

Company Registration No. 164945

FKI Limited (formerly FKI Plc)

Report and Financial Statements

31 December 2009

WEDNESDAY



"LMOYILAI"

L15

30/06/2010

184

COMPANIES HOUSE

FKI Limited (formerly FKI Plc)

Report and financial statements 2009

Contents	Page
Officers and professional advisers	1
Directors' report	2
Statement of directors' responsibilities	4
Independent auditors' report	5
Profit and loss account	7
Statement of total recognised gains and losses	8
Balance sheet	9
Notes to the accounts	10

FKI Limited (formerly FKI Plc)

Report and financial statements 2009

Officers and professional advisers

Directors

S A Peckham
G P Martin
G E Barnes

Secretary

G E Barnes

Registered Office

Precision House
Arden Road
Alcester
Warks
B49 6HN

Auditors

Deloitte LLP
Chartered Accountants
2 New Street Square
London
EC4A 3BZ

FKI Limited (formerly FKI Plc)

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2009

Results and dividends

The audited financial statements for the year ended 31 December 2009 are set out on pages 7 to 30. The retained profit for the year amounted to £110.3 million (nine month period ended 31 December 2008: loss of £209.3 million).

A dividend of £57.0 million was paid during the year (nine month period ended 31 December 2008: £67.3 million).

Principal activity and review of the business

The principal activity of the company is to act as an intermediate holding company. The directors do not expect any change in this activity in the foreseeable future.

On 19 January 2010, FKI plc was re-registered as a private company, incorporated under the name of FKI Limited.

On 1 June 2009, the US Dollar investment in Hamsard 2291 Limited was redenominated into a Sterling investment.

The company made a profit in the year of £110.3 million. This was largely a result of dividends received from subsidiary companies totalling £342.9 million (nine month period ended 31 December 2008: £1.0 million). Offsetting this, the company incurred other operating expenses of £170.3 million (nine month period ended 31 December 2008: £207.6 million), included investment impairments of £106.0 million (nine month period ended 31 December 2008: £201.3 million).

Net finance costs, which relate primarily to intercompany loans, amounted to a cost of £67.3 million (nine month period ended 31 December 2008: £68.9 million).

Going concern

The directors have considered the going concern assumption given the current economic climate and the net current liabilities of the company, and have reviewed the company forecasts and considered the financial commitment from the ultimate parent company, which has been confirmed in writing, for the foreseeable future.

After making enquiries and considering the above facts, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Financial risk management and policies

Credit risk

Through its activities the company is exposed to credit risk. The company's principal financial assets are receivables from fellow group undertakings.

The company's credit risk is primarily attributable to its receivables from fellow group undertakings. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available to meet obligations as they fall due, the company ensures regular communication with other group companies.

FKI Limited (formerly FKI Plc)

Directors' report (continued)

Cash flow risk

The company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The company uses foreign exchange forward contracts to hedge these exposures.

The use of financial derivatives is governed by the company's policies approved by the board of directors, which provide written principles on the use of financial derivatives to manage these risks. The company does not use derivative financial instruments for speculative purposes.

Directors and their interests

The directors who served throughout the year ended 31 December 2009 and thereafter are as listed on page 1. No director had any interests in the shares of the company at 31 December 2009.

Directors' liabilities

The ultimate parent undertaking has indemnified one or more directors of the company against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision was in force throughout the year and at the date of this report.

Auditors

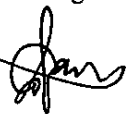
Each of the persons who is a director at the date of approval of this report confirms that

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have indicated their willingness to continue in office as auditors and will be deemed to be re-appointed after the end of the next "period for appointing auditors" as defined in s485(2) of the Companies Act 2006.

Approved by the Board of Directors
and signed on behalf of the Board



G E Barnes
Director

29 Jun 2010

FKI Limited (formerly FKI Plc)

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report to the members of FKI Limited

We have audited the financial statements of FKI Limited for the year ended 31 December 2009 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state 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

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

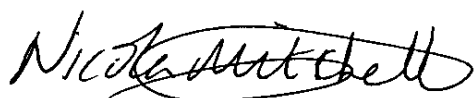
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditors' report to the members of FKI Limited (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



Nicola Mitchell (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom

29/4 2010

FKI Limited (formerly FKI Plc)

Profit and loss account

Year ended 31 December 2009

		Year ended 31 December 2009 £'m	Nine month period ended 31 December 2008 £'m
	Notes		
Administration income/(expenses)		2 1	(4 8)
Other operating expenses	3	(170 3)	(207 6)
Other operating income	4	0 4	81 4
Operating loss	2	(167 8)	(131 0)
Non-operating exceptional expenses	5	-	(10 4)
Loss on ordinary activities before investment income, interest and taxation		(167 8)	(141 4)
Exceptional finance expenses	8	-	(0 6)
Investment income	9	342 9	1 0
Finance income	8	11 4	42 9
Finance costs	8	(78 7)	(111 8)
Profit/(loss) on ordinary activities before taxation		107 8	(209 9)
Tax credit on profit/(loss) on ordinary activities	10	2 5	0 6
Profit/(loss) on ordinary activities after taxation	19	110 3	(209 3)

