Guinness Peat Group plc

The following unaudited consolidated results of Coats Group Limited ("the Group") for the six months ended 30 June 2006 are released by Guinness Peat Group plc ("GPG") for information only.

Richard Russell

Company Secretary

Guinness Peat Group plc

30 August 2006

Contacts:		
Blake Nixon	(UK)	00 44 20 7484 3370
Gary Weiss	(Australia)	00 61 2 8298 4305
Tony Gibbs	(New Zealand)	00 64 9 379 8888

Coats Group Limited: unaudited results* for the six months ended 30 June 2006

Financial summary		Like-for-like**	
	2006	2005	2005
	Half year	Half year	Half year
	Unaudited	Unaudited	Unaudited
	US$m	US$m	US$m
Revenue	**806.7**	** 836.9	830.4
Operating profit before reorganisation, impairment and other exceptional items (see note 2)	**61.0**	** 68.1	66.5
Operating profit	**47.3**	** 56.3	54.2
Net profit attributable to equity shareholders	**23.1**		*** 36.8
Net debt	**406.2**		483.9

*See note 1
**Excluding the impact of exchange translation and the acquisition and disposal of businesses (see Operating Review)
***Restated, see note 1

- **Improved performance from industrial thread offset by lower crafts sales**
- **Asia like-for-like sales growth of 17%**
- **Crafts handknittings sales affected by US retailer de-stocking**
- **Debt reduced by $78 million compared to previous half year**

CHAIRMAN'S STATEMENT

Results

In H1 2006, Coats Group Limited continued to make underlying progress despite more difficult trading conditions.

Pre-exceptional operating profit (before reorganisation, impairment and other exceptional items) decreased by 10% on a like-for-like basis to $61.0 million. The decrease was almost entirely due to lower crafts handknitting sales in North America, which more than offset a significant improvement in the profitability of industrial thread due to cost savings in North America and strong growth in Asia. During the first half, on a like-for-like basis, Group worldwide sales of industrial thread grew by 3% whilst sales of crafts products fell by 14%. Further details are included in the Operating Review.

Net exceptional charges of $13.7 million (see note 2) were slightly above the prior half year total of $12.3 million. However the net increase of $1.4 million masks a $4.7 million reduction in reorganisation costs and a $19.5 million profit from the sale of surplus properties, the benefit of which was wiped out by an adverse swing of $25.6 million in exchange movements.

Interest costs were in line with the previous half year but total net finance costs increased by $6.4 million mainly due to the absence of the exchange gain which benefited the 2005 comparative. Net earnings attributable to equity shareholders of $23.1 million (2005 - $36.8 million) were also affected by a relatively high tax charge, due to unrelieved losses in certain territories.

Net cash inflow from operations before reorganisation costs and exceptional items was $4.7 million (2005 - $16.5 million), reflecting the seasonal increase in working capital in the six months to 30 June. However compared to June 2005, the ratio of average working capital / sales reduced by two percentage points to 23.5% and net debt at $406.2 million was $77.7 million lower.

Investment, reorganisation & disposals

Investment in new plant and systems amounted to $32.8 million (2005 - $38.5 million). The bulk of investment was directed towards upgrading existing operations with the balance consisting of additional capacity to meet growth in Asia.

Reorganisation costs of $23.3 million (2005 - $28.0 million) were charged during the period. Most of the projects involve site closures and overhead reduction in Europe. In cash terms these were more than offset by exceptionally high disposals of surplus property totalling $46.2 million (2005 - $16.6 million).

Prospects

The improvement in industrial profitability during the first half was encouraging and demonstrates that investment in new plant and reorganisation is beginning to pay off. Although the market for industrial thread remains extremely competitive, global demand is reasonably stable and second half results should continue to benefit from recent spending on new plant and reorganisation.

The fall in US handknittings sales during the first half was disappointing but not unexpected given the high stocks held by major crafts retailers at the end of last year as mentioned in the 2005 report. For the second half, the main uncertainty is whether underlying consumer demand for handknittings will be sustained at the relatively high levels experienced over the last few years. However, given the Group's broad portfolio of other crafts products and with a reduced impact from retailer de-stocking in the second half, it is expected that crafts sales and profits in the second half will show some recovery.

The main objectives for full year 2006 continue to be debt reduction and execution of the reorganisation projects necessary to reduce the Group's cost base. Despite difficult market conditions, the Group expects to make progress at the operating level on a like-for-like basis in the second half. The Board remains confident that the Group will continue to make further progress.

