Guinness Peat Group plc

Interim Report

2002

Chairman's Statement

The period to 30 June 2002 has continued the steady success of 2001 – and, indeed, of the past decade.

The main contributors to the reported net profit of £20.0 million were sales of shares in Inchcape Motors in Singapore, Brickworks in Australia and a number of smaller UK holdings. As always envisaged, GPG was instrumental in influencing the outcome in **Inchcape Motors** which was a good deal both for minorities and for the parent company, Inchcape plc.

Recurring income from interest and dividends and operating subsidiary profits is now a growing element of GPG profitability. In this respect, the former **Staveley** units have performed well, particularly in the USA, where GPG has supported the development of the two quite large (1,200 employees) and previously underrated businesses – one a National testing service company headquartered in Chicago, the other an NDT instrument manufacturer based in Washington State.

At the inception of the "new" GPG in 1990, it was accepted there was more limited potential in New Zealand than in UK and Australia. In the event, however, there has been more activity than expected and 2002 is no exception. The full acquisition of **Enza** was completed in April with the intention of merging its operations with our 45% associated company, Turners & Growers Ltd (after spinning off Turners Auctions Ltd). This will introduce two excellent new listings to the New Zealand market – **Turners Auctions Ltd,** the country's largest motor vehicle outlet and **Turners & Growers Ltd** the largest fresh fruit and produce merchant, now enhanced by Enza's important export role. Combined annual sales of the existing organisations are approximately NZ$1.2 billion so they are obviously important contributors to the overall economic picture.

More recently, we acquired 20% of **Rubicon Ltd** which is the major shareholder in **Fletcher Challenge Forests Ltd,** the owner of forestry assets of considerable size and significance. The future structure of these companies is a matter of some debate in which GPG is an active participant.

The proposal which was announced at the recent AGM, to merge the corporate structure of GPG with that of another, smaller UK company, has now been agreed, subject only to formal documentation. Full details are expected to be available in early October. The immediate implications for shareholders are negligible but the longer term benefits will be considerable.

A relatively lower profile for GPG's Australian portfolio but plenty of good work behind the scenes. We have previously reported on the 5% shareholding in **Caltex Australia,** the pleasing revival of **Joe White Maltings** and our strong support for **Capral Aluminium** (30%). To these can be added **Solution 6** and **Western Metals,** which have yet to prove their worth but where hope is far from abandoned.

The sale of half our **Brickworks** holding took advantage of a substantial increase in price and availability of demand where there is normally limited marketability for large parcels of shares. We are still a large shareholder (current market value A$42 million) and will continue to be a vocal advocate for improved shareholder accountability.

We have maintained a high level of liquidity, which is standard practice for GPG but even more the right decision in an uncertain climate. An exception is the large purchases of shares in **Coats plc** which reinforces our long term commitment to that company.

Post **Inchcape,** GPG has continued its involvement in the rationalisation of the UK motor vehicle trade. As a consequence of a successful takeover offer for **Nationwide Accident Repair Services plc,** we now own 50% of the UK's largest group of repair shops, in conjunction with J O Hambro Capital Management Ltd. We also hold shares in various retail distributors.

In the last Annual Report, we were critical of so called "International accounting standards" (IAS) which has since become very topical after Enron and other US revelations. Unfortunately, IAS has largely lost sight of the basic function to accurately quantify and inform in a comprehensible manner. Although auditor "independence" provides a simplistic target for corporate "trendies," it is virtually irrelevant in reality. Competence and a return to commonsense standards are the real issues.

As always, GPG accounts are presented on a most conservative basis and we set out below an updated simplified balance sheet which, hopefully, provides a useful snapshot of the present financial position:

Simplified Balance Sheet at 30 June 2002

	£m
Cash at Bank	136
Debtors	7
Coats	77
Nationwide	12
Staveley (UK & USA)	9
Joe White Maltings	14
MEM*	6
Canberra Investment Corp	7
Turners & Growers	9
Turners Auctions	1
Enza	20
Share Portfolio	152
Total Assets	**450**
Creditors	(19)
Note Issues	(83)
SHAREHOLDERS' FUNDS	**£348**

* 40% of Aurora Gold Ltd is held by MEM at carrying value of £2.1 million

The outlook for the remainder of the financial year is positive, although it is unlikely that realised profits will reach the same level as in 2001.