All results relate to continuing operations in both the current year and prior period

FKI Limited (formerly FKI Plc)

Statement of total recognised gains and losses Year ended 31 December 2009

		Year ended 31 December 2009 £'m	Nine month period ended 31 December 2008 £'m
	Note		
Profit/(loss) on ordinary activities after taxation		110.3	(209.3)
Foreign currency translation (losses)/gains on foreign currency net investments		(61.3)	149.7
Foreign currency translation gains/(losses) on matching loans		20.0	-
Actuarial losses relating to pension schemes net of tax	17	(57.0)	(60.6)
Total recognised gains/(losses) relating to the year/period		12.0	(120.2)

FKI Limited (formerly FKI Plc)

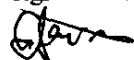
Balance sheet 31 December 2009

	Notes	31 December 2009 £'m	31 December 2008 £'m
Fixed assets			
Tangible assets	11	-	-
Investments in subsidiaries	12	2,576 4	2,743 7
		<u>2,576 4</u>	<u>2,743 7</u>
Current assets			
Debtors due within one year	13	306 5	1,282 0
Derivative financial assets due within one year	14	0 3	0 1
Cash and short-term deposits		4 1	11 6
		<u>310 9</u>	<u>1,293 7</u>
Creditors amounts falling due within one year			
Bank overdraft		(34 0)	(48 7)
Derivative financial liabilities	14	(0 2)	-
Other creditors	15	(2,480 3)	(3,645 9)
		<u>(2,514 5)</u>	<u>(3,694 6)</u>
Net current liabilities		<u>(2,203 6)</u>	<u>(2,400 9)</u>
Total assets less current liabilities		372 8	342 8
Provisions for liabilities and charges	16	(32 4)	(6 9)
Net assets before pension liability		<u>340 4</u>	<u>335 9</u>
Pension liability	17	(107 0)	(57 6)
Net assets		<u>233 4</u>	<u>278 3</u>
Capital and reserves			
Called up share capital	18, 19	59 1	59 1
Share premium account	19	161 1	161 1
Capital redemption reserve	19	2 0	2 0
Own shares	19	(0 3)	(1 1)
Hedging reserve	19	-	(0 1)
Profit and loss account	19	11 5	57 3
Shareholder's funds	19	<u>233 4</u>	<u>278 3</u>

The financial statements of FKI Limited registered number 164945 were approved by the Board of Directors on

29 June 2010

Signed on behalf of the Board of Directors



G E Barnes

Director

FKI Limited (formerly FKI Plc)

Notes to the accounts

Year ended 31 December 2009

1. Significant accounting policies

Basis of preparation

The financial statements of FKI Limited are presented as required by the Companies Act 2006. As permitted by the Act, the separate financial statements have been prepared in accordance with United Kingdom Generally Accepted Accounting Standards ("UK GAAP") using the historical cost convention except where certain financial instruments have been measured at fair value and on a going concern basis as described in the going concern statement in the Directors' Report on page 2.

The company has taken advantage of the exemption from adopting FRS 29 - (IFRS 7) Financial Instruments - Disclosures as the company is a wholly owned subsidiary of Melrose PLC and the consolidated financial statements of Melrose PLC, which are publicly available, have adopted IFRS 7 - Financial Instruments - Disclosures.

Under the provisions of FRS1 "Cash Flow Statements (revised 1996)", the company has not prepared a statement of cash flows because its ultimate parent undertaking, Melrose PLC, has prepared consolidated financial statements which includes the financial statements of the company and which contains a statement of cash flows.

The following accounting policies have been applied consistently in dealing with items considered material in relation to the financial statements.

Foreign currency translation

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Sterling at the foreign exchange rate ruling at that date. All profits and losses on exchange are credited or charged to the profit and loss account.

Exchange differences arising on translation of foreign currency investments and on foreign currency borrowings, to the extent that they hedge the Group's investment in such operations, are reported in the statement of total recognised gains and losses. All other exchange differences are included in the profit and loss account.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and provision for any impairment in value. Depreciation is calculated on all assets, other than freehold land, at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over their estimated useful lives as follows:

Office equipment	5 to 10 years
Motor vehicles	3 to 5 years

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds, less costs of disposal, and the carrying amount of the asset and is recognised in the income statement.