Gary Weiss
Chairman
30 August 2006

OPERATING REVIEW

Trading performance by region*

	2005 $m	Exchange retranslation** $m	Acquisitions/ disposals $m	2005 like-for-like $m	2006 reported $m	Like-for-like increase/(decrease) %
External sales						
Asia	221.8	(2.7)		219.1	257.3	17%
UK & Europe	284.9	(10.7)	8.0	282.2	263.0	(7)%
N America	228.2	0.9		229.1	179.3	(22)%
S America	95.5	11.0		106.5	107.1	1%
Total	**830.4**	**(1.5)**	**8.0**	**836.9**	**806.7**	**(4)%**
Pre-exceptional operating profit* **						
Asia	31.3	(0.5)		30.8	40.0	30%
UK & Europe	7.1		0.5	7.6	6.4	(16)%
N America	16.1	0.2		16.3	2.0	(88)%
S America	12.0	1.4		13.4	12.6	(6)%
Total	**66.5**	**1.1**	**0.5**	**68.1**	**61.0**	**(10)%**

**All figures prepared in accordance with IFRS as explained in note 1*
***Impact of restating 2005 figures at 2006 exchange rates*
****Pre reorganisation, impairment and other exceptional items (see note 2)*

In the following comments on regional performance, all comparisons with 2005 are based on the table above.

Asia
Sales +17%; OP +30%
All Asian markets delivered strong performances, led by China and India. Demand for industrial thread in the region was strong, assisted by further migration of garment production from other areas previously considered low cost such as Eastern Europe and Central America. Sales benefited from the Group's relationships with global retailers and brand owners as well as the new capacity installed in 2005. In addition to the impact of higher sales volumes, the growth in profit also reflects the resolution of the start-up issues which affected the new China plants and depressed margins in H1 2005.

UK & Europe
Sales -7%; OP -16%
Although handknitting sales continued to grow in Europe, on a like-for-like basis (after adjusting for Almedahls, acquired in April 2005) crafts sales overall were down 3% on previous year as a result of weak demand for other traditional crafts products. Sales of industrial products fell by 9%, with zips particularly weak as a result of current fashion trends in addition to customer migration which also affected demand for apparel thread.

In contrast to last year's improved performance, in H1 2006 the impact of lower sales offset the savings generated by ongoing reorganisation. Efforts continue to execute successfully the major remaining projects required to reduce the cost base and improve margins.

North America
Sales -22%; OP -88%
Crafts sales fell by 35%, almost entirely due to handknittings where sales were affected by retailer de-stocking. The sharp drop in handknittings volume was largely responsible for the reduction in profits from the region. The comparison with H1 2005 is exacerbated by the exceptionally strong sales of handknittings in that period which led to retailers' over-stocked position at the end of the year. Whilst there was a decline in underlying consumer demand for fancy yarns in the North American 2005/6 season, sales of classic yarns were more stable. However, given the seasonality of this business the overall market trend will remain uncertain until later in the year.

Sales of industrial thread decreased by 8%, with demand affected by net migration of apparel production from Mexico and Central America to Asia. Notwithstanding the difficult sales climate, benefits from previous investments in plant and reorganisation resulted in improved industrial margins, albeit still below Group targets.

South America

Sales +1%; OP -6%

US dollar values of sales and profits in South America benefited from revaluation of local currencies but the resulting reduction in competitiveness depressed demand for industrial thread and zips and put pressure on margins. As in 2005, this was largely offset by growth in crafts sales, driven by handknittings.

Consolidated income statement (unaudited)

For the six months ended 30 June 2006	Notes	**2006 Half year Unaudited US$m**	2005 Half year Unaudited Restated* US$m		2005 Full year Unaudited Restated* US$m	
Continuing operations						
Revenue		**806.7**	830.4		1,636.7	
Cost of sales		**(535.2)**	(534.1)		(1,084.0)	
Gross profit		**271.5**	296.3		552.7	
Distribution costs		**(152.3)**	(152.6)		(306.2)	
Administrative expenses		**(92.2)**	(90.5)		(165.6)	
Other operating income		**20.3**	1.0		18.9	
Operating profit	2	**47.3**	54.2		99.8	
Share of profits of joint ventures		**1.2**	0.9		1.6	
Investment income		**3.2**	2.0		7.0	
Finance costs	3	**(15.0)**	(8.6)	*	(24.2)	*
Profit before taxation		**36.7**	48.5		84.2	
Taxation	4	**(15.5)**	(9.1)		(39.5)	
Profit from continuing operations		**21.2**	39.4		44.7	
Discontinued operations						
Profit/(loss) from discontinued operations		**3.5**	(0.6)		15.0	
Profit for the period		**24.7**	38.8		59.7	
Attributable to:						
EQUITY SHAREHOLDERS OF THE COMPANY		**23.1**	36.8		58.3	
Minority interests		**1.6**	2.0		1.4	
		24.7	38.8		59.7	

* Finance costs have been restated from the $12.1 million disclosed in the interim accounts for the six months ended 30 June 2005 and from the $30.1 million disclosed in accounts for the year ended 31 December 2005 following an amendment to IAS 21 (see note 1).

