Guinness Peat Group plc

The following unaudited consolidated results of Coats Group Limited (ñthe Groupò) for the six months ended 30 June 2008 are released by Guinness Peat Group plc ("GPG") for information only.

Richard Russell
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Guinness Peat Group plc

27 August 2008

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Coats Group Limited: unaudited results* for the six months ended 30 June 2008

Financial summary

	2008 Half year Unaudited US$m	2007 Half year Unaudited US$m
Revenue	**867.4**	820.7
Operating profit before reorganisation, impairment and other exceptional items (see note 2)	**67.5**	68.4
Operating profit	**43.5**	53.8
Profit before taxation	**27.8**	45.3
Net profit attributable to equity shareholders	**4.4**	24.7
Net debt**	**434.8**	404.3
Net gearing**	**80%**	81%

*see note 1

**net debt and net gearing are after the payment since 2006 of European Commission fines cumulatively totalling $37.2 million (2007 - $12.4 million)

- EBITDA up 2%
- Gross profit margin increased by 90bp
- Industrial thread sales up 6%, including 8% increase from Asia and Rest of World
- Industrial thread pre-exceptional operating profit up 9%
- Crafts sales up 6%
- Successful refinancing with a new borrowing facility of $625.0 million at more favourable interest rates

CHAIRMAN'S STATEMENT

Results

Notwithstanding the deterioration in global economic conditions, including high oil prices, inflation and credit constraints impacting consumers and retailers alike, which has been worse than anticipated, Coatsô overall operating performance in 2008 was similar to 2007. Pre-exceptional operating profit (before reorganisation, impairment and other exceptional items) was $67.5 million (2007 - $68.4 million).

Sales were 6% up on 2007 and gross profit margins increased to 36.2% (2007 ï 35.3%). Pre-exceptional operating profit of $67.5 million (2007 - $68.4 million) was impacted by higher distribution, marketing and administration costs, reflecting significant inflationary pressures in many of the countries in which Coats operates.

At divisional level, pre-exceptional operating profit from the industrial business increased by $5.7 million (9%) to $69.1 million, driven by strong growth in Asia. However, this was offset by the continuing downturn in the European crafts market. The crafts business generated a loss overall of $1.6 million (2007 - $5.0 million profit) due to weak demand for crafts products (and particularly handknittings) in Europe.

Although Europe crafts sales at actual exchange rates were up 1% on 2007, on a like-for-like basis they were 10% down, following a 20% like-for-like decrease reported at the 2007 half year. The severe downturn in the European crafts market has led to operating losses from Coats European crafts business increasing by $7.3 million to $20.5 million. However, profits from the crafts business in the Americas and Asia were marginally up on 2007 overall. Further details are included in the Operating Review.

Net exceptional charges of $24.0 million (see note 2) were $9.4 million higher than the previous half year total of $14.6 million as a result of losses on property disposals (against property profits last year) and significant foreign exchange losses. Reorganisation costs of $16.4 million have been incurred, in line with the previous half year. This includes the continuation of the major restructuring of the European crafts business that, as mentioned in previous reports, is transforming the formerly country-based organisation ï each with its own product range ï into a more cost-effective pan-European business with a single, harmonised product offer. Further costs have also been incurred in the industrial thread business on rationalising production capacity to increase profitability, largely in North and South America.

Finance costs of $16.9 million were $5.6 million higher than the previous half year due largely to higher borrowing costs (including interest on inter-company amounts owed during the 2008 half year to GPG), a lower net return on pension scheme assets and liabilities and some fair value accounting losses on foreign exchange contracts. Coats refinanced in June 2008 with a new main borrowing facility of $625.0 million at more favourable interest rates, which will benefit the second half.

The tax charge of $19.5 million was $3.4 million higher than 2007, as 2007 benefited from the use of previously unrecognised losses. Excluding exceptional items and their associated tax effect, the effective tax rate was 43% for 2008 compared to 30% in the previous half, due to unrelieved losses in certain territories, principally in Europe. The Group has significant losses available to reduce future tax payments, once profitability, in particular in Europe, improves.

As a result of these higher net exceptional charges, net finance costs and tax, net profit attributable to equity shareholders decreased in the half to $4.4 million (2007 - $24.7 million).

EBITDA (defined as pre-exceptional operating profit plus depreciation and amortisation) of $103.5 million was 2% ahead of the previous half yearôs total of $101.3 million. However, the operating cash flow before reorganisation costs was $3.1 million compared to $34.2 million in 2007 as a result of a higher seasonal net working capital outflow of $94.1 million (2007 - $56.3 million) due to the credit environment and inflationary pressures. $21.1 million of the increase in stocks to $374.7 million (2007 - $332.7 million) is due to exchange rate movements, with the balance representing normal operating fluctuations.