Leases

Rentals paid under operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

FKI Limited (formerly FKI Plc)

Notes to the accounts

Year ended 31 December 2009

1. Significant accounting policies (continued)

Investments

The company's investment in shares in group companies are stated at cost less provision for impairment

Taxation

Current tax is provided at amounts expected to be paid, or recovered, using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date

Deferred tax is recognised, using the liability method, on all timing differences, subject to the exceptions noted below, at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes

Deferred tax in respect of taxable or deductible timing differences associated with investments in subsidiaries is not recognised where the timing differences can be controlled and it is probable that the timing differences will not reverse in the foreseeable future or in the case of assets, taxable profit will be unavailable against the timing differences, can be utilised

Deferred tax assets are recognised for all deductible timing differences, carried forward unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible timing differences, and carried forward unused tax assets and unused tax losses can be utilised

Deferred tax is measured at the tax rates that are expected to apply in the periods in which it is anticipated that the asset will be realised or the liability will be settled, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date

Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the company Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements

Pensions and other post-retirement benefits

(i) Defined contribution pension schemes

Pension costs for the company's defined contribution pension schemes are recognised within operating profit at an amount equal to the contributions payable to the scheme for the period Any prepaid or outstanding contributions at the balance sheet date are recognised respectively as assets or liabilities within prepayments or accruals

(ii) Defined benefit pension schemes and other post-retirement benefits

Pension liabilities are measured at their present value in accordance with actuarial assumptions that are updated at each balance sheet date Pension assets are measured at fair value The pension liability or asset is recognised in the balance sheet

Pension costs for the company's defined benefit pension schemes and other post-retirement benefits are recognised as follows

(a) Within operating profit

- the current service cost arising from employee service in the current period,
- the prior service cost related to employee service in prior periods arising in the current period as a result of improvements to benefits, and
- gains and losses arising on unanticipated settlements or curtailments where the item that gave rise to the settlement or curtailment is recognised within operating profit

FKI Limited (formerly FKI Plc)

Notes to the accounts

Year ended 31 December 2009

1. Significant accounting policies (continued)

Pensions and other post-retirement benefits (continued)

(b) Within other finance cost or income

- the interest cost on the liabilities, calculated by reference to the scheme liabilities and discount rate at the beginning of the period, and
- the expected return on assets, calculated by reference to the assets and their long-term expected rate of return at the beginning of the period

(c) Within the statement of recognised income and expense

- on the scheme assets - the difference between the expected and actual return on assets, and
- on the scheme liabilities - (a) the differences between the actuarial assumptions and actual experience, and (b) the effect of changes in actuarial assumptions

Derivative financial instruments of hedge accounting

The company uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financial and investment activities. The company does not use derivative financial instruments for speculative purposes.

As the company accounts for its investments in subsidiaries and associates at cost in its separate books, certain derivative instruments could not be designated as the hedging instrument in a net investment hedge in the company accounts.

Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition they are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting recognition of any resultant gain or loss depends on the nature of the item being hedged.

The fair value of forward foreign exchange contracts is determined by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to the present value of the estimated future cash flows.

For the purpose of hedge accounting, hedges are classified as either fair value hedges, where they hedge the exposure to changes in the fair value of a recognised asset or liability, or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecasted transaction.

In relation to fair value hedges (eg interest rate swaps) which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the income statement. Any gain or loss on the hedged item attributable to the hedged risk is recognised as an adjustment to the carrying amount of the hedged item and recognised in the income statement. Where the adjustment is to the carrying amount of a hedged interest bearing financial instrument, the adjustment is amortised to the net profit and loss such that it is fully amortised by maturity.

In relation to cash flow hedges to hedge the exposure to variability in cash flows which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly to equity and the ineffective portion is recognised in net profit or loss.

FKI Limited (formerly FKI Plc)

Notes to the accounts

Year ended 31 December 2009

1. Significant accounting policies (continued)

Derivative financial instruments of hedge accounting (continued)

When the hedged firm commitment results in the recognition of an asset or liability, then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability. For cash flow hedges that do not result in the recognition of an asset or a liability, the gains or losses that are recognised in equity are transferred to the income statement in the same year in which the hedged firm commitment affects the net profit and loss, for example when the fixture sale actually occurs.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the year.

Share-based payments

Prior to the acquisition of the company by Melrose PLC on 1 July 2008, certain employees (including directors) received remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuation. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of FKI plc ("market conditions").

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("vesting date"). The expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the number of awards at that date based on the best available estimate of the number of equity instruments that will ultimately vest.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum, an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The company has taken advantage of the transitional provisions of FRS 20 in respect of equity-settled awards and has applied FRS 20 only to equity-settled awards granted after 7 November 2002 that had not vested on or before 1 April 2004.

FKI Limited (formerly FKI Plc)

Notes to the accounts

Year ended 31 December 2009

2. Operating loss

	Year ended 31 December 2009 £'m	Nine month period ended 31 December 2008 £'m
This is stated after charging		
Depreciation – owned tangible assets	-	0 1
Operating lease rentals – land and buildings	-	0 1

Auditors' remuneration of £0 1 million (nine month period ended 31 December 2008 £0 1 million) for the audit of the company's annual accounts was borne by another group company in the year ended 31 December 2009. No non-audit fees were payable in either the current year or prior period.

3. Other operating expenses

	Year ended 31 December 2009 £'m	Nine month period ended 31 December 2008 £'m
Increase in provisions	31 1	3 7
Share options	-	0 8
Impairment of investments in subsidiaries	106 0	201 3
Impairment of amounts owed by fellow group undertakings	0 4	1 8
Exchange loss on foreign currency denominated loans	29 2	-
Disposal costs	2 9	-
Legal expenses	0 6	-
Intercompany loan write off	0 1	-
	<u>170 3</u>	<u>207 6</u>

During the nine month period ended 31 December 2008, a charge of £3 7 million was recognised relating primarily to the recognition of legal and environmental liabilities. During 2009, management have revised their estimate of FKI Limited's share of these liabilities and have provided for a further £31 1 million, which has been expensed through the profit and loss account accordingly.