Consolidated balance sheet (unaudited)

At 30 June 2006	Notes	**2006 30 June Unaudited US$m**	2005 30 June Unaudited Restated* US$m		2005 31 December Unaudited Restated* US$m
Non-current assets					
Intangible assets		**257.6**	253.0		257.5
Property, plant and equipment		**479.9**	458.6		482.5
Investments in joint ventures		**16.6**	17.6		16.4
Available-for-sale investments		**4.2**	10.0		3.5
Deferred tax assets		**6.9**	12.0		4.6
Pension surpluses		**64.9**	28.5		57.5
Trade and other receivables		**24.9**	20.0		23.4
		855.0	799.7		845.4
Current assets					
Inventories		**317.2**	331.1		286.9
Trade and other receivables		**342.1**	354.7		302.7
Available-for-sale investments		**5.9**	-		8.8
Cash and cash equivalents	7	**41.1**	72.7		77.8
		706.3	758.5		676.2
Non-current assets classified as held for sale		**10.4**	64.7		30.2
Total assets		**1,571.7**	1,622.9		1,551.8
Current liabilities					
Trade and other creditors		**(284.3)**	(275.2)		(313.5)
Current income tax liabilities		**(7.8)**	(35.8)		(4.5)
Bank overdrafts and other borrowings		**(105.7)**	(94.8)		(122.0)
Provisions		**(159.3)**	(172.7)		(150.0)
		(557.1)	(578.5)		(590.0)
Net current assets		**149.2**	180.0		86.2
Non-current liabilities					
Trade and other creditors		**(29.0)**	(10.2)		(28.0)
Deferred tax liabilities		**(12.0)**	(16.0)		(12.1)
Borrowings		**(341.6)**	(461.8)		(319.1)
Retirement benefit obligations:					
Funded schemes		**(2.2)**	(22.1)	*	(2.1)
Unfunded schemes		**(120.5)**	(99.7)		(113.3)
Provisions		**(56.4)**	(41.4)		(62.6)
		(561.7)	(651.2)		(537.2)
Liabilities directly associated with non-current assets classified as held for sale		**-**	(22.1)		-

Total liabilities		**(1,118.8)**	(1,251.8)	(1,127.2)
Net assets		**452.9**	371.1	424.6
Equity				
Share capital		**4.2**	4.2	4.2
Share premium account		**412.1**	412.1	412.1
Revaluation reserve		**-**	1.2	-
Hedging and translation reserves		**8.9**	11.4 *	0.7 *
Retained profit/(loss)		**4.4**	(88.7) *	(19.1) *
EQUITY SHAREHOLDERS' FUNDS	5	**429.6**	340.2	397.9
Minority interests	5	**23.3**	30.9	26.7
Total equity	5	**452.9**	371.1	424.6

* Retirement benefit obligations for funded schemes as at 30 June 2005 have been restated from the $65.0 million disclosed in the interim accounts for the six months ended 30 June 2005 and reserves have been restated following an amendment to IAS 21 (see note 1).

Consolidated cash flow statement (unaudited)

