

The table below shows the extent to which Group companies have financial assets and liabilities in currencies other than their functional currency excluding 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 income statement. 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, but includes other Group balances that eliminate on consolidation. It also excludes investments held in equity shares, which are included in the Currency and Interest Rate Profile of Financial Assets table below.

	Net foreign currency financial assets/(liabilities)					
Functional currency 2008	**Sterling £m**	**Australian dollars £m**	**New Zealand dollars £m**	**US dollars £m**	**Other £m**	**Total £m**
Sterling	**–**	**123**	**(171)**	**–**	**–**	**(48)**
New Zealand dollars	**–**	**1**	**–**	**1**	**1**	**3**
US dollars	**14**	**–**	**–**	**–**	**(33)**	**(19)**
Other	**–**	**–**	**–**	**(36)**	**5**	**(31)**
	14	**124**	**(171)**	**(35)**	**(27)**	**(95)**

	Net foreign currency financial assets/(liabilities)					
Functional currency 2007	Sterling £m	Australian dollars £m	New Zealand dollars £m	US dollars £m	Other £m	Total £m
Sterling	–	7	(210)	(17)	(21)	(241)
US dollars	19	–	–	–	(54)	(35)
Other	1	–	–	(13)	3	(9)
	20	7	(210)	(30)	(72)	(285)

The following table shows the impact on pre-tax profit and shareholders' funds of reasonably possible changes in exchange rate against each of the major foreign currencies in which the Group transacts:

	US dollars		**Australian dollars**		**New Zealand dollars**	
	2008 £m	2007 £m	**2008 £m**	2007 £m	**2008 £m**	2007 £m
Increase in £ Sterling cross rate assumed:	**9%**	9%	**7%**	7%	**7%**	7%
Increase/(decrease) in profit/(loss) before tax	**–**	4	**(8)**	(6)	**11**	14
Increase/(decrease) in shareholders' funds	**2**	4	**(12)**	(9)	**11**	11

40. Derivatives and Other Financial Instruments - continued

CURRENCY AND INTEREST RATE PROFILE OF FINANCIAL ASSETS

The currency and interest rate profile of the Group's financial assets was as follows:

31 December				2008				2007
Currency	**Investments £m**	**Cash and cash equivalents £m**	**Trade and other receivables £m**	**Total £m**	Investments £m	Cash and cash equivalents £m	Trade and other receivables £m	Total £m
Sterling	**69**	**234**	**8**	**311**	77	196	7	280
Australian dollars	**102**	**56**	**82**	**240**	205	65	61	331
New Zealand dollars	**5**	**7**	**18**	**30**	44	8	18	70
United States dollars	**1**	**17**	**62**	**80**	1	15	62	78
Euros	**2**	**8**	**44**	**54**	4	7	45	56
Other currencies	**5**	**40**	**83**	**128**	9	27	58	94
	184	**362**	**297**	**843**	340	318	251	909
Derivative financial instruments				**7**				9
Total financial assets				**850**				918
Floating rate		**358**		**358**		317		317
No rate		**4**		**4**		1		1
		362		**362**		318		318

The investments included above comprise listed and unlisted investments in shares.

Deposits of £358 million (2007: £317 million) which have been placed on deposit with banks for a variety of fixed periods, not exceeding three months, earn available market rates based on LIBID equivalents and are for these purposes classified as floating rate cash balances. The Group's investment portfolio principally comprises equity shares. All such investments have been excluded from the interest rate analysis because the investments do not have a fixed entitlement to interest.

CURRENCY AND INTEREST RATE PROFILE OF FINANCIAL LIABILITIES

The currency and interest rate profile of the Group's financial liabilities was as follows:

31 December				2008				2007
Currency	**Floating rate £m**	**Fixed rate £m**	**Interest free £m**	**Total £m**	Floating rate £m	Fixed rate £m	Interest free £m	Total £m
Sterling	**4**	**14**	**16**	**34**	5	14	17	36
Australian dollars	**50**	**29**	**57**	**136**	59	9	56	124
New Zealand dollars	**2**	**194**	**14**	**210**	–	228	17	245
United States dollars	**71**	**188**	**78**	**337**	31	102	77	210
Euros	**7**	**–**	**29**	**36**	6	–	28	34
Other currencies	**24**	**–**	**68**	**92**	32	–	48	80
	158	**425**	**262**	**845**	133	353	243	729
Derivative financial instruments				**27**				5
Total financial liabilities				**872**				734

The benchmark for determining floating rate liabilities in the UK is LIBOR for both sterling and US$ loans. In New Zealand, floating rates are determined by reference to the New Zealand 90 Day Bank Bill rate, and in Australia such rates are based on discounted commercial loan rates.

Notes to Financial Statements – continued

40. Derivatives and Other Financial Instruments - continued

Details of fixed rate and non interest-bearing liabilities (excluding derivatives) are provided below:

31 December		**2008**			2007	
	Fixed rate financial liabilities		**Financial liabilities on which no interest is paid**	Fixed rate financial liabilities		Financial liabilities on which no interest is paid
Currency	**Weighted average interest rate %**	**Weighted average period for which rate is fixed (months)**	**Weighted average period until maturity (months)**	Weighted average interest rate %	Weighted average period for which rate is fixed (months)	Weighted average period until maturity (months)
Sterling	**6.00%**	**27**	**37**	6.00%	39	35
Australian dollars	**11.33%**	**15**	**–**	14.03%	50	–
New Zealand dollars	**8.25%**	**43**	**–**	8.51%	39	–
United States dollars	**5.70%**	**27**	**–**	6.90%	21	–
Weighted average	**7.27%**	**33**	**37**	8.08%	34	35

CURRENCY PROFILE OF FOREIGN EXCHANGE DERIVATIVES

The currency profile of the Group's foreign exchange derivatives (on a gross basis), all of which mature in less than one year, was as follows:

31 December	**Assets** **2008** £m	2007 £m	**Liabilities** **2008** £m	2007 £m
Currency				
Sterling	**15**	20	**–**	–
United States dollars	**49**	48	**(67)**	(63)
Euros	**35**	29	**(41)**	(38)
Other currencies	**15**	15	**(9)**	(11)
	114	112	**(117)**	(112)

The £3 million net payable (2007: £Nil net receivable) in relation to foreign exchange financial instruments in the table above is split £1 million (2007: £1 million) within assets (note 22) and £4 million (2007: £1 million) within liabilities (note 24).

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 contracts for differences 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.

The Group is also exposed to price risks arising from bond investments.

40. Derivatives and Other Financial Instruments - continued

The sensitivity analyses below have been determined based on the exposure to price risks at the year end.

Equities/Bonds (excluding pension schemes):

Impact of a 10% increase in prices:	**2008 £m**	2007 £m
Increase in pre-tax profit for the year	**1**	1
Increase in equity shareholders' funds	**18**	27

LIQUIDITY RISK

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. During the year the Group has complied with all externally imposed capital requirements.

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

31 December	**2008 £m**	2007 £m
Expiring within one year	**10**	27
Expiring between one and two years	**245**	194
Expiring between two and five years	**87**	2
	342	223

MATURITY OF UNDISCOUNTED FINANCIAL LIABILITIES (EXCLUDING DERIVATIVES)

The maturity of the Group's financial liabilities, using undiscounted cash flows, was as follows:

31 December	**2008 £m**	2007 £m
In one year or less, or on demand	**389**	474
In more than one year but not more than two years	**101**	87
In more than two years but not more than five years	**426**	271
In more than five years	**9**	8
	925	840

The above table comprises the gross amounts payable in respect of borrowings (including interest thereon), trade and other non-statutory payables and certain provisions, over the period to the maturity of those liabilities.