In the prior period, all share options relating to the Ordinary Share capital of FKI plc crystallised as a result of the acquisition by Melrose PLC. A charge of £0 8 million was accordingly recognised.

A review of the carrying value of the company's investments and group receivable balances identified impairments totalling £106 4 million (nine month period ended 31 December 2008 £203 1 million).

During the year, a number of group companies were disposed of. FKI plc bore costs totalling £2 9 million (nine month period ended 31 December 2008 £nil) in respect of these disposals.

During the year, £2 5 million of legal costs were incurred (nine month period ended 31 December 2008 £nil) relating to legal costs for prospective disposals and an ongoing legal dispute.

FKI Limited (formerly FKI Plc)

Notes to the accounts

Year ended 31 December 2009

4 Other operating income

	Year ended 31 December 2009 £'m	Nine month period ended 31 December 2008 £'m
Exchange profit on foreign currency denominated loans	-	67.5
Release of accruals	-	13.9
Transfer of intercompany loan to another group company	0.4	-
	<u>0.4</u>	<u>81.4</u>

During the nine month period ended 31 December 2008, management identified a number of accruals which were considered to be unnecessary. These were released, resulting in exceptional income totalling £13.9 million.

During the year, an intercompany loan payable was transferred to another group company for nil consideration.

5. Non-operating exceptional expenses

	Year ended 31 December 2009 £'m	Nine month period ended 31 December 2008 £'m
Charged after operating loss	-	(2.4)
Disposal expenses	-	(8.0)
Restructuring and closure costs	-	(10.4)
	<u>-</u>	<u>(10.4)</u>

In 2008, the disposal of the FKI group to Melrose PLC resulted in a number of disposal related expenses which totalled £2.4 million.

As a result of the acquisition of FKI plc by Melrose PLC, a restructuring of the FKI plc head office operation was performed. These costs totalled £8.0 million.

There is no tax impact relating to exceptional items (period ended 31 December 2008: £nil).

There are no non-operating exceptional expenses in the year ended 31 December 2009.

FKI Limited (formerly FKI Plc)

Notes to the accounts

Year ended 31 December 2009

6. Staff costs

	Year ended 31 December 2009 £'m	Nine month period ended 31 December 2008 £'m
Wages and salaries	-	1 5
Social security costs	-	0 1
Pension and other	5 0	4 6
Share options	-	2 8
	<u>5 0</u>	<u>9 0</u>

Included in pension and other retirement benefits are £5 0 million (period ended 31 December 2008 £4 4 million) in respect of defined benefit schemes and £nil (period ended 31 December 2008 £0 2 million) with respect of defined contribution schemes

The average monthly number of persons employed by the company during the year was as follows

	Year ended 31 December 2009 £'m	Nine month period ended 31 December 2008 £'m
Administration and management	-	14

7 Directors' remuneration

	Year ended 31 December 2009 £'m	Nine month period ended 31 December 2008 £'m
Emoluments	-	1 4
Company contributions to pension schemes	-	0 4
Compensation for loss of office	-	3 9
Share-based payments	-	1 2
	<u>-</u>	<u>6 9</u>

The directors received no remuneration for their services to the company during the year (nine month period ended 31 December 2008 £6 9 million)

FKI Limited (formerly FKI Plc)

Notes to the accounts Year ended 31 December 2009

8. Net finance costs

	Year ended 31 December 2009 £'m	Nine month period ended 31 December 2008 £'m
Finance costs		
Loans and overdrafts	(1 1)	(18 4)
Intercompany loans	(72 3)	(90 1)
Defined benefit finance charges	(5 3)	(3 3)
	<u>(78 7)</u>	<u>(111 8)</u>
Finance income		
Bank interest	1 5	-
Intercompany loans	9 9	41 8
Fair value charge on financial instruments	-	1 1
	<u>11 4</u>	<u>42 9</u>
Exceptional finance expenses		
Eurobond refinance	-	(9 0)
Deferred swap gains	-	8 4
	<u>-</u>	<u>(0 6)</u>

In the nine month period ended 31 December 2008 following the acquisition of the company by Melrose PLC, the Eurobond held by the company was redeemed. Costs of redemption, which included a premium above the par value of the bond, totalled £9 0 million.

The balance sheet of the company at acquisition by Melrose PLC contained a deferred gain with respect to a swap contract associated with the Eurobond. This gain was to be amortised over the original life of the Eurobond to February 2010. The fair value exercise undertaken following the acquisition resulted in this deferred gain being released immediately. An exceptional finance credit of £8 4 million was generated accordingly.

There are no exceptional finance expenses in the year ended 31 December 2009.