The lower operating cash flow plus a $55.0 million repayment to GPG following the refinancing and $9.2 million higher tax payments contributed to the $147.6 million (2007 - $53.9 million) increase in net debt resulting from cash flows.

Net debt at June 2008 was $434.8 million (2007 - $404.3 million) after the impact of payment since 2006 of European Commission fines cumulatively totalling $37.2 million (2007 - $12.4 million), with the proportion of long-term borrowings improving to $424.4 million (2007 - $305.8 million) post the June 2008 refinancing. With equity shareholdersô funds at $525.0 million (2007 - $479.2 million), net gearing was 80% (2007 ï 81%).

Investment, reorganisation and disposals

Investment in new plant and systems amounted to $24.1 million (2007 - $39.3 million). Investment in plant and equipment consisted of productivity improvements in Europe, including investment to support the rationalisation of the crafts business. In addition, there has been some capacity expansion in Asia, although to a lesser extent than in 2007, as the focus has been on increasing the productivity of existing plant and technology. Significant investment continues to be made in upgrading IT systems, including the installation of SAP in all Coats units throughout the world, and the overall investment in new plant and systems for the full year is expected to be in line with 2007. Investment in capital projects and reorganisation, net of property disposal proceeds, was $45.3 million (2007 - $47.9 million).

European Commission Investigation

There have been no significant developments in the European Commission investigation since the year end. During the second half, the outcome of Coats appeal to the European Court of Justice against the ú20 million needles fine (itself reduced by the Court of First Instance) may be announced. As stated in previous reports, Coats remains of the view that any anticipated eventual payment of the remaining fines is adequately covered by existing provisions.

Prospects

The current global environment makes the outcome of the next six months relatively uncertain.

The continued progress achieved by the industrial business in the first half is encouraging, with some benefits from increases in market share. However, given the global downturn, the purchasing power of the consumer in the Western markets is expected to be adversely affected in the second half, with potential impact on apparel and footwear sales. With major restructuring projects in Western industrial markets largely complete, Coats will continue to use its more competitive cost base to maintain and in some countries grow its market share, in particular within the Asian region.

Coatsô crafts business in the Americas and Asia is expected overall to be relatively stable compared to 2007 in the second half of the year. The continuing decline in European crafts demand means that Europe craftsô performance is expected to continue below 2007 for the second half of the year.

An improvement in gross profit margin has been achieved through the conversion of the European crafts manufacturing platform into a pan-European business with a harmonised product offer and further restructuring projects will be undertaken in the second half to largely complete this project. In addition, restructuring projects will be undertaken in the second half of 2008 and in 2009 to reduce the European crafts distribution and administration cost base to achieve an acceptable operating margin for this business. While this will require additional reorganisation expenditure, with 2008 spend expected to be modestly above 2007 levels, the Board is confident that this spend will, as with such expenditure undertaken over the last few years, generate an appropriate level of return.

Gary Weiss

Chairman

27 August 2008

OPERATING REVIEW

Industrial Trading Performance

INDUSTRIAL	**2007 reported $m**	***2007 like-for-like $m**	**2008 reported $m**	**Like-for-like increase / (decrease) %**	**Actual increase / (decrease) %**
Sales					
Asia and Rest of World	248.6	254.4	269.3	+6%	+8%
Europe	140.9	159.1	145.1	-9%	+3%
Americas	155.2	165.9	160.6	-3%	+3%
Total sales	**544.7**	**579.4**	**575.0**	**-1%**	**+6%**
Pre-exceptional operating profit**	**63.4**	**67.3**	**69.1**	**+3%**	**+9%**

**2007 like-for-like restates 2007 figures at 2008 exchange rates*

***Pre reorganisation, impairment, and other exceptional items (see note 2)*

In the following comments, all comparisons with 2007 are on a like-for-like basis

The Asian industrial business delivered another good performance, with sales and operating profits up on 2007. This reflects the continued growth in the Asian apparel export market, albeit at lower levels than 2007, and benefits from the investment made by Coats in additional production capacity and from Coats relationships with global suppliers and brand owners.

European sales continued to be affected by customer migration from Western Europe. There has also been some decline in Eastern Europe, reflecting the general market slow down and customer migration, as cost pressures increase in Eastern Europe. However, European operating profit has been maintained at 2007 levels, as a result of reorganisation and investment in previous years.

The Americas continued to be affected by increased penetration of apparel imports from Asia and this, plus cost and product mix pressures, has put pressure on sales and operating profits.