MATURITY OF UNDISCOUNTED FINANCIAL DERIVATIVES

The maturity of the Group's financial derivatives (on a gross basis), which include interest rate and foreign exchange swaps, using undiscounted cash flows was as follows:

		Assets		**Liabilities**
31 December	**2008 £m**	2007 £m	**2008 £m**	2007 £m
In one year or less, or on demand	**80**	91	**(104)**	(93)
In more than one year but not more than two years	**49**	2	**(46)**	(2)
In more than two years but not more than five years	**5**	28	**(7)**	(28)
In more than five years	**–**	4	**–**	–
	134	125	**(157)**	(123)

Notes to Financial Statements – continued

40. Derivatives and Other Financial Instruments - continued

CREDIT RISK

31 December	**2008 £m**	2007 £m
The Group considers its maximum exposure to credit risk to be as follows:		
Cash and cash equivalents	**362**	318
Derivative financial instruments	**7**	9
Trade receivables (net of bad debt provision)	**218**	207
Other receivables	**65**	37
	652	571
Financial assets considered not to have exposure to credit risk:		
Current asset investments	**7**	12
Non-current asset investments	**177**	328
Total financial assets	**836**	911
Analysis of trade receivables over permitted credit period:		
Trade receivables up to 1 month over permitted credit period	**23**	20
Trade receivables between 1 and 2 months over permitted credit period	**9**	8
Trade receivables between 2 and 3 months over permitted credit period	**6**	5
Trade receivables between 3 and 6 months over permitted credit period	**2**	3
Trade receivables in excess of 6 months over permitted credit period	**4**	–
Total net trade receivables in excess of permitted credit period	**44**	36
Trade receivables within permitted credit period	**174**	171
Total net trade receivables	**218**	207

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas.

Customers requesting credit facilities are subject to a credit quality assessment, which may include a review of their financial strength, previous credit history with the Group, payment habits with other suppliers, bank references and credit rating agency reports. All active customers are subject to an annual, or more frequent if appropriate, review of their credit limits and credit periods.

HEDGES

During 2008, the Group has hedged the following exposures:

– interest rate risk – using interest rate swaps

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

At 31 December 2008, the fair value of such hedging instruments was £Nil (2007: £Nil).

(LOSSES)/GAINS ON FINANCIAL ASSETS/LIABILITIES

The net (loss)/gain from buying and selling financial assets and financial liabilities shown in the income statement is analysed as follows:

Year ended 31 December	**2008 £m**	2007 £m
Gains on disposal of investments (excluding derivatives)	**61**	128
Losses on disposal of equity options and equity swaps (note 4)	**(21)**	(5)
Net investment impairment provision (note 4)	**(72)**	(13)
Net gain on other financial assets/liabilities (note 4)	**–**	1
	(32)	111

41. Share-based payments

GPG's share option schemes provide for a grant price equal to the average quoted market price of GPG shares for 1 to 5 days prior to the date of the grant. The vesting period is 3 years, and any options that remain unexercised after 10 years from the date of grant automatically lapse. Option forfeiture where an employee leaves the Group can occur in certain circumstances.

Only options granted after 7 November 2002 are required to be analysed in this Note.

	2008		2007	
	Options	**Weighted average exercise price**	Options	Weighted average exercise price
Outstanding at beginning of year	**59,615,467**	**62.62p**	45,823,838	66.25p
Granted during the year	**7,300,000**	**65.50p**	8,705,000	81.50p
Impact of Capitalisation Issue	**6,691,443**	**n/a**	5,406,522	n/a
Exercised during the year	**–**	**–**	(319,893)	36.50p
Outstanding at end of year	**73,606,910**	**57.21p**	59,615,467	62.62p
Exercisable at end of year	**43,388,035**	**51.37p**	17,300,819	47.24p

The options outstanding at 31 December 2008 had a weighted average remaining contractual life of 6.8 years (2007: 7.5 years).

The weighted average fair value of share options at the measurement date for options granted during the year was 12.0p (2007: 16.7p).

These fair values were calculated using a stochastic valuation model based on the methodology underlying the Black-Scholes model, projecting forward the Company share price using the Black-Scholes model and calculating the value earned when the options are exercised and discounting this back to the calculation date.

The assumptions in the model are as follows:

Volatility	20% per annum
Risk free interest rate	4.0%-5.0% per annum
Dividend at grant	1p per share
Dividend growth*	10% per annum

*to allow for the annual 1-for-10 Capitalisation Issues.

The Directors have set the volatility assumption after analysing the historic volatility of the Group share price and taking account of the current levels of equity market volatility. To allow for the effects of early exercise it was assumed that in each simulation the options were exercised as soon as they were "in the money" and these values were averaged to get the overall price.

The Group recognised total expenses of £2 million related to equity-settled share-based payments in the year ended 31 December 2008 (2007: £2 million).

Corporate Governance

COMPLIANCE

The Board has put in place corporate governance arrangements which it believes are appropriate for the operation of an international strategic investment holding company. These arrangements are long established and have served the Company well so the Board does not seek actively to alter such arrangements merely to ensure adherence with the best practice recommendations made by regulators from time to time. As a result, GPG complies with Section 1 of the 2006 Combined Code referred to in the Listing Rules of the UK Financial Services Authority ("the Code") where it is beneficial for its business to do so but, as noted below, it does not fully comply with the Code, or its equivalent in Australia. This position is regularly reviewed and monitored by the Board.

BOARD RESPONSIBILITIES

The Board consists of the Chairman, Sir Ron Brierley, who is a non executive director, and three executive directors. Short biographies of each of the directors appear on page 6. The Chairman is remunerated by way of share options and although he receives no salary or directors' fees he is eligible to participate in the staff bonus scheme. He is not appointed for a specified term but, in accordance with the Company's Articles of Association, retires by rotation. With regard to the appointment and replacement of directors, the Company is governed by reference to its Articles of Association, the Code, the Companies Act and related legislation.

In accordance with the Articles of Association, Sir Ron Brierley will retire by rotation at the conclusion of the 2009 Annual General Meeting and, being eligible, offers himself for re-election.

The Board is responsible for the management of the Group's assets and operations. The executive directors manage such assets and operations on a day-to-day basis and are in frequent contact with each other. The executive directors are situated in the UK, Australia and New Zealand but they have put in place suitable communication and reporting systems which enable them to have, on a timely basis, a clear appreciation and measure of the Group's investment activities.

As a consequence of the continuous and detailed evaluation of the Group's investment activities by the directors, meetings of the Board tend to be less formal than in companies where the majority of the Board is in one time zone and have separate areas of responsibility. Instead the Board comes together over a period of days at least three times a year to discuss new or existing investment matters. These informal meetings will often in due course lead to formal Board meetings to agree and to record decisions. In this way the Group's assets are both carefully evaluated before an investment is made and regularly thereafter. In addition, there is a formal schedule of matters specifically reserved for the Board's approval.

During the year, the Board met formally on 8 occasions. Sir Ron Brierley and Tony Gibbs attended 6 of those meetings, Graeme Cureton 5, Blake Nixon 8 and Gary Weiss 7.