FKI Limited (formerly FKI Plc)

Notes to the accounts Year ended 31 December 2009

9. Investment income

	Year ended 31 December 2009 £'m	Nine month period ended 31 December 2008 £'m
Dividends from subsidiaries	342.9	1.0

10. Tax on profit/(loss) on ordinary activities

	Year ended 31 December 2009 £'m	Nine month period ended 31 December 2008 £'m
Current tax		
UK Corporation tax at 28% (31 December 2008 28%)		
Prior period adjustment	(1.4)	-
Total current tax	(1.4)	-
Deferred tax	(1.1)	(0.6)
Total tax credit on ordinary activities	(2.5)	(0.6)

The tax assessed for the year is lower than (nine month period ended 31 December 2008 higher than) the standard rate of corporation tax in the UK as explained below

	Year ended 31 December 2009 £'m	Nine month period ended 31 December 2008 £'m
Profit/(loss) on ordinary activities before taxation	107.8	(209.9)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (31 December 2008 28%)	30.2	(58.8)
Effects of		
Non deductible expenses	10.9	2.2
Short-term timing differences	(0.2)	(3.3)
Deduction not in profit and loss account	(2.1)	(1.6)
Non taxable income	(96.0)	-
Impairment of investment and receivables	29.8	56.9
Group relief surrendered for nil consideration	27.4	4.6
Prior period adjustment	(1.4)	-
Total current tax	(1.4)	-

FKI Limited (formerly FKI Plc)

Notes to the accounts

Year ended 31 December 2009

10. Tax on profit on ordinary activities (continued)

The tax charge in future periods may be affected by the utilisation of tax losses, which amount to an unrecognised deferred tax asset of £24.0 million (31 December 2008: £15.0 million). Based on currently available evidence, it is considered unlikely that suitable taxable income will be generated.

11. Tangible fixed assets

	Plant, equipment and vehicles £'m
Cost	
At 31 December 2008	0.1
Disposals	(0.1)
At 31 December 2009	-
Accumulated depreciation	
At 31 December 2008	0.1
Charge for the year	-
Disposals	(0.1)
At 31 December 2009	-
Net book value	
At 31 December 2009	-
At 31 December 2008	-

12. Investments in subsidiaries

	Total £'m
Cost:	
At 31 December 2008	3,135.9
Foreign exchange movements	(61.3)
At 31 December 2009	3,074.6
Provisions:	
At 31 December 2008	(392.2)
Impairment during the year	(106.0)
At 31 December 2009	(498.2)
Net book value	
At 31 December 2009	2,576.4
At 31 December 2008	2,743.7

FKI Limited (formerly FKI Plc)

Notes to the accounts

Year ended 31 December 2009

12. Investments in subsidiaries (continued)

On 1 June 2009, the US dollar investment in Hamsard 2291 Limited was redenominated into a sterling investment

A review of the carrying value of the company's investments identified impairments totalling £106.0 million (nine month period ended 31 December 2008 £201.3 million)

Name	Country of incorporation or registration	Percentage holding	Principal activity
FKI Engineering Limited	Great Britain	100%	Engineering company
West House Insurance Limited	Guernsey	100%	Insurance company
Danks Holdings Limited	Great Britain	100%	Holding company
Black Heath Limited	Guernsey	100%	Holding company
Hamsard 2291 Limited	Great Britain	100%	Holding company
Brush Electrical Machines Limited	Great Britain	100%	Engineering company
Bridon plc	Great Britain	100%	Holding company
Brush Traction	Great Britain	20%	Holding company
FKI Mondiale BV	Netherlands	20%	Holding company
FKI Logistex Group Limited	Great Britain	100%	Holding company

13. Debtors receivable within one year

	31 December 2009 £'m	31 December 2008 £'m
Amounts owed by fellow group undertakings	305.1	1,281.4
Other prepayments and accrued income	1.4	0.6
	<u>306.5</u>	<u>1,282.0</u>

14. Derivative financial instruments

	31 December 2009 £'m	31 December 2008 £'m
Debtors falling due within one year	0.3	0.1
Creditors falling due within one year	(0.2)	-
	<u>0.1</u>	<u>0.1</u>

FKI Limited (formerly FKI Plc)

Notes to the accounts

Year ended 31 December 2009

14 Derivative financial instruments (continued)

	31 December 2009			31 December 2008		
	Derivative financial assets £'m	Derivative financial liabilities £'m	Net derivative financial instruments £'m	Derivative financial assets £'m	Derivative financial liabilities £'m	Net derivative financial instruments £'m
Derivative financial instruments –current						
Cash flow hedges	-	-	-	0.1	-	0.1
Other hedges	0.3	(0.2)	0.1	-	-	-
	<u>0.3</u>	<u>(0.2)</u>	<u>0.1</u>	<u>0.1</u>	<u>-</u>	<u>0.1</u>

The company adopted FRS 25 and FRS 26 with effect from 1 April 2005. On this date a number of derivative financial instruments held by the company qualified as effective cash flow, fair value or net investment hedges.