Ron Brierley
Chairman
9 September 2002

Consolidated Profit and Loss Account

	6 months ended 30 June 2002 Unaudited £000	6 months ended 30 June 2001 Unaudited Restated £000	Year ended 31 December 2001 Unaudited Restated £000
Group turnover	**254,505**	189,322	350,824
Group operating profit	**31,539**	20,272	59,937
Share of operating profit/(loss) of joint ventures and associates	**1,376**	(3,695)	1,271
Profit before interest payable	**32,915**	16,577	61,208
Interest payable and similar charges	**(4,244)**	(1,339)	(5,301)
Profit before taxation	**28,671**	15,238	55,907
Taxation	**(7,199)**	(1,217)	(7,902)
Profit after taxation	**21,472**	14,021	48,005
Minority interests	**(1,451)**	(1,688)	(1,667)
PROFIT ATTRIBUTABLE TO ORDINARY SHAREHOLDERS	**20,021**	**12,333**	**46,338**
Dividends proposed	**–**	–	(5,393)
PROFIT RETAINED FOR THE PERIOD	**20,021**	12,333	40,945
Earnings per Ordinary Share – Basic (pence)	**3.34**	2.13	7.90
Dividends per Ordinary Share – (pence)	**–**	–	0.91

Consolidated Balance Sheet

	30 June 2002 Unaudited £000	30 June 2001 Unaudited Restated £000	31 December 2001 Unaudited Restated £000
FIXED ASSETS			
Intangible assets	**(5,309)**	(2,986)	(3,123)
Tangible assets	**69,481**	48,959	47,164
Investments	**226,452**	214,808	202,082
TOTAL FIXED ASSETS	**290,624**	260,781	246,123
CURRENT ASSETS			
Debtors	**124,745**	78,056	88,601
Stocks/Development work in progress	**53,637**	22,653	22,596
Investments	**34,887**	19,099	24,101
Cash at bank	**161,035**	53,680	169,985
TOTAL CURRENT ASSETS	**374,304**	173,488	305,283
CREDITORS: AMOUNTS FALLING DUE WITHIN 1 YEAR			
Trade and other creditors	**(139,859)**	(79,237)	(107,666)
Convertible subordinated loan notes	**(3,863)**	(3,863)	(3,863)
Other borrowings	**(54,461)**	(6,822)	(5,035)
TOTAL CURRENT LIABILITIES	**(198,183)**	(89,922)	(116,564)
Net current assets	**176,121**	83,566	188,719
TOTAL ASSETS LESS CURRENT LIABILITIES	**466,745**	344,347	434,842
CREDITORS: AMOUNTS FALLING DUE AFTER 1 YEAR			
Trade and other creditors	**(1,344)**	(923)	(1,708)
Convertible subordinated loan notes	**(11,587)**	(15,450)	(11,587)
Capital notes	**(67,511)**	–	(67,502)
Other borrowings	**(8,207)**	(8,938)	(6,868)
TOTAL LONG-TERM CREDITORS	**(88,649)**	(25,311)	(87,665)
PROVISIONS FOR LIABILITIES AND CHARGES	**(10,567)**	(10,185)	(9,938)
NET ASSETS	**367,529**	308,851	337,239
CAPITAL AND RESERVES			
Share capital	**60,704**	53,578	53,926
Share premium account	**7,312**	11,628	12,857
Capital redemption reserve	**3,863**	3,863	3,863
Profit and loss account	**276,048**	221,600	249,497
EQUITY SHAREHOLDERS' FUNDS	**347,927**	**290,669**	**320,143**
Minority interests (equity)	**19,602**	18,182	17,096
CAPITAL EMPLOYED	**367,529**	308,851	337,239
Net assets per share* – (pence)	**57.31**	49.32	53.97
– (Australian cents)	**155.63**	136.51	153.45
– (New Zealand cents)	**179.87**	172.60	188.64

*The net assets per share for June 2001 and December 2001 have been adjusted for the 2002 Capitalisation Issue.

Consolidated Cash Flow Statement

	6 months ended 30 June 2002 Unaudited £000	6 months ended 30 June 2001 Unaudited £000	Year ended 31 December 2001 Audited £000
Net cash inflow from operating activities	**28,441**	31,274	70,451
Dividends received from associates and joint ventures	**1,362**	396	2,014
Returns on investments and servicing of finance	**(4,037)**	(1,372)	(5,516)
Taxation	**(1,950)**	(1,104)	(2,277)
Capital expenditure and financial investment	**(26,948)**	(17,570)	(5,716)
Acquisitions and disposals	**(14,179)**	(586)	6,332
Equity dividends paid	**(1,845)**	(1,033)	(1,041)
CASH (OUTFLOW)/INFLOW BEFORE MANAGEMENT OF LIQUID RESOURCES AND FINANCING	**(19,156)**	10,005	64,247
Management of liquid resources	**19,302**	8,607	(96,597)
Financing:			
Issue of ordinary shares	**1,481**	207	306
Increase/(decrease) in debt	**4,522**	(13,318)	48,170
INCREASE IN CASH FOR THE PERIOD	**6,149**	**5,501**	**16,126**

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

Increase in cash for the period	**6,149**	5,501	16,126
Cash (inflow)/outflow from increase/decrease in liquid resources	**(19,302)**	(8,607)	96,597
Cash (inflow)/outflow from increase/decrease in debt	**(4,522)**	13,318	(48,170)
Change in net funds resulting from cash flows	**(17,675)**	10,212	64,553
Acquisition of subsidiaries	**(45,682)**	–	–
Currency translation differences	**3,633**	(1,456)	(850)
Other non-cash movements (see note below)	**–**	–	1,576
Movement in net funds for the period	**(59,724)**	8,756	65,279
Net funds as at 1 January	**75,130**	9,851	9,851
CLOSING NET FUNDS	**15,406**	**18,607**	**75,130**