The Company has a procedure in place by which directors can seek independent professional advice at the Company's expense if the need arises. GPG provides certain protections for directors and officers of companies within the Group against personal financial exposure that they may incur in the course of their professional duties. GPG does not have a 'senior independent non-executive director' but all the directors are available to shareholders. Given the geographic distribution of the Company's shareholders, who are substantially in New Zealand, the UK and Australia, it is expected that shareholders in those countries will normally speak to their locally-based director if they cannot speak to the Chairman. There is no formal evaluation method in respect of the Board, nor any individual director's performance. No statement to the Board confirming the Company's financial condition, operational results, risk management or internal compliance and control systems, as envisaged by ASX Recommendations 7.3, is considered necessary as all of the directors are extensively involved in the process of the preparation of the Company's financial reports.

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

INTERNAL CONTROLS

The Board has overall responsibility for GPG's system of internal control and for reviewing its effectiveness. The internal controls are designed to cover material risks to achieving the Group's objectives and include business, operational, financial and compliance risks. These controls have been in place throughout the year for GPG and its principal subsidiaries and have continued in force up to the date of approval of the Annual Report. The internal controls are designed to identify, evaluate and manage, rather than eliminate, risk of failure to meet business objectives and to provide reasonable, but not absolute, assurance against material misstatement or loss. The system is regularly reviewed by the Board, and except as described below, accords with the guidance of the Turnbull Committee issued to companies listed on the London Stock Exchange. The internal control process distinguishes between the Parent Group (being the long term structural entities within the Group which hold GPG's investments), the Operating Subsidiaries and the Associated Undertakings and Joint Ventures. The systems operated both at Parent Group and Operating Subsidiary levels are reviewed annually by GPG and the results of these reviews are reported to the Audit Committee and to the Board by the Group's Chief Financial Officer. The Board is satisfied that these systems are operating effectively in all material respects in relation to financial reporting risks.

Parent Group

The identification and consequent management of risk for the Parent Group is an inherent feature in the investment evaluation process. The principal risk identified is market price risk. The investment evaluation process and its relationship to market risk is described in note 40 to the financial statements, particularly on page 58. For GPG's investment activities, information systems are in place to provide directors with a weekly report on cash movements, investment transactions, portfolio holdings and market values. This provides the Board with up to date information enabling them to monitor and review the progress of investment strategies. In addition to the control procedures referred to above, certain other key control procedures are in force at the Parent Group level, such as ensuring that investments are effected at a local level under the supervision of the relevant local director, ensuring that Board approval is obtained for any investment in excess of £2 million, holding documents of title either within the Parent Group or by a reputable custodian and centralising the settlement of all transactions at the London office.

Investments

The Operating Subsidiaries, being discrete entities acquired by the Parent Group as investments, have their own boards of directors who operate and control these businesses independently. As at 31 December 2008, the Group had four major Operating Subsidiaries of which one was wholly owned and the remainder partly owned. All are involved in activities other than strategic investment. In aggregate, the Group's share of the consolidated net assets (including goodwill but excluding Group loans) of the Operating Subsidiaries ("Group Share") represents some 52% of GPG's shareholders' funds of £878 million. At least one GPG director or senior executive is appointed to the board of each of these Operating Subsidiaries. He is charged with ensuring that the appropriate resources are committed by such Operating Subsidiary to respond to the requirements of the Code on a basis which in each case is commensurate with GPG's Group Share, and that material risks to the value of that investment are managed. Each Operating Subsidiary's board has been notified of its responsibilities for identifying key business risks appropriate to its own business sector and establishing appropriate and relevant control and compliance procedures. They are also required to acknowledge that they are responsible for their internal control systems.

Coats is by far the Company's largest Operating Subsidiary (Group Share £307 million). All of GPG's executive directors sit on the Coats Board and its internal controls are therefore carefully monitored.

Canberra Investment Corporation ("CIC") (Group Share £29 million) and Capral (Group Share £44 million) are listed on the Australian Securities Exchange, and Turner & Growers ("T&G") (Group Share £62 million) is listed on the New Zealand Stock Exchange: hence these companies have prime reporting responsibilities to a recognised exchange, whose rules are similar to, but not the same as, those of The London Stock Exchange. However, it may be that certain of these companies' control procedures, whilst deemed sufficient by the GPG Board to identify, manage and control the principal risks to its investments, differ from the more strictly defined requirements of the guidance of the Code. The Board of GPG has reviewed and accepted the annual reports on internal controls submitted by CIC, Capral and T&G during the year.

The Board also reviews and monitors the internal controls procedures of its Associated Undertakings and Joint Ventures. The Board of GPG is satisfied that each of its Associated Undertakings and Joint Ventures has satisfactory procedures to identify, monitor and control its major risks, commensurate with the relevant Group Share. At least one GPG director or senior executive is appointed to the board of each of its Associated Undertakings and Joint Ventures. This enables him to review the investee company's procedures for dealing with major risks. The Associated Undertakings and Joint Ventures are encouraged to review the effectiveness of their own internal controls, but the Group is not able to enforce this and as such Associated Undertakings and Joint Ventures are not normally requested to complete an internal control review each year.

Guidance issued by the Financial Services Authority obliges the directors of public companies to consider the need for internal audit. The Board reviews the position annually and considers that the Parent Group is not sufficiently large or complex to justify a centralised internal audit function. Coats, Capral and T&G consider their operations to be sufficiently widespread to justify their own internal audit functions, and such internal audit functions and the internal audit reports they produce are made available to the Board of GPG.

Corporate Governance – continued

BUSINESS REVIEW

Commentary on GPG's key performance indicators ("KPIs") is included in the Directors' Report on page 6. GPG does not produce KPIs dealing with health and safety or environmental matters, but does monitor these areas in relation to its major subsidiaries.

In respect of health and safety, Coats monitors performance by reference to a USA standard measure: the global rate of reportable incidents was reduced in 2008 compared to 2007. Coats continues to operate an environmental management programme focusing on the prevention of environmental incidents and ensuring compliance with the Restricted Substances List. As in 2007, there were no reportable environmental incidents. Coats aims for environmental management systems consistent with IS014000.

Each of the sites Capral operates must comply with very extensive and detailed Australian regulations both in terms of health and safety and environmental matters. Its Safety Indicators continue to demonstrate a reduction in frequency of reportable incidents since 1 January 2005. Capral confirms that all applications for, and renewals of, licences have been granted and all required consents have been given by relevant authorities in Australia.

T&G operates in compliance with best practice in New Zealand in relation to environmental and employee matters. The company also monitors incidents under the New Zealand Occupational Safety & Health Regulations.

SHAREHOLDER MEETINGS

In May 2008, GPG held an Annual General Meeting in London. The level of proxies lodged for each resolution was announced following the meeting. In its annual and interim reports and other corporate announcements, GPG endeavours to present an accurate, objective and balanced picture in a style and format which is appropriate for the intended audience.

BOARD COMMITTEES

The Board has set up an Audit Committee and Remuneration Committee to assist in the execution of its duties. These committees operate on written terms of reference which are reviewed regularly and the outcome of such committee meetings are reported to the Board. Each of the committees is authorised, at GPG's expense, to obtain external legal or other professional advice to assist in carrying out its duties. The small size of the Board of directors and the fact that they take direct responsibility for all significant matters affecting GPG, including the appointment of other directors (should such requirement arise), make the establishment of a formal procedure for new appointments or a Nomination Committee unnecessary notwithstanding the requirements of the Code.