Forward foreign exchange contracts	Currency	Principal	Maturity	Exchange rate
Company sells	Sterling	17.0 million	January 2010	Sterling Euro
Company buys	Euro	19.0 million		exchange rate of 1.11
Company sells	HK Dollar	12.0 million	January 2010	Sterling HK Dollar
Company buys	Sterling	0.9 million		exchange rate of 12.53
Company sells	Sterling	15.6 million	January 2010	Sterling US Dollar
Company buys	US Dollar	25.7 million		exchange rate of 1.62

FKI Limited (formerly FKI Plc)

Notes to the accounts Year ended 31 December 2009

15 Other creditors

	31 December 2009 £'m	31 December 2008 £'m
Amounts falling due within one year		
Amounts owed to parent undertaking	431.1	625.6
Amounts owed to fellow group undertakings	2,043.2	3,013.3
Other taxes and social security	2.2	1.5
Accruals and deferred income	3.1	2.6
Other creditors	0.7	2.9
	<u>2,480.3</u>	<u>3,645.9</u>

16 Provisions for liabilities and charges

	Legal and environmental obligations £'m	Restructuring provision £'m	Deferred tax £'m	Total £'m
At 31 December 2008	3.6	2.2	1.1	6.9
Amount charged/(released) to income statement	31.1	-	(1.1)	30.0
Utilisation	(2.6)	(1.9)	-	(4.5)
At 31 December 2009	<u>32.1</u>	<u>0.3</u>	<u>-</u>	<u>32.4</u>

During the year, the legal and environmental provision was increased by a total of £31.1 million as detailed in note 3. Of these costs, £2.6 million were also utilised.

During the year, £1.9 million of the restructuring provision was utilised largely due to redundancy costs.

Deferred taxation, provided in the financial statements, is in respect of

	31 December 2009 £'m	31 December 2008 £'m
Short-term timing differences	<u>-</u>	<u>1.1</u>

FKI Limited (formerly FKI Plc)

Notes to the accounts

Year ended 31 December 2009

17 Pension liability

The company is a participating member of the FKI Company Pension Scheme which is the main defined benefit scheme in the United Kingdom. The date of the most recent, full actuarial valuation was 31 December 2008.

The major assumptions used for the actuarial valuation were

	31 December 2009 % p.a.	31 December 2008 % p.a.
Discount rate for scheme liabilities	5.75	6.30
Inflation assumption	3.45	2.75
Rate of increase in salaries	3.95	3.25
Rate of increase in pension payments	3.30	2.90

The mortality assumptions for the plan at 31 December 2009 are based on 90% of the heavy Self Administered Pension Scheme (SAPs) tables, reflecting the scheme membership being largely employed in the industrial sector. Future improvements are in line with 80% (60% for women) of the long cohort, subject to a minimum underpin of 1% p.a.

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member currently aged 65 will live on average for a further 20.1 years if they are male and for a further 23.5 years if they are female.

For a member who retires in 2024 aged 65 years, the assumptions are that they will live on average for a further 21.7 years after retirement if they are male and a further 24.9 years after retirement if they are female.

The fair value of the Scheme's assets, the present value of its liabilities and the net pension liability are as follows:

	31 December 2009 £'m	31 December 2008 £'m
Equities	183.9	114.4
Bonds	314.1	330.9
Other	10.7	17.3
Total fair value of Scheme assets	508.7	462.6
Present value of Scheme liabilities	(618.8)	(520.2)
Deficit in the Scheme	(110.1)	(57.6)
Related deferred tax asset (partial)	3.1	-
Net pension liability	(107.0)	(57.6)

FKI Limited (formerly FKI Plc)

Notes to the accounts

Year ended 31 December 2009

17. Pension liability (continued)

Amounts recognised in the profit and loss account in respect of the defined benefit scheme

	Year ended 31 December 2009 £'m	Nine month period ended 31 December 2008 £'m
In arriving at operating loss (included within administration income/(expenses))		
Current service cost	(5 0)	(4 4)
	<u>(5 0)</u>	<u>(4 4)</u>
Included within finance costs		
Interest cost	(32 2)	(25 3)
Expected return on assets	26 9	22 0
	<u>(5 3)</u>	<u>(3 3)</u>

	Year ended 31 December 2009 £'m	Nine month period ended 31 December 2008 £'m
The amounts recognised in the statement of total recognised gains and losses		
Actuarial losses on scheme liabilities	(85 5)	(2 4)
Actuarial gains/(losses) on scheme assets	25 4	(58 2)
	<u>(60 1)</u>	<u>(60 6)</u>
Deferred tax asset on scheme	3 1	-
	<u>(57 0)</u>	<u>(60 6)</u>

FKI Limited (formerly FKI Plc)

Notes to the accounts

Year ended 31 December 2009

17. Pension liability (continued)

Movements in the benefit liabilities during the year

	31 December 2009 £'m	31 December 2008 £'m
At beginning of year/period	(520.3)	(506.9)
Current service cost	(5.0)	(4.4)
Interest cost	(32.2)	(25.3)
Contributions by scheme participants	(1.9)	(1.1)
Actuarial losses	(85.5)	(2.4)
Benefits paid out	26.1	19.8
At end of year/period	<u>(618.8)</u>	<u>(520.3)</u>