Crafts Trading Performance

CRAFTS	**2007 reported $m**	***2007 like-for-like $m**	**2008 reported $m**	**Like-for-like increase / (decrease) %**	**Actual increase / (decrease) %**
Sales					
Asia and Rest of World	28.9	30.0	32.4	+8%	+12%
Europe	115.0	129.2	116.4	-10%	+1%
Americas	132.1	139.6	143.6	+3%	+9%
Total sales	**276.0**	**298.8**	**292.4**	**-2%**	**+6%**
Pre-exceptional operating profit**	**5.0**	**4.8**	**-1.6**	**-133%**	**-132%**

**2007 like-for-like restates 2007 figures at 2008 exchange rates*

***Pre reorganisation, impairment, and other exceptional items (see note 2)*

In the following comments, all comparisons with 2007 are on a like-for-like basis

There has been further decline in the already weak European retail market for crafts products, and sales overall were down 10% on last year. This was driven by the continuing decline in the demand for handknittings. However, consumer sewings sales are above 2007 levels, with benefits from the new harmonised product ranges. Good progress has been made through the major restructuring of this business to lower the cost base, improve productivity and deliver a harmonised pan-European product offer by 2009, and so return the business to profitability.

Crafts results in the Americas benefited from a relatively stable handknittings market in North America and strong growth in handknittings in South America offset by some cost pressures.

Consolidated income statement (unaudited)

For the six months ended 30 June 2008	Notes	**2008 Half year Unaudited US$m**	2007 Half year Unaudited US$m	2007 Full year Unaudited US$m
Continuing operations				
Revenue		**867.4**	820.7	1,681.2
Cost of sales		**(553.4)**	(530.6)	(1,086.8)
Gross profit		**314.0**	290.1	594.4
Distribution costs		**(169.8)**	(148.9)	(303.7)
Administrative expenses		**(98.2)**	(90.7)	(179.6)
Other operating (expense)/income		**(2.5)**	3.3	7.7
Operating profit	2	**43.5**	53.8	118.8
Share of profits of joint ventures		**0.8**	0.9	2.2
Investment income		**0.4**	1.9	2.6
Finance costs	3	**(16.9)**	(11.3)	(28.0)
Profit before taxation		**27.8**	45.3	95.6
Taxation	4	**(19.5)**	(16.1)	(43.2)
Profit from continuing operations		**8.3**	29.2	52.4
Discontinued operations				
(Loss)/profit from discontinued operations		**(0.9)**	(0.4)	14.6
Profit for the period		**7.4**	28.8	67.0
Attributable to:				
EQUITY SHAREHOLDERS OF THE COMPANY		**4.4**	24.7	61.8
Minority interests		**3.0**	4.1	5.2
		7.4	28.8	67.0

Consolidated balance sheet (unaudited)

At 30 June 2008	Notes	**2008 30 June Unaudited US$m**	2007 30 June Unaudited US$m	2007 31 December Unaudited US$m
Non-current assets				
Intangible assets		**269.7**	263.7	270.6
Property, plant and equipment		**514.8**	515.4	520.7
Investments in joint ventures		**16.2**	15.1	16.1
Available-for-sale investments		**3.9**	5.0	4.0
Deferred tax assets		**13.3**	10.2	13.9
Pension surpluses		**64.9**	72.8	63.7
Trade and other receivables		**30.1**	25.9	23.1
		912.9	908.1	912.1
Current assets				
Inventories		**374.7**	332.7	347.4
Trade and other receivables		**379.9**	354.8	337.1
Available-for-sale investments		**0.3**	0.2	0.2
Cash and cash equivalents	7	**70.0**	44.3	84.6
		824.9	732.0	769.3
Non-current assets classified as held for sale		**5.2**	3.2	2.5
Total assets		**1,743.0**	1,643.3	1,683.9
Current liabilities				
Amounts owed to parent undertaking		**-**	-	(55.0)
Trade and other creditors		**(339.2)**	(322.5)	(373.4)
Current income tax liabilities		**(10.1)**	(11.3)	(11.4)
Bank overdrafts and other borrowings		**(80.4)**	(142.8)	(104.6)
Provisions		**(175.1)**	(172.7)	(162.2)
		(604.8)	(649.3)	(706.6)
Net current assets		**220.1**	82.7	62.7
Non-current liabilities				
Trade and other creditors		**(19.4)**	(18.1)	(20.4)
Deferred tax liabilities		**(18.8)**	(11.0)	(17.3)
Borrowings		**(424.4)**	(305.8)	(260.9)
Retirement benefit obligations:				
Funded schemes		**(1.6)**	(1.0)	(1.8)
Unfunded schemes		**(107.0)**	(110.3)	(101.6)
Provisions		**(22.7)**	(48.1)	(39.1)
		(593.9)	(494.3)	(441.1)
Total liabilities		**(1,198.7)**	(1,143.6)	(1,147.7)
Net assets		**544.3**	499.7	536.2
Equity				
Share capital		**4.2**	4.2	4.2
Share premium account		**412.1**	412.1	412.1
Hedging and translation reserve		**55.6**	37.0	44.4
Retained profit		**53.1**	25.9	57.1
EQUITY SHAREHOLDERS' FUNDS	5	**525.0**	479.2	517.8
Minority interests	5	**19.3**	20.5	18.4
Total equity	5	**544.3**	499.7	536.2