Audit Committee

The Audit Committee consists of Blake Nixon, who chairs the committee, and, following his appointment on 25 February 2009, David Wadsworth BSc (Econ), BA, FCA an independent member. These two members provide the required competence and experience in accounting and auditing matters. The Board considers that given the direct participation by all members of the Board in the operation, structure and financial control of GPG the composition of the Audit Committee is sufficient to ensure the integrity of GPG's financial reporting and controls, even though it does not comply with the membership provisions of the Code. The Audit Committee's written terms of reference are available for inspection at the GPG London, Sydney and Auckland offices.

The Committee is responsible for monitoring the integrity of the consolidated financial statements and reviewing significant financial reporting judgements contained therein. It is responsible for making recommendations on the engagement of the Company's external auditor, Deloitte LLP.

The Committee is satisfied that its policy on the supply of non-audit services by the Company's auditor, Deloitte LLP, ensures that audit objectivity and independence are safeguarded.

The Committee met four times in 2008 in order to discharge its duties under its terms of reference.

"Whistleblower" procedures exist within the major Operating Subsidiaries and the Parent Group.

Remuneration Committee

The Remuneration Committee consists of Sir Ron Brierley, who chairs the Committee, Blake Nixon and Gary Weiss. No director is involved in deciding his own remuneration. The Board considers that Sir Ron Brierley has qualities which are sufficient to ensure the integrity and independence of the Remuneration Committee in fulfilling its duties, even though it does not comply with the membership provisions of the Code. The Remuneration Committee's written terms of reference are available for inspection at the GPG London, Sydney and Auckland offices.

The role of the Remuneration Committee is to monitor, review and set GPG's remuneration policy as set out in the Report on Remuneration and Related Matters on pages 65 to 67.

The Committee met once in 2008 in order to discharge its duties under its terms of reference.

GOING CONCERN

Giving due consideration to the nature of the Group's business and underlying investments as a whole, including the financial resources available to the Group, the directors consider that the Company and the Group are a going concern and the financial statements are prepared on that basis. The directors of one of the Group's subsidiary undertakings, Capral, whilst noting that there are significant uncertainties, concluded that it was appropriate to prepare its financial statements on a going concern basis. In reaching their view on going concern, the directors of GPG considered the six categories of risk described in more detail in note 40 to the financial statements.

REPORT ON REMUNERATION AND RELATED MATTERS

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

Remuneration Policy

The Remuneration Committee's current policy is that remuneration and benefit levels should be sufficiently competitive, having regard to remuneration practice in the industry and the countries in which the Group invests, to attract, incentivise, reward and retain the directors.

Each of the executive directors has a contract of service with the Company. These agreements provide for a rolling 12 months' notice period to be given by the director and are terminable by the Company on giving 18 months' notice. In the case of early termination by the Company, the director would receive compensation based on the unexpired portion of his notice period. In the event of a change in control, the agreements entitle each director to compensation of two years' remuneration if he elects to leave within 6 months. (Similar arrangements, on reduced periods, are in place for certain senior officers of the Company). GPG's Remuneration Committee considers that it is necessary to offer such rolling contracts and notice periods in order to retain, motivate and in the future recruit individuals of the right calibre and to ensure continuity of the Group's management.

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

- Annual benefits: including a competitive basic salary, directors' fees as appropriate, health and car benefits and life assurance. Directors are also entitled to performance-related cash bonuses (see below);
- Long Service Leave based on one month's leave for every five years worked, applied on a pro-rata basis;
- Payment for holidays interrupted, curtailed or not taken;
- Pension contributions: see the Notes below the following table;
- Long term incentives: directors are entitled to receive awards of options under the Group's share option schemes; and
- Staff bonus scheme: directors are eligible to participate in a non-contractual bonus scheme, under which cash bonuses may be paid to all staff in the GPG Parent Group. No such bonus will be payable in respect of any year when net profits attributable to GPG shareholders do not achieve a 12.5% realised return on adjusted IFRS opening shareholders' funds, as further adjusted for share issues during the year. If this target is achieved a bonus pool is established by the Remuneration Committee with reference to profit and the return on shareholders' funds. There is no ceiling on the bonuses payable to directors. This scheme is operated in order to remain competitive, having regard to performance bonuses paid by international investment funds and companies comparable to GPG.

Corporate Governance – continued

Details of individual director's emoluments (audited figures)

The emoluments of the directors of GPG who served during the year are set out below. These amounts comprise emoluments payable to the directors by GPG and its subsidiaries for the years ended 31 December 2008 and 31 December 2007.

	Sir Ron Brierley £	G J Cureton (retired 29 August 2008) £	A I Gibbs £	B A Nixon £	Dr G H Weiss £
Remuneration package	–	364,634	619,073	555,149	717,874
Pension contributions	–	(32,085)	–	(19,800)	(47,522)
TOTAL PAYMENTS IN 2008	**–**	**332,549**	**619,073**	**535,349**	**670,352**
Remuneration package	–	462,807	547,719	516,418	607,439
Pension contributions	–	(45,468)	–	(19,800)	(49,402)
Bonus	150,000	1,364,859	1,708,574	1,708,574	2,053,289
TOTAL PAYMENTS IN 2007	150,000	1,782,198	2,256,293	2,205,192	2,611,326
Leave Accrual in 2008	**–**	**30,068**	**92,027**	**65,334**	**189,246**
Leave Accrual in 2007	–	43,256	118,550	91,376	127,570
Gains on Options 2008	**–**	**–**	**388,011**	**–**	**–**
Gains on Options 2007	–	268,080	312,174	325,004	268,080
Pension Contributions 2008	**–**	**32,085**	**–**	**19,800**	**47,522**
Pension Contributions 2007	–	45,468	–	19,800	49,402
TOTAL REMUNERATION IN 2008	**–**	**394,702**	**1,099,111**	**620,483**	**907,120**
TOTAL REMUNERATION IN 2007	150,000	2,139,002	2,687,017	2,641,372	3,056,378

The aggregate emoluments and gains on share options exercised (excluding pension contributions) for the highest paid director were £1,099,111 (2007: £3,006,976). Contributions paid to money purchase schemes in respect of the highest paid director were £Nil (2007: £49,402).

Holiday and Long Service Leave

It is the policy of the Remuneration Committee that all executive directors should be contractually entitled to Long Service Leave in accordance with the Long Service Leave Act 1955 of New South Wales, Australia, and to holiday accruals where directors have taken less holiday than their contractual entitlements. The following table shows the amounts accrued for the year ended 31 December 2008 and for prior periods. No payments have been made to directors, other than as shown as utilised in the year.

	Prior years £	Total accrued in 2008 £	Utilised in 2008 £	Closing balance 31 December 2008 £
G J Cureton	383,501	30,068	(413,569)	**–**
A I Gibbs	736,440	92,027	–	**828,467**
B A Nixon	747,762	65,334	–	**813,096**
Dr G H Weiss	763,294	189,246	–	**952,540**
	2,630,997	376,675	(413,569)	**2,594,103**

The movement during 2008 also includes an element of foreign exchange differences where salaries and leave entitlements are calculated and accrued in foreign currencies and translated back into sterling.