For the six months ended 30 June 2006	Notes	**2006 Half year Unaudited US$m**	2005 Half year Unaudited US$m	2005 Full year Unaudited US$m
Cash (outflow)/inflow from operating activities				
Net cash (outflow)/inflow generated by operations	6	**(23.9)**	(5.8)	176.9
Interest paid		**(17.4)**	(19.0)	(36.4)
Taxation paid		**(14.8)**	(18.8)	(39.8)
Net cash (absorbed)/generated from operating activities		**(56.1)**	(43.6)	100.7
Cash inflow/(outflow) from investing activities				
Dividends received from associates and joint ventures		**1.0**	0.9	2.8
Acquisition of property, plant and equipment and intangible assets		**(32.8)**	(38.5)	(81.3)
Disposal of property, plant and equipment and intangible assets		**46.2**	16.6	56.6
Acquisition of financial investments		**(3.0)**	(5.1)	(9.3)
Disposal of financial investments		**4.8**	-	2.4
Acquisition and disposal of businesses		**2.0**	12.4	5.4
Net cash generated/(absorbed) in investing activities		**18.2**	(13.7)	(23.4)
Cash inflow/(outflow) from financing activities				
Dividends paid to minority interests		**(1.1)**	(2.3)	(7.1)
Increase/(decrease) in debt and lease financing		**2.4**	(7.7)	(119.5)
Net cash generated/(absorbed) in financing activities		**1.3**	(10.0)	(126.6)
Net decrease in cash and cash equivalents		**(36.6)**	(67.3)	(49.3)
Net cash and cash equivalents at beginning of the period		**57.1**	113.5	113.5
Foreign exchange gains/(losses) on cash and cash equivalents		**0.1**	(6.6)	(7.1)
Net cash and cash equivalents at end of the period	7	**20.6**	39.6	57.1
Reconciliation of net cash flow to movement in net debt				
Net decrease in cash and cash equivalents		**(36.6)**	(67.3)	(49.3)
Cash (outflow)/inflow from change in debt and lease financing		**(2.4)**	7.7	119.5
Change in net debt resulting from cash flows		**(39.0)**	(59.6)	70.2
New finance leases		**-**	-	(3.6)
Transfer of preference shares from equity under IAS 32		-	(28.0)	(28.0)
Other		**(2.0)**	1.0	(3.9)
Foreign exchange		**(1.9)**	6.5	5.8
(Increase)/decrease in net debt		**(42.9)**	(80.1)	40.5
Net debt at start of period		**(363.3)**	(403.8)	(403.8)
Net debt at end of period	7	**(406.2)**	(483.9)	(363.3)

Consolidated statement of recognised income and expense (unaudited)

For the six months ended 30 June 2006	Notes	**2006 Half year Unaudited US$m**	2005 Half year Unaudited Restated* US$m		2005 Full year Unaudited Restated* US$m	
Gain on revaluation of available-for-sale investments		**-**	1.2		-	
Gain on cash flow hedges		**5.5**	0.4		4.6	
Exchange differences on translation of foreign operations		**3.8**	0.1	*	(12.6)	*
Actuarial gains in respect of retirement benefit schemes		**-**	-		47.4	
Tax on items taken directly to equity		**-**	-		0.3	
Net income recognised directly in equity		**9.3**	1.7		39.7	
Profit for the period		**24.7**	38.8	*	59.7	*
Transferred to profit or loss on cash flow hedges		**(1.3)**	0.5		0.8	
Other transfers		**0.5**	-		(2.1)	
Total recognised income and expense for the period	5	**33.2**	41.0		98.1	
Attributable to:						
EQUITY SHAREHOLDERS OF THE COMPANY		**31.7**	39.0		96.7	
Minority interests		**1.5**	2.0		1.4	
		33.2	41.0		98.1	

* See note 1 for details of the restatement.

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 2006 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 restated financial information presented for the six months ended 30 June 2005 and the full year ended December 2005.

Subsequent to the publication of the half year results for the six months ended 30 June 2005, management reviewed the Group's IFRS accounting policies in the light of emerging best practice. It is considered that best practice under IAS 19 on Employee Benefits is for administration costs to be deducted annually from the expected and actual return on pension plan assets, rather than for provision to be made for the present value of these costs expected over the life of the plan.

Subsequent to the publication of the results for the full year ended 31 December 2005, an amendment to IAS 21 on The Effects of Changes in Foreign Exchange Rates has been endorsed by the European Union, whereby currency translation gains and losses arising on inter-company loans that are not in the functional currency of either party can now be dealt with through reserves rather than in the income statement.

The impact of these accounting policy changes is as follows:

	2005 Half year Unaudited US$m	2005 Full year Unaudited US$m
Hedging and translation reserves as previously reported	16.5	5.0
IAS 19 adjustment	(3.2)	-
IAS 21 adjustment as at 31 December 2004	1.6	1.6
IAS 21 adjustment for 2005	(3.5)	(5.9)
Hedging and translation reserves as restated	11.4	0.7
Retained loss as previously reported	(136.7)	(23.4)
IAS 19 adjustment	46.1	-
IAS 21 adjustment as at 31 December 2004	(1.6)	(1.6)
IAS 21 adjustment for 2005	3.5	5.9
Retained loss as restated	(88.7)	(19.1)

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 2006	June 2005	December 2005
Average	Sterling	**0.56**	0.53	0.55
	Euro	**0.81**	0.78	0.81
Period end	Sterling	**0.54**	0.56	0.58
	Euro	**0.78**	0.83	0.85