Consolidated cash flow statement (unaudited)

For the six months ended 30 June 2008	Notes	**2008 Half year Unaudited US$m**	2007 Half year Unaudited US$m	2007 Full year Unaudited US$m
Cash inflow/(outflow) from operating activities				
Net cash (outflow)/inflow generated by operations	6	**(19.9)**	16.1	146.1
Interest paid		**(24.5)**	(19.4)	(40.4)
Taxation paid		**(24.2)**	(15.0)	(35.8)
Net cash (absorbed)/generated from operating activities		**(68.6)**	(18.3)	69.9
Cash inflow/(outflow) from investing activities				
Dividends received from associates and joint ventures		**0.7**	2.0	2.3
Acquisition of property, plant and equipment and intangible assets		**(24.1)**	(39.3)	(68.8)
Disposal of property, plant and equipment and intangible assets		**1.8**	9.5	25.9
Acquisition of financial investments		**(0.1)**	(0.1)	-
Disposal of financial investments		**0.3**	-	0.2
Acquisition and disposal of businesses		**(0.5)**	(6.9)	(7.8)
Net cash absorbed from investing activities		**(21.9)**	(34.8)	(48.2)
Cash inflow/(outflow) from financing activities				
Dividends paid to minority interests		**(2.1)**	(0.8)	(2.7)
Amounts (paid)/received from parent undertaking		**(55.0)**	-	55.0
Increase/(decrease) in debt and lease financing		**131.5**	20.7	(56.7)
Net cash generated/(absorbed) in financing activities		**74.4**	19.9	(4.4)
Net decrease in cash and cash equivalents		**(16.1)**	(33.2)	17.3
Net cash and cash equivalents at beginning of the period		**68.2**	50.1	50.1
Foreign exchange (losses)/gains on cash and cash equivalents		**(5.3)**	1.1	0.8
Net cash and cash equivalents at end of the period	7	**46.8**	18.0	68.2

Reconciliation of net cash flow to movement in net debt				
Net (decrease)/increase in cash and cash equivalents		**(16.1)**	(33.2)	17.3
Cash (inflow)/outflow from change in debt and lease financing		**(131.5)**	(20.7)	56.7
Change in net debt resulting from cash flows		**(147.6)**	(53.9)	74.0
Other		**(2.3)**	(2.7)	(6.8)
Foreign exchange		**(4.0)**	(2.0)	(2.4)
(Increase)/decrease in net debt		**(153.9)**	(58.6)	64.8
Net debt at start of period		**(280.9)**	(345.7)	(345.7)
Net debt at end of period	7	**(434.8)**	(404.3)	(280.9)

Consolidated statement of recognised income and expense (unaudited)

For the six months ended 30 June 2008	Notes	**2008 Half year Unaudited US$m**	2007 Half year Unaudited US$m	2007 Full year Unaudited US$m
(Losses)/gains on cash flow hedges		**(0.6)**	1.3	(3.7)
Exchange differences on translation of foreign operations		**11.6**	20.5	34.4
Actuarial losses in respect of retirement benefit schemes		**(8.4)**	-	(4.7)
Tax on items taken directly to equity		-	-	(1.1)
Net income recognised directly in equity		**2.6**	21.8	24.9
Profit for the period		**7.4**	28.8	67.0
Transferred to profit or loss on cash flow hedges		**0.2**	(1.7)	(3.3)
Total recognised income and expense for the period	5	**10.2**	48.9	88.6
Attributable to:				
EQUITY SHAREHOLDERS OF THE COMPANY		**7.2**	44.7	83.3
Minority interests		**3.0**	4.2	5.3
		10.2	48.9	88.6

Notes

1 Basis of preparation

Coats Group Limited is incorporated in the British Virgin Islands. It does not prepare consolidated statutory accounts and therefore the financial information contained in this announcement does not constitute full financial statements and has not been, and will not be, audited.