Notes

i) Overseas directors' emoluments, which are paid in local currency, have been translated at the relevant year-end exchange rate.

ii) Share options are awarded to directors in accordance with the terms of the Group's share option schemes, the terms of which have been approved by shareholders. The Company does not operate any other long term incentive schemes. It is felt that the grant of options is more appropriate since this contains an element of reward for individual achievement together with an incentive allied to the Group's longer term performance. The approach also aligns management's interests with those of shareholders. Awards are made in most years in the context of the Group's recent trading performance, the individual's contribution to that performance and his expected performance and contribution in the future. In addition, awards are calculated having regard to the individual's existing holdings. Directors are not required to hold their shares for a further period following exercise of their options.

iii) All executive directors are entitled to direct that a variable amount of their total salary, as determined by the Remuneration Committee each year, be paid by way of contribution to any pension arrangement which they may establish for the purpose.

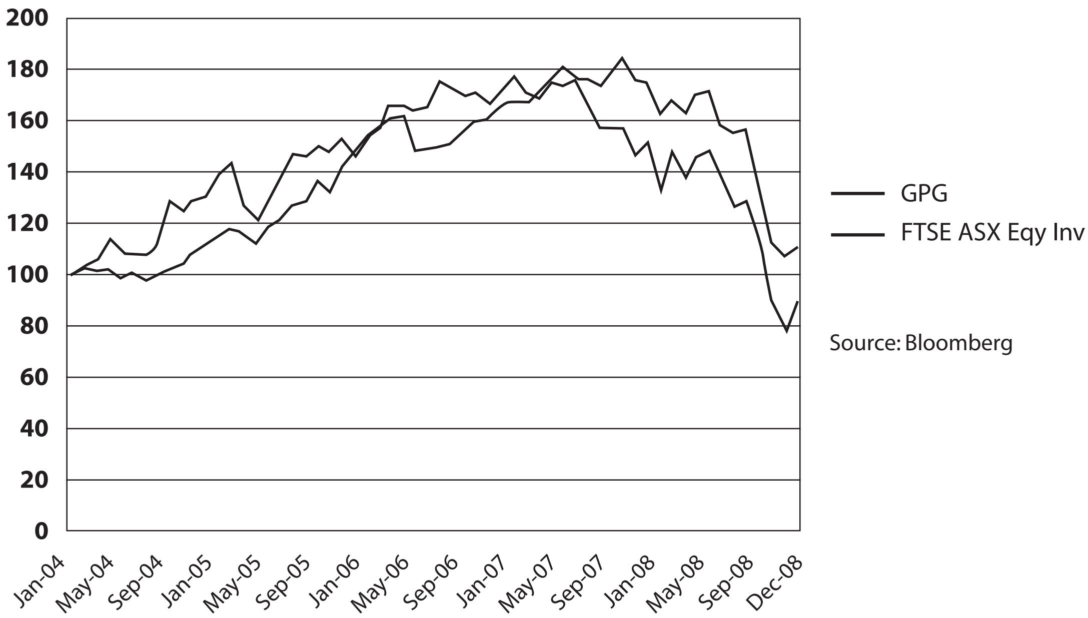
iv) All pension contributions are in respect of defined contribution arrangements.

v) Of their total salary, as determined by the Remuneration Committee each year, directors are entitled to direct that a variable amount be paid in a form other than cash.

vi) Where directors are required by GPG to act as a director of an investee company outside the Parent Group, it is the Group's policy that director's fees from such entities are paid directly to the Group.

vii) The tables set out above, and these notes, comprise the auditable part of the directors' remuneration report, being the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985.

Performance Graph (unaudited) – Total Shareholder Return
5-year Comparison of GPG shares against FTSE All-Share Equity Investment Instruments Index



Corporate Governance – continued

DIRECTORS' INTERESTS

The interests (unaudited unless stated otherwise) of the directors who held office at the end of the year, and their connected persons (if any), in the shares, options, and listed securities of GPG and its subsidiaries as at 31 December 2008 and 2007, are set out below.

i) Guinness Peat Group plc

Ordinary 5p shares

	31 December 2008	31 December 2007
Sir Ron Brierley	45,108,190	40,498,983
A I Gibbs	7,241,427	5,639,945
B A Nixon	11,760,710	10,516,284
Dr G H Weiss	15,262,706	13,872,834

Since the year end, following the exercise of share options, B A Nixon has acquired a further 259,366 shares and Dr G H Weiss a further 148,737 shares.

Options under the Group's share option schemes (audited figures)

	31 December 2008 Number	31 December 2007 Number	Effective exercise price (pence per share)	Exercise period
Sir Ron Brierley				
Ordinary	974,355	974,355	20.78	17.10.04 to 16.10.11
Ordinary	644,201	644,201	47.75	23.04.07 to 23.04.14
Ordinary	585,637	585,637	57.44	09.03.08 to 09.03.15
Ordinary	332,747	332,747	60.86	24.10.08 to 24.10.15
Ordinary	199,647	199,647	67.47	15.03.09 to 15.03.16
Ordinary	302,500	302,500	67.36	09.03.10 to 09.03.17
Ordinary*	165,000	–	59.55	10.04.11 to 10.04.18
G J Cureton (retired 29 August 2008)				
Ordinary	653,620	653,620	21.98	22.03.02 to 21.03.09
Super	383,868	383,868	21.98	22.03.04 to 21.03.09
Super	3,419,020	3,419,020	20.57	02.09.04 to 01.09.09
Ordinary	1,948,712	1,948,712	20.78	17.10.04 to 16.10.11
Ordinary	1,932,609	1,932,609	47.75	23.04.07 to 23.04.14
Ordinary	1,683,712	1,683,712	57.44	09.03.08 to 09.03.15
Ordinary	1,663,747	1,663,747	60.86	24.10.08 to 24.10.15
Ordinary	798,597	798,597	67.47	15.03.09 to 15.03.16
Ordinary	1,210,000	1,210,000	67.36	09.03.10 to 09.03.17
Ordinary*	1,100,000	–	59.55	10.04.11 to 10.04.18
A I Gibbs				
Ordinary	–	653,620	21.97	Exercised in 2008
Super	–	383,868	21.97	Exercised in 2008
Super	3,654,814	3,654,814	20.57	02.09.04 to 01.09.09
Ordinary	1,948,712	1,948,712	20.78	17.10.04 to 16.10.11
Ordinary	1,932,609	1,932,609	47.75	23.04.07 to 23.04.14
Ordinary	1,098,072	1,098,072	57.44	09.03.08 to 09.03.15
Ordinary	732,050	732,050	52.93	04.04.08 to 04.04.15
Ordinary	1,663,747	1,663,747	60.86	24.10.08 to 24.10.15
Ordinary	798,597	798,597	67.47	15.03.09 to 15.03.16
Ordinary	1,210,000	1,210,000	67.36	09.03.10 to 09.03.17
Ordinary*	1,100,000	–	59.55	10.04.11 to 10.04.18