Movements in the fair value of scheme assets during the year

	31 December 2009 £'m	31 December 2008 £'m
At beginning of year/period	462.7	503.9
Expected return on assets	26.9	22.0
Actuarial gains/(losses)	25.4	(58.2)
Employer contributions	17.9	13.7
Contributions by scheme participants	1.9	1.1
Benefits paid out	(26.1)	(19.8)
At end of year/period	<u>508.7</u>	<u>462.7</u>

18 Called up share capital

	Ordinary shares of 10p each	
	Number million	Amount £'m
Allotted, called up and fully paid		
31 December 2008 and 31 December 2009	<u>591.4</u>	<u>59.1</u>

FKI Limited (formerly FKI Plc)

Notes to the accounts

Year ended 31 December 2009

19 Share capital and reserves

	Share capital £'m	Share premium account £'m	Capital redemption reserve £'m	Own share £'m	Profit and loss account £'m	Share- based payments accrual £'m	Hedging reserve £'m	Total equity £'m
As at 1 April 2008	58.8	159.2	2.0	(2.4)	242.6	3.5	-	463.7
Actuarial loss on defined benefit pensions and their post- retirement benefits	-	-	-	-	(60.6)	-	-	(60.6)
Dividends	-	-	-	-	(67.3)	-	-	(67.3)
Loss for the period	-	-	-	-	(209.3)	-	-	(209.3)
Net exchange gains on foreign currency investments and loans	-	-	-	-	149.7	-	-	149.7
Premium on shares issued	0.3	1.9	-	-	-	-	-	2.2
Own shares movements	-	-	-	1.3	(1.3)	-	-	-
Transfer between reserves re share-based options	-	-	-	-	3.5	(3.5)	-	-
Net losses on cash flow hedges	-	-	-	-	-	-	(0.1)	(0.1)
As at 31 December 2008	59.1	161.1	2.0	(1.1)	57.3	-	(0.1)	278.3
Actuarial loss on defined benefit pensions and their post- retirement benefits, net of tax	-	-	-	-	(57.0)	-	-	(57.0)
Dividends	-	-	-	-	(57.0)	-	-	(57.0)
Profit for the year	-	-	-	-	110.3	-	-	110.3
Net exchange losses on foreign currency investments and loans	-	-	-	-	(41.3)	-	-	(41.3)
Own shares movement	-	-	-	0.8	(0.8)	-	-	-
Net gains on cash flow hedges	-	-	-	-	-	-	0.1	0.1
As at 31 December 2009	59.1	161.1	2.0	(0.3)	11.5	-	-	233.4

FKI Limited (formerly FKI Plc)

Notes to the accounts

Year ended 31 December 2009

20 Share-based payments

Disclosures of the share-based payments offered to employees are set out below. In accordance with the transitional provisions of FRS 20, the company has recognised an expense in respect of all equity-settled awards granted after 7 November 2002 that had not vested on or before 1 April 2004.

The charge to the income statement in respect of share-based payments for the year ended 31 December 2009 was £nil (nine month period ended 31 December 2008: £0.6 million).

(a) Long-Term Incentive Plan (LTIP)

Participants received annual conditional awards of shares in the company which were due to vest only after the achievement of certain long-term performance conditions. Participants received these shares, three years after the award, provided the performance conditions were met.

All outstanding Long-term incentive plans crystallised when the company was acquired by Melrose PLC on 1 July 2008.

The fair value was charged to the income statement over the vesting period and was estimated on the date of the grant by Hewitt Associates Limited, using the Monte Carlo pricing model and the following weighted average assumptions. Assumptions are made for each separate grant but weighted averages have been disclosed because options were granted at different dates within certain years.

	Weighted average			
	31 December 2009	31 December 2008	31 March 2008	31 March 2007
Risk free interest rate	-	-	5.37%	4.78%
Expected volatility	-	-	25.0%	25.0%
Expected dividend yield	-	-	4.0%	4.0%
Expected option life (years)	-	-	3	3
Fair value (pence)	-	-	72.4p	76.4p

Details of the LTIP's outstanding during the year/period are as follows:

	Number of shares	
	31 December 2009 000's	31 December 2008 000's
Outstanding at start of year/period	-	4,727
Granted during the year/period	-	-
Forfeited during the year/period	-	(263)
Exercised during the year/period	-	(4,464)
Lapsed during the year/period	-	-
Outstanding at end of year/period	-	-

FKI Limited (formerly FKI Plc)

Notes to the accounts

Year ended 31 December 2009

20. Share-based payments (continued)

(b) Save As You Earn scheme

This scheme was open to all UK employees who had completed six months' service and who entered into an approved savings contract for a term of three or five years. The maximum amount which could be saved was £250 per month and the total savings (including interest) at the end of the term were available to purchase shares at 80% of their market value shortly before the start of the savings contract.

The fair value was charged to the income statement over the vesting period and was estimated on the date of the grant by Hewitt Associates Limited, using the binomial pricing model and the following weighted average assumptions. Assumptions are made for each separate grant but weighted averages have been disclosed because SAYE options were granted at different dates within certain years.