Non-cash transactions:

On 6 July 2001, the Company redeemed the first 10p tranche of the convertible subordinated loan notes, of which £2,287,000 was paid in cash and the balance of £1,576,000 was satisfied by the issue of Ordinary Shares. In December 2001, the Group sold its investment in Otter Gold Mines Ltd, an associated undertaking, and received in exchange shares in Normandy NFM Ltd, which were included in current asset investments at 31 December 2001, but which were sold during the six months to 30 June 2002.

Notes to the Financial Statements

1. The interim financial information has been prepared on a basis consistent with the accounting policies adopted in the group's financial statements for the year ended 31 December 2001, except for the adoption of Financial Reporting Standard 19 ("FRS 19") – Deferred Tax. This change has increased/(reduced) the profit for the six months to 30 June 2001 by £27,000, for the year to 31 December 2001 by £(1,229,000) and for the six months to 30 June 2002 by £(51,000), and has increased shareholders' funds as at those dates by £2,585,000, £1,329,000 and £1,278,000 respectively.
2. GPG acquired effective control of Enza Limited ("Enza"), a New Zealand fruit storage and distribution company, on 18 April 2002 and its results have been consolidated into the group with effect from that date. Enza contributed £58,481,000 to group turnover and a loss of £824,000 before taxation during the period.
3. On 30 April 2002 GPG completed the acquisition of Nationwide Accident Repair Services plc ("Nationwide") under a joint venture with J O Hambro Capital Management Ltd, and the results of Nationwide have been included in the accounts under the gross equity method from that date. The group's share of Nationwide's operating loss and loss before taxation for the period were £215,000 and £228,000 respectively.
4. Having regard to the timing of the acquisitions of Enza and Nationwide, it has not been possible to complete detailed investigations of the fair values, which are therefore considered to be provisional.
5. Earnings per share - The calculation of earnings per ordinary share is based on profit after taxation attributable to shareholders and the weighted average number of 599,023,390 ordinary shares in issue during the six months. The comparatives for the six months to 30 June 2001 and the year to 31 December 2001 have been adjusted for the Capitalisation Issue which took place in May 2002.
6. Dividends - The directors have not recommended the payment of an interim dividend. The dividend of 1.00p per share for the year ended 31 December 2001 has been adjusted for the 2002 Capitalisation Issue.
7. Changes in the issued share capital during the six months to 30 June 2002 comprise the following:

	£000
At 1 January 2002	53,926
Employee Options exercised (various dates)	557
Scrip Dividend Alternative shares issued (13 May 2002)	709
Capitalisation Issue (20 May 2002)	5,512
At 30 June 2002	60,704

8. On 5 July 2002, those holders of the Company's CLNs who elected to convert their Election Amounts were issued with 6,286,786 Ordinary shares of 10p each ("Conversion Shares"), resulting in there being 613,330,716 fully paid Ordinary Shares of 10p each in issue, and the remaining noteholders were repaid Redemption Amounts of £1.0 million in cash. As no Interim Dividend has been declared, the Conversion Shares will, with immediate effect, rank equally with the other shares of the Company.
9. Simplified balance sheet – The simplified balance sheet presented in the Chairman's Statement shows GPG's share of the net assets of, together with the goodwill attributable to, certain subsidiaries: Staveley (including Staveley Inc), MEM Group Ltd, Canberra Investment Corporation Ltd, Joe White Maltings Ltd and Enza Ltd, rather than their respective assets and liabilities. The Group's remaining net assets are shown at their book value. The net assets attributable to Staveley exclude the cash it held but which is generally available to the Company for investment purposes; such cash is presented instead within the aggregate cash balance. The shareholders' funds are those reported in the published balance sheet.
10. Abridged accounts (Companies Act 1985) - The information for the year ended 31 December 2001 is based on the latest published accounts which have been delivered to the Registrar of Companies, as adjusted for the implementation of FRS 19. The report of the auditors on the 2001 accounts was unqualified.
11. Publication - This statement is being sent to shareholders and copies will be available at the registered office of the Company, First Floor, Times Place, 45 Pall Mall, London SW1Y 5GP.

UNITED KINGDOM

First Floor, Times Place,
45 Pall Mall, London SW1Y 5GP — Telephone: 020 7484 3370 Fax: 020 7925 0700

AUSTRALIA

c/o PKF Chartered Accountants and Business Advisers
Level 20, 1 York Street, Sydney NSW 2000 — Telephone: 02 9251 4100 Fax: 02 9240 9821

NEW ZEALAND

c/o Computershare Investor Services Limited
Private Bag 92119, Auckland 1020 — Telephone: 09 488 8777 Fax: 09 488 8787

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