	31 December 2008 Number	31 December 2007 Number	Effective exercise price (pence per share)	Exercise period
B A Nixon				
Ordinary	163,401	163,401	21.98	22.03.02 to 21.03.09
Super	95,965	95,965	21.98	22.03.04 to 21.03.09
Super	3,654,814	3,654,814	20.57	02.09.04 to 01.09.09
Ordinary	1,948,712	1,948,712	20.78	17.10.04 to 16.10.11
Ordinary	1,932,607	1,932,607	47.75	23.04.07 to 23.04.14
Ordinary	1,830,122	1,830,122	57.44	09.03.08 to 09.03.15
Ordinary	1,663,747	1,663,747	60.86	24.10.08 to 24.10.15
Ordinary	798,597	798,597	67.47	15.03.09 to 15.03.16
Ordinary	1,210,000	1,210,000	67.36	09.03.10 to 09.03.17
Ordinary*	1,100,000	–	59.55	10.04.11 to 10.04.18
Dr G H Weiss				
Ordinary	850,743	850,743	21.98	22.03.02 to 21.03.09
Super	497,994	497,994	21.98	22.03.04 to 21.03.09
Super	4,126,404	4,126,404	20.57	02.09.04 to 01.09.09
Ordinary	1,948,712	1,948,712	20.78	17.10.04 to 16.10.11
Ordinary	1,932,609	1,932,609	47.75	23.04.07 to 23.04.14
Ordinary	1,830,122	1,830,122	57.44	09.03.08 to 09.03.15
Ordinary	1,663,747	1,663,747	60.86	24.10.08 to 24.10.15
Ordinary	798,597	798,597	67.47	15.03.09 to 15.03.16
Ordinary	1,210,000	1,210,000	67.36	09.03.10 to 09.03.17
Ordinary*	1,100,000	–	59.55	10.04.11 to 10.04.18

*Options granted during 2008.

Options outstanding at 31 December 2007 have been restated as to price and number to reflect the impact of the 2008 Capitalisation Issue.

During the year, the directors exercised options as follows:

	Date of exercise	No. of shares allotted on exercise	Expiry date of option	Market value on date of exercise (p)
A I Gibbs	03.06.08	1,037,488	21.03.09	59.4

No options granted to directors lapsed during the year and no such options have lapsed since the year end. Since the year end, no further options have been granted, but options over 1,608,103 shares granted to B A Nixon and Dr G H Weiss in March 1999 have been exercised.

As part of the reverse acquisition of Brunel Holdings plc in 2002, Blake Nixon "rolled over" his options into replacement options over the Ordinary 5p shares of GPG. The other directors' existing options granted before 13 December 2002 are over Ordinary shares of 10p each in what is now GPG (UK) Holdings plc. Under the Step-Up rights in that company's Articles of Association, any shares issued by GPGUKH in respect of options are acquired automatically by GPG in exchange for Ordinary 5p shares in GPG, currently on a one-for-one basis.

The middle market price of GPG's shares at 31 December 2008 was 35.5p and the range during the year was 29.5p to 63.2p.

Corporate Governance – continued

ii) Capral Limited – ordinary shares

	31 December 2008	31 December 2007
Dr G H Weiss	93,255	93,255

iii) Capral Limited – convertible unsecured notes

Dr G H Weiss held 241 convertible unsecured notes at 31 December 2008 and 2007.

iv) Turners & Growers Limited – ordinary shares

	31 December 2008	31 December 2007
A I Gibbs	72,086	72,086

By order of the Board

Richard Russell
Secretary
30 March 2009

Supplementary Information (unaudited)

SUPPLEMENTARY INFORMATION REQUIRED BY THE AUSTRALIAN SECURITIES STOCK EXCHANGE LISTING RULES FOR THE YEAR ENDED 31 DECEMBER 2008

a) The top 20 registered holdings of the issued ordinary shares of 5p each* at 27 February 2009 were as follows:

Registered Holder	Holding	% Issued shares
National Nominee New Zealand Limited <NZCSD>	147,415,578	10.39
Accident Compensation Corporation <NZCSD>	55,013,519	3.88
Sir Ronald Alfred Brierley	45,108,190	3.18
Tecity Management Pte Limited	42,309,320	2.98
HSBC Nominees (New Zealand) Limited A/C State Street <NZCSD>	34,315,627	2.42
HSBC Nominees (New Zealand) Limited <NZCSD>	34,009,047	2.40
J P Morgan Nominees Australia Limited	32,732,609	2.31
Portfolio Custodian Limited	27,192,018	1.92
Citibank Nominees (New Zealand) Limited <NZCSD>	25,063,390	1.77
New Zealand Superannuation Fund Nominees Limited <NZCSD>	24,566,984	1.73
HSBC Custody Nominees (Australia) Limited	19,169,816	1.35
NZ Guardian Trust Investment Nominees Limited <NZCSD)	18,371,499	1.29
AMP Investments Strategic Equity Growth Fund <NZCSD>	17,979,033	1.27
Cogent Nominees Pty Limited	16,746,579	1.18
Premier Nominees Ltd – ING Wholesale Australasian Share Fund <NZCSD>	15,496,596	1.09
Dr Gary Hilton Weiss	15,262,706	1.08
FNZ Custodians Limited	12,385,886	0.87
NZGT Nominees Limited – AIF Equity Fund <NZCSD>	12,151,796	0.86
National Nominees Limited	12,034,702	0.85
Blake Andrew Nixon	11,760,710	0.83

b) The spread of holdings in the issued ordinary shares of 5p each* at 27 February 2009 was as follows:

Holding	No. Holders	%	No. Shares	%
1 to 1,000	5,102	14.49	1,770,132	0.12
1,001 to 5,000	10,730	30.48	29,607,619	2.09
5,001 to 10,000	6,524	18.53	47,163,038	3.32
10,001 to 100,000	11,936	33.91	329,985,954	23.26
Over 100,001	910	2.59	1,010,252,114	71.21
Total	**35,202**	**100.00**	**1,418,778,857**	**100.00**

GPG is incorporated in England and Wales, and is not subject to Chapters 6, 6A, 6B and 6C of the Australian Corporations Act dealing with the acquisition of shares.

* In Australia, this includes CHESS Depository Instruments.

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements. The directors are required to prepare financial statements for the Group in accordance with International Financial Reporting Standards as adopted by the EU (IFRSs) and have elected to prepare financial statements for the Company in accordance with UK GAAP. Company law requires the directors to prepare financial statements in accordance with IFRSs, the Companies Act 1985 and Article 4 of the IAS Resolution.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. Directors are also required to:

- select and apply accounting policies properly;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report and directors' remuneration report which comply with the requirements of the Companies Act 1985.

The directors are responsible for the maintenance and integrity of the Company website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

Pursuant to section 234ZA of the Companies Act 1985, each of the persons who is a director at the date of approval of this Annual Report confirms that:

- so far as he is aware, there is no relevant audit information of which the auditor is not aware; and
- he has taken all the steps he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Directors' responsibility statement

We confirm to the best of our knowledge:

1. the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
2. the business review, which is incorporated into the directors' report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

By order of the Board

B A Nixon
Director
30 March 2009

Independent Auditors' Report

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

We have audited the group and individual company financial statements (the "financial statements") of Guinness Peat Group plc for the year ended 31 December 2008 which comprise the consolidated income statement, the consolidated and individual company balance sheets, the consolidated statement of recognised income and expense, the consolidated cash flow statement and the related notes 1 to 41. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

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

The directors' responsibilities for preparing the annual report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and for preparing the individual company financial statements and the directors' remuneration report in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements and the part of the directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and whether, in addition, the group financial statements have been properly prepared in accordance with Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition, we report to you if, in our opinion, 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 other transactions is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report as described in the contents section and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the annual report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 and the part of the directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the directors' remuneration report to be audited 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 and the part of the directors' remuneration report to be audited.