No grants of SAYE options were made under the scheme during the year ended 31 December 2009 and the period ended 31 December 2008. On 1 July 2008, all outstanding SAYE options crystallised following the acquisition of the company by Melrose PLC.

	Weighted average				
	31 December 2009	31 December 2008	31 March 2008	31 March 2007	31 March 2006
Risk free Interest rate	-	-	-	-	4.31%
Expected volatility	-	-	-	-	25.0%
Expected dividend yield	-	-	-	-	3.2%
Expected option life (years)	-	-	-	-	4.3
Fair value (pence)	-	-	-	-	35.3p

Details of the SAYE options outstanding during the year/period are as follows:

	31 December 2009		31 December 2008	
	Number of SAYE options 000's	Weighted average exercise price £	Number of SAYE options 000's	Weighted average exercise price £
Outstanding at start of year/period	-	-	4,030	0.71
Granted during the period/year	-	-	-	-
Forfeited during the period/year	-	-	(1,873)	(0.81)
Exercised during the period/year	-	-	(2,157)	(0.62)
Outstanding at end of year/period	-	-	-	-

The SAYE options outstanding at 31 December 2009 had a weighted average remaining contractual life of nil years (nine month period ended 31 December 2008: nil years).

FKI Limited (formerly FKI Plc)

Notes to the accounts

Year ended 31 December 2009

20. Share-based payments (continued)

(c) Share option scheme

The group operated an executive share option scheme. All executive options could only be exercised subject to a performance condition that the FKI group's growth in earnings per share must exceed the UK retail price index by 9% or more over a three year period, subject to retesting in subsequent years from a rolling base. The retesting condition was removed for options granted after April 2004. The contractual lifetime of the options was ten years.

The range of exercise prices for options outstanding at 31 December 2009 is nil (nine month period ended 31 December 2008 nil). All outstanding options on 1 July 2008 crystallised following the acquisition of the company by Melrose PLC.

The fair value was charged to the income statement over the vesting period and was estimated on the date of the grant by Hewitt Associates Limited using the binomial pricing model and the following weighted average assumptions. Assumptions are made for each separate grant but weighted averages have been disclosed because share options were granted at different dates within certain years.

	Weighted average		Weighted average		Weighted average	
	Year ended	Nine month	Year ended	Year ended	Year ended	Year ended
	31 December	period ended	31 March	31 March	31 March	31 March
	2009	31 December	2008	2007	2006	2005
		2008				
Risk free interest rate	-	-	5.31%	4.70%	4.18%	5.24%
Expected volatility	-	-	25.0%	25.0%	25.0%	25.0%
Expected dividend yield	-	-	4.0%	4.0%	3.2%	3.2%
Expected option life (years)	-	-	4	4	6	6
Fair value (pence)	-	-	17.9p	19.2p	20.0p	26.0p

Details of the share options outstanding during the year/period are as follows:

	31 December 2009		31 December 2008	
	Number of	Weighted	Number of	Weighted
	share	average	share	average
	options	exercise	options	exercise
	000's	price	000's	price
		£		£
Outstanding at start of year/period	-	-	13,018	0.95
Granted during the year/period	-	-	-	-
Forfeited during the year/period	-	-	(12,068)	(0.96)
Exercised during the year/period	-	-	(950)	(0.85)
Lapsed during the year/period	-	-	-	-
Outstanding at end of year/period	-	-	-	-

The share options outstanding at 31 December 2009 had a weighted average remaining contractual life of nil years (nine month period ended 31 December 2008 nil years).

FKI Limited (formerly FKI Plc)

Notes to the accounts Year ended 31 December 2009

21. Dividends

The amounts recognised as distributions to equity holders in the year/period were

	31 December 2009 £'m	31 December 2008 £'m
Interim dividend	57.0	49.6
Final dividend for the nine month period ended 31 December 2008 of 3p per Ordinary share	-	17.7
	<u>57.0</u>	<u>67.3</u>

22. Contingent liabilities

The company has contingent liabilities of £14.9 million (nine month period ended 31 December 2008 £21.4 million) in respect of guarantees of subsidiary undertakings banking obligations

The company is also the subject of various pending legal proceedings which have arisen in the normal course of business, including claims on contracts, product liability, environmental claims and others. The claims giving rise to such proceedings are likely to be mitigated by legal defences, insurance and third-party indemnities. While the outcome of some of these matters cannot precisely be foreseen, the directors do not believe that these claims, after allowing for provisions already made, will have a material adverse effect upon the company's financial results.

Where the company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the company considers these to be insurance arrangements and treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make payments under the guarantee.

23. Leasing commitments

Annual commitments under non-cancellable operating leases are as follows

	Land and buildings	
	31 December 2009 £'m	31 December 2008 £'m
Not later than one year	-	0.1
After one year but not more than five years	-	-
	<u>-</u>	<u>0.1</u>

24. Ultimate parent company

The ultimate parent undertaking of the company is Melrose PLC, registered in England and Wales at Precision House, Arden Road, Alcester, B49 6HN.

The only group into which the results of the company are consolidated is that headed by Melrose PLC. Copies of the financial statements are available from the Company Secretary, Melrose PLC at the registered address.