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

	2006	2005	2005
	Half year	Half year	Full year
	Unaudited	Unaudited	Unaudited
	US$m	US$m	US$m
Exceptional items:			
Reorganisation costs and impairment of property, plant and equipment	**23.3**	28.0	62.4
Profit on the sale of property	**(19.5)**	-	(17.2)
Foreign exchange losses/(gains)	**9.9**	(15.7)	(18.5)
Total	**13.7**	12.3	26.7

3 Finance costs

	2006	2005	2005
	Half year	Half year	Full year
	Unaudited	Unaudited	Unaudited
	US$m	US$m	US$m
Interest on bank and other borrowings	**19.9**	21.1	41.3
Foreign exchange gains	**-**	(10.3)	(11.8)
Net return on pension scheme assets and liabilities	**(7.2)**	(2.8)	(8.3)
Other	**2.3**	0.6	3.0
Total	**15.0**	8.6	24.2

4 Taxation

The taxation charges for the six months ended 30 June 2006 and 30 June 2005 are based on the estimated effective tax rate for the full year, including the effect of prior period tax adjustments. The foreign exchange losses recognised in operating profit and finance costs for the six months ended 30 June 2006 of $9.9 million (2005 - $26.0 million gains) are non-taxable. Excluding these items, a taxation charge of $15.5 million (2005 - $9.1 million) arises on adjusted profits of $46.6 million (2005 - $22.5 million).

5 Reconciliation of closing equity

	Equity shareholders' funds	**Minority interests**	**Total equity**
	Unaudited	**Unaudited**	**Unaudited**
	US$m	**US$m**	**US$m**
At 1 January 2006	**397.9**	**26.7**	**424.6**
Total recognised income and expense for the period	**31.7**	**1.5**	**33.2**
Dividends paid	**-**	**(1.1)**	**(1.1)**
Other	**-**	**(3.8)**	**(3.8)**
At 30 June 2006	**429.6**	**23.3**	**452.9**

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

	2006	2005	2005
	Half year	Half year	Full year
	Unaudited	Unaudited	Unaudited
	US$m	US$m	US$m
Operating profit	**47.3**	54.2	99.8
Depreciation	**28.2**	23.4	50.4
Amortisation of intangible assets (computer software)	**3.5**	4.5	5.6
Reorganisation costs (see note 2)	**23.3**	28.0	62.4
Other exceptional items (see note 2)	**(9.6)**	(15.7)	(35.7)
(Increase)/decrease in inventories	**(23.0)**	(33.2)	3.9
(Increase)/decrease in debtors	**(35.6)**	(18.5)	34.2
(Decrease)/increase in creditors	**(23.6)**	(18.8)	17.3
Provision movements	**(6.0)**	(6.9)	(11.7)
Other non-cash movements	**0.2**	(0.5)	5.0
Net cash inflow from normal operating activities	**4.7**	16.5	231.2
Net cash outflow in respect of reorganisation costs and other exceptional items	**(28.6)**	(22.3)	(54.3)
Net cash (outflow)/ inflow generated by operations	**(23.9)**	(5.8)	176.9

7 Net debt

	2006	2005	2005
	Half year	Half year	Full year
	Unaudited	Unaudited	Unaudited
	US$m	US$m	US$m
Cash and cash equivalents	**41.1**	72.7	77.8
Bank overdrafts	**(20.5)**	(33.1)	(20.7)
Net cash and cash equivalents	**20.6**	39.6	57.1
Other borrowings	**(426.8)**	(523.5)	(420.4)
Total	**(406.2)**	(483.9)	(363.3)

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

The balance sheet consolidated by Guinness Peat Group plc (GPG) as at 30 June 2006 differs from that disclosed as follows:

	Coats Group Limited	**Coats Group Limited**	**GPG fair value adjustments**	**Included in GPG's consolidated balance sheet**
		US$:GBP at 0.5405		
	Unaudited	**Unaudited**	**Unaudited**	**Unaudited**
	US$m	**£m**	**£m**	**£m**
Intangible assets	257.6	139	14	153
Other non-current assets	597.4	323		323
Current assets	706.3	382		382
Non-current assets classified as held for sale	10.4	6		6
Total assets	1,571.7	850	14	864
Current liabilities	(557.1)	(301)		(301)
Non-current liabilities	(561.7)	(304)		(304)
Minority interests	(23.3)	(13)		(13)
Equity shareholders' funds	429.6	232	14	246