Independent Auditors' Report – continued

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2008 and of its loss for the year then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the individual company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the individual company's affairs as at 31 December 2008;
- the individual company financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

Emphasis of matter – uncertainty relating to the amount of a potential liability arising from a European Commission investigation

Without qualifying our opinion, we draw attention to the disclosures made in note 28 to the financial statements concerning the European Commission competition investigation into alleged market sharing agreements relating to the European haberdashery market. In September 2007, the European Commission imposed a fine of €110.3 million (equivalent to £106.6 million at year-end exchange rates) in relation to these allegations, against which Coats plc has lodged an appeal. Significant uncertainty surrounds the ultimate outcome of this matter. The directors are of the view that any anticipated eventual payment of the remaining fine is adequately covered by the existing provision.

Deloitte LLP
Chartered Accountants and Registered Auditors
London, United Kingdom
30 March 2009

Notice of Annual General Meeting

Notice is hereby given that the 2009 Annual General Meeting of Guinness Peat Group plc ("the Company") will be held at 10.00 a.m. on 22 May 2009 at The Army and Navy Club, 36 Pall Mall, London SW1Y 5JW to consider and, if thought fit, to pass the following resolutions of which resolutions 1-8 will be proposed as ordinary resolutions and resolutions 9-11 will be proposed as special resolutions:

1 To receive the directors' report, auditor's report and the financial statements for the year ended 31 December 2008.

2 To receive and approve the directors' remuneration report, as set out in the 2008 Annual Report, for the year ended 31 December 2008.

3 To re-elect Sir Ron Brierley a director of the Company.

4 To re-appoint Deloitte LLP as auditor of the Company, to hold office until the conclusion of the next general meeting at which accounts are laid before the Company.

5 To authorise the directors to fix the remuneration of the auditor.

6 That the directors be and they are hereby generally and unconditionally authorised in accordance with Section 80 of the Companies Act 1985 ("the Act") to exercise all the powers of the Company to allot relevant securities (as defined in Section 80(2) of the Act) up to an aggregate maximum nominal amount of £23,712,885, provided that this authority shall expire on the fifth anniversary of the passing of this resolution, save that the Company shall be entitled to make offers or agreements before the expiry of such authority which would or might require relevant securities to be allotted after such expiry and the directors shall be entitled to allot relevant securities pursuant to any such offer or agreement as if this authority had not expired; and all unexercised authorities previously granted to the directors to allot relevant securities save for the unexercised authority conferred by Resolution 9 passed at the Company's 2004 Annual General Meeting be and are hereby revoked.

7 That, upon the recommendation of the directors, it is desirable to capitalise up to £7,493,744 being part of the amount standing to the credit of the Other reserve of the Company and accordingly such amount be set free for distribution among the holders of the ordinary shares of 5p of the Company ("ordinary shares") whose names are entered on the register of members at the close of business on the UK register of members or on the New Zealand or Australian branch registers on 29 May 2009, in proportion to the number of such ordinary shares then held by them respectively, on the basis that it be not paid in cash but be applied in paying up in full at par up to 149,874,880 new ordinary shares and that such shares be allotted and distributed, credited as fully paid up, to and among the said holders of ordinary shares in the proportion of 1 new ordinary share for every 10 ordinary shares held by them, and that the directors be authorised and directed to apply the said £7,493,744 and generally and unconditionally authorised to allot the said new ordinary shares accordingly on or prior to 31 December 2009 upon such terms that such new ordinary shares shall rank in all respects *pari passu* with such of the existing issued ordinary shares as are fully paid or credited as fully paid.

8 That:

(i) pursuant to Article 123 of the Articles of Association of the Company, the directors be and they are hereby authorised to offer those shareholders entitled to any dividend declared or payable prior to the beginning of the fifth annual general meeting next following the date on which this resolution is passed the right to elect in lieu of the cash dividend to receive additional ordinary shares, credited as fully paid on the terms and subject to any conditions that the directors consider to be in the best interests of the Company and provided that any earlier power of the directors to offer shares in lieu of a cash dividend as aforesaid be and is hereby revoked; and

(ii) pursuant to Article 123(f) of the Articles of Association of the Company, the directors be and are hereby authorised to capitalise out of the amount for the time being standing to the credit of any reserve or fund whether or not the same is available for distribution, or any profits which could otherwise have been applied in paying dividends in cash, as the directors may determine, a sum equal to the aggregate nominal amount of the additional ordinary shares to be allotted pursuant to elections made as aforesaid, and to apply such sum in paying up in full the appropriate number of unissued ordinary shares in the Company and to allot such ordinary shares to the members of the Company who have validly so elected; and

(iii) in the event that the middle market quotation of an ordinary share of the Company on The Official Daily List of the London Stock Exchange as at the latest reasonably practicable date prior to the issue of the shares described in (i) above as determined by the directors in their absolute discretion is below the middle market quotation of an ordinary share on the date on which the proposed scrip dividend issue is publicly announced, the directors be and they are hereby entitled to withdraw the offer to shareholders who have elected in lieu of the relevant cash dividend to receive additional ordinary shares, and they will receive the relevant cash dividend instead.

Notice of Annual General Meeting – continued

9 That the directors be and they are hereby empowered pursuant to Section 95 of the Act to allot equity securities (as defined in Section 94 of the Act) for cash pursuant to the authority conferred by Resolution 6 above, as if Section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:

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

(ii) the allotment (otherwise than pursuant to sub-paragraph (i) above) to any person or persons of equity securities for cash up to an aggregate nominal value not exceeding £3,556,932,

such power, unless renewed or otherwise varied by the Company in general meeting, shall expire upon the expiry of the general authority conferred by Resolution 6 above. The Company may make an offer or agreement before this power has expired, which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities pursuant to any such offer or agreement as if the authority conferred hereby had not expired. Any earlier power of the directors to allot equity securities as aforesaid be and is hereby revoked.

10 That the Company be generally and unconditionally authorised for the purpose of Section 166 of the Act to make market purchases (within the meaning of Section 163(3) of the Act) of ordinary shares in the capital of the Company provided that:

(i) the maximum number of ordinary shares hereby authorised to be acquired is 213,273,695; and

(ii) the minimum price which may be paid for any such share is 5p; and

(iii) the maximum price which may be paid for any such share is the amount equal to 105% of the average of the middle market quotations for an ordinary share in the Company as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which such share is contracted to be purchased (exclusive of associated expenses); and

(iv) the authority hereby conferred shall expire on 22 November 2010 or the date of the next Annual General Meeting of the Company whichever shall be the earlier; and

(v) the Company may contract to purchase its ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or might be executed wholly or partly after the expiration of such authority, and may purchase its ordinary shares in pursuance of any such contract.

11 That a general meeting, other than an Annual General Meeting, may be called on not less than 14 clear days' notice.

REGISTERED OFFICE:
First Floor
Times Place
45 Pall Mall
London SW1Y 5GP
Registered Number: 103548

By order of the Board
Richard Russell
Secretary
30 March 2009

For further information, see the Notes to the Notice of Meeting on page 77.