The financial information for the six months ended 30 June 2008 has been prepared in accordance with the recognition and measurement requirements of International Financial Reporting Standards ("IFRS") endorsed by the European Union, and the accounting policies adopted have been consistently applied to the financial information presented for the six months ended 30 June 2007 and the full year ended 31 December 2007.

Coats Group Limited follows the accounting policies of its ultimate parent company, Guinness Peat Group plc.

The principal exchange rates (to the US dollar) used are as follows:

		June 2008	June 2007	December 2007
Average	Sterling	**0.51**	0.51	0.50
	Euro	**0.65**	0.75	0.73
Period end	Sterling	**0.50**	0.50	0.50
	Euro	**0.63**	0.74	0.68

2 Operating profit is stated after charging/(crediting):

	2008 Half year Unaudited US$m	2007 Half year Unaudited US$m	2007 Full year Unaudited US$m
Exceptional items:			
Reorganisation costs and impairment of property, plant and equipment	**16.4**	16.3	40.0
Loss/(profit) on the sale of property	**2.5**	(3.3)	(7.1)
Foreign exchange losses	**5.1**	1.6	6.4
Total	**24.0**	14.6	39.3

3 Finance costs

	2008 Half year Unaudited US$m	2007 Half year Unaudited US$m	2007 Full year Unaudited US$m
Interest on bank and other borrowings	**22.9**	20.9	44.4
Net return on pension scheme assets and liabilities	**(10.4)**	(11.4)	(23.1)
Other	**4.4**	1.8	6.7
Total	**16.9**	11.3	28.0

4 Taxation

The taxation charges for the six months ended 30 June 2008 and 30 June 2007 are based on the estimated effective tax rate for the full year, including the effect of prior period tax adjustments.

5 Reconciliation of closing equity

	Equity shareholders' funds Unaudited US$m	Minority interests Unaudited US$m	Total equity Unaudited US$m
At 1 January 2008	**517.8**	**18.4**	**536.2**
Total recognised income and expense for the period	**7.2**	**3.0**	**10.2**
Dividends paid	**-**	**(2.1)**	**(2.1)**
At 30 June 2008	**525.0**	**19.3**	**544.3**

6 Reconciliation of operating profit to net cash inflow/(outflow) generated by operations

	2008 Half year Unaudited US$m	2007 Half year Unaudited US$m	2007 Full year Unaudited US$m
Operating profit	**43.5**	53.8	118.8
Depreciation	**31.3**	29.1	59.3
Amortisation of intangible assets (computer software)	**4.7**	3.8	8.2
Reorganisation costs (see note 2)	**16.4**	16.3	40.0
Other exceptional items (see note 2)	**7.6**	(1.7)	(0.7)
Increase in inventories	**(18.4)**	(16.5)	(22.5)
Increase in debtors	**(33.9)**	(33.0)	(14.6)
(Decrease)/increase in creditors	**(41.8)**	(6.8)	40.1
Provision movements	**(6.1)**	(12.0)	(46.2)
Other non-cash movements	**(0.2)**	1.2	8.3
Net cash inflow from normal operating activities	**3.1**	34.2	190.7
Net cash outflow in respect of reorganisation costs	**(23.0)**	(18.1)	(44.6)
Net cash (outflow)/inflow generated by operations	**(19.9)**	16.1	146.1

7 Net debt

	2008 Half year Unaudited US$m	2007 Half year Unaudited US$m	2007 Full year Unaudited US$m
Cash and cash equivalents	**70.0**	44.3	84.6
Bank overdrafts	**(23.2)**	(26.3)	(16.4)
Net cash and cash equivalents	**46.8**	18.0	68.2
Other borrowings	**(481.6)**	(422.3)	(349.1)
Total	**(434.8)**	(404.3)	(280.9)

8 Balance sheet consolidated by Guinness Peat Group plc (unaudited)

The balance sheet consolidated by Guinness Peat Group plc (GPG) as at 30 June 2008 differs from that disclosed as follows:

	Coats Group Limited	Coats Group Limited US$:GBP at 0.5025	GPG fair value adjustments	Included in GPG's consolidated balance sheet
	Unaudited US$m	Unaudited £m	Unaudited £m	Unaudited £m
Intangible assets	269.7	135	14	149
Other non-current assets	643.2	323	-	323
Current assets	824.9	414	-	414
Non-current assets classified as held for sale	5.2	3	-	3
Total assets	1,743.0	875	14	889
Current liabilities	(604.8)	(304)	-	(304)
Non-current liabilities	(593.9)	(298)	-	(298)
Minority interests	(19.3)	(10)	-	(10)
Equity shareholders' funds	525.0	263	14	277