Explanatory Note in respect of Resolutions 6 to 11

a) Resolution 6

Under section 80 of the Companies Act 1985 ("the Act") the Directors are not permitted to allot shares (or other relevant securities such as rights to subscribe for, or convert securities into, GPG ordinary shares) unless they are authorised to do so by the Company's shareholders in general meeting.

This resolution, if passed, renews and increases the Directors' authority (given by shareholders at the 2008 AGM) to allot shares and other relevant securities for up to 5 years subject to the maximum amount set out in the resolution, and is consistent with the level commonly proposed by other UK listed companies.

The figure of £23,712,885 is equivalent to one-third of the current issued share capital.

b) Resolution 7

This resolution, if passed, enables the Directors to carry out the proposed 1:10 capitalisation ("bonus") issue in respect of all those shares issued and registered on the Company's share registers on the relevant Record Date. It is in similar terms to the authority given by shareholders at previous annual general meetings.

c) Resolution 8

In accordance with the provisions of the Company's Articles of Association, this resolution, if passed, enables the Directors for up to 5 years to offer a Scrip Dividend Alternative ("SDA") without the need to seek shareholders' approval on each occasion an SDA is proposed. It extends by approximately one year the 5-year authority granted by shareholders in 2008.

d) Resolution 9

This resolution is to enable the Directors to allot shares either for a rights issue to existing shareholders or (up to the specified amount) for cash without first offering them to existing shareholders *exactly* in proportion to their existing shareholdings (which would otherwise be required under UK statutory pre-emption rights contained in section 95 of the Act).

This resolution, if passed, renews and increases the Directors' authority (given by shareholders at the 2008 AGM) for up to 5 years to allot shares and other equity securities for cash, in appropriate circumstances, subject to the maximum amount set out in the resolution, and is consistent with the level commonly proposed by other UK listed companies.

The maximum amount is 5% of the current issued share capital.

e) Resolution 10

This resolution, if passed, renews and increases the authority (given by shareholders at the 2008 AGM) to allow the Company to re-purchase up to 213,273,695 ordinary shares representing approximately 15% of the current total issued share capital of the Company and again the proposed level is consistent with that commonly adopted by other UK listed companies.

f) Resolution 11

At last year's Annual General Meeting, new articles of association were adopted which include a provision allowing general meetings of the Company to be called on the minimum notice period provided for in the Companies Act 2006. For general meetings other than AGMs the minimum notice period permitted by the Companies Act 2006 is currently 14 days. The 2006 Act provisions relating to meetings are due to be amended with effect from August 2009, as a result of the UK implementation of the EU Shareholder Rights Directive. One of the amendments to be made will, in accordance with the Directive, increase the minimum notice period for listed company general meetings to 21 days, but with an ability for companies to reduce this period back to 14 days (other than for AGMs) provided that two conditions are met. The first condition is that the Company offers facilities for shareholders to vote by electronic means and this will be subject to regulation by the UK Government when it implements the Directive. The second condition is that there is an annual resolution of shareholders approving the reduction in the minimum notice period from 21 days to14 days. The board is therefore proposing Resolution 11 as a special resolution to approve 14 days as the minimum period of notice for all general meetings of the Company other than AGMs. The approval will be effective until the Company's next AGM, when it is proposed that the approval be renewed. All references to 'days' in this paragraph shall be interpreted as 'clear days'.

Notice of Annual General Meeting – continued

Notes to Notice of Annual General Meeting

1 The venue for the 2009 AGM is The Army and Navy Club, which is a private members' club. Shareholders intending to attend the 2009 AGM are requested to conform to the Club's dress code.

2 A member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of the member. A member can appoint more than one proxy in relation to the meeting, provided that each proxy is appointed to exercise the rights attaching to different shares. A proxy need not be a member of the Company. A relevant form of proxy is enclosed.

3 Forms of proxy and a power of attorney or other authority, if any, under which they are signed, or a notarially certified copy of a power or authority should be sent to Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS13 8FB (from UK registered members), Computershare Investor Services Limited, Private Bag 92119, Auckland 1142 (from New Zealand registered members) or Registries Limited, PO Box R67, Royal Exchange, Sydney, NSW 1224 (from Australian registered members) so as to arrive not later than **10a.m. (local time) on Wednesday 20 May 2009.** Completion and return of the appropriate form of proxy enclosed with this Notice will not preclude a member from attending and voting at the meeting in person should he find himself able to do so.

4 The Chairman intends to vote any undirected proxies given to him in favour of all the Resolutions set out in the Notice of the 2009 AGM.

5 Copies of the service contracts and directors' indemnities in favour of Tony Gibbs, Blake Nixon and Gary Weiss will be available for inspection at the offices of the Company at First Floor, Times Place, 45 Pall Mall, London SW1Y 5GP during normal business hours any week day (Saturdays and public holidays excepted) from the date of this document until 22 May 2009 being the date of the Annual General Meeting and at the venue of the 2009 AGM from 15 minutes before the start of the meeting until the end of the meeting.

6 A summary of the proceedings at the 2009 AGM will be made available upon request to any shareholder applying to any one of the Company's share registrars whose locations are set out below or to the Company Secretary, Guinness Peat Group plc, First Floor, Times Place, 45 Pall Mall, London SW1Y 5GP.

7 To have the right to attend and vote at the 2009 AGM (and also for the purposes of calculating how many votes a person may cast) pursuant to Regulation 41(1) of the Uncertificated Securities Regulations 2001, a person must have his/her name entered on the register of members by no later than 11a.m. (UK time) on the date two days prior to the date of the meeting or any adjourned meeting. Changes to entries on the register after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting or adjourned meeting.

8 As at the date of this Annual Report, the Company has 1,422,773,154 Ordinary Shares in issue, carrying one vote each. Therefore the total voting rights in the Company are 1,422,773,154.

9 In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative.

10 A copy of this notice has been sent **for information only** to persons who have been nominated by a member to enjoy information rights under section 146 of the Companies Act 2006 (a "Nominated Person"). The right to appoint a proxy cannot be exercised by a Nominated Person: they can only be exercised by the member.

Company & Registrars' Addresses

UNITED KINGDOM

First Floor, Times Place, 45 Pall Mall, London SW1Y 5GP
Tel: 020 7484 3370 Facsimile: 020 7925 0700
www.gpgplc.com

AUSTRALIA

c/o PKF Chartered Accountants and Business Advisers
Level 10, 1 Margaret Street, Sydney NSW 2000
Tel: 02 9251 4100 Facsimile: 02 9240 9821

NEW ZEALAND

c/o Computershare Investor Services Limited
Private Bag 92119, Auckland 1142
Tel: 09 488 8700 Facsimile: 09 488 8787

Registered in England No. 103548

LOCATION OF SHARE REGISTERS

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

Registrar	Telephone and postal enquiries	Inspection of Register
UK Main Register:		
Computershare Investor Services PLC	PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH Tel: 0870 707 1022 Facsimile: 0870 703 6143	The Pavilions, Bridgwater Road, Bristol BS99 7NH
Australian Branch Register:		
Registries Ltd	GPO Box 3993, Sydney NSW 2000 Tel: 02 9290 9600 Facsimile: 02 9279 0664	Level 7, 207 Kent Street, Sydney NSW 2000
New Zealand Branch Register:		
Computershare Investor Services Limited	Private Bag 92119, Auckland 1142 Tel: 09 488 8777 Facsimile: 09 488 8787	Level 2, 159 Hurstmere Road, Takapuna, North Shore City 0622