

McKechnie Engineered Plastics Limited
Annual report
for the year ended 31 December 2008

Registered Number 3984537



McKechnie Engineered Plastics Limited

Directors' report for the year ended 31 December 2008

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

Principal activities and review of business

The Company is a wholly owned subsidiary of Melrose PLC and operates as part of the Group's Plastic Components Segment.

The Company's principal activities are the manufacture and sale of engineered plastic component products in the UK, US and Europe. The Directors are not aware, at the date of this report, of any further likely major changes in the Company's activities in the next year.

The Company continues to invest in research and development. This has resulted in a number of updates to existing products. The Directors regard investment in research and development as necessary for continuing success in the medium to long term future.

As shown in the Company's profit and loss account on page 7, the Company's sales are £43,809,000 (2007: £43,258,000) and the loss after tax was £121,000 (2007: £14,373,000).

The balance sheet on page 9 of the financial statements shows that the Company's financial position at the year end is consistent with the prior year. Net assets have decreased as a result of the loss incurred during the year. Details of amounts owed to and from Group companies are shown in notes 11 and 12.

The Melrose Group manages its operations on a divisional basis. For this reason, the Company's Directors believe that further key performance indicators for the Company are not necessary or appropriate for an understanding of the development, performance or position of the business. The performance of the Other Industrial segment of Melrose PLC, which includes the company, is discussed in the Group's Annual Report which does not form part of this Report.

Going concern

The directors have considered the going concern assumption given the current economic climate and have reviewed the company forecast 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.

Principal risks and uncertainties

Competitive pressure in the UK is a continuing risk for the Company, which could result in it losing sales to its key competitors. The Company manages this risk by providing added value services to its customers, having fast response times not only in supplying products but in handling all customer queries, and by maintaining strong relationships with customers.

The Company's sales in Europe are made in Euros and sales in US are made in US \$ and it is therefore exposed to the movement in the Euro and US \$ to pound exchange rate. The Group's treasury function takes out contracts to manage this risk at a group level.

Group risks are discussed in the group's Annual Report which does not form part of this Report.

McKechnie Engineered Plastics Limited

Directors' report for the year ended 31 December 2008 (continued)

Environment

The Company recognizes the importance of its environmental responsibilities, monitors its impact on the environment, and designs and implements policies to reduce any damage that might be caused by the Company's activities.

The Company has implemented Environmental Management Systems, which resulted in accreditation to the international environmental standard ISO14001. The sites have continued to progress a number of initiatives targeted to improve the businesses environmental position. These have also enhanced the company's working conditions and competitive position.

Initiatives designed to minimize the company's impact on the environment include the move by the business into quieter, cleaner and more energy efficient electric machines, a number of "close loop" water-cooling systems targeted to provide a reduction in overall water usage and energy efficient lighting.

Generally recycling of packaging has improved, waste is managed and reused where possible and the Company transportation is planned on a full load basis where possible.

Employees

Details of the number of employees and related costs can be found in note 6 to the financial statements.

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Company continues and that appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees

The Company participates in the Group's policies and practices to keep employees informed on matters relevant to them as employees through regular meetings and correspondence. Employees and their representatives are consulted regularly on a wide range of matters affecting their interests.

Creditors' payment policy and practice

It is the Company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers, providing that all trading terms and conditions have been complied with.

At 31 December 2008, the Company had an average of 66 days purchases outstanding in trade creditors.

Results and dividends

The loss for the year after taxation transferred from reserves amounted to £121,000 (year to 31 December 2007: loss of £14,373,000). The Directors do not recommend the payment of a dividend (2007: nil).

McKechnie Engineered Plastics Limited

Directors' report for the year ended 31 December 2008 (continued)

Directors and their interests

The Directors who held office during the year and subsequently were:

G P Martin
G E Barnes
S A Peckham
A G Peart (appointed 29.02.08)
M J Richards (appointed 18.03.08)
R Keen (appointed 18.03.08, resigned 19.06.09)
B V Mann (appointed 18.03.08)

None of the Directors hold any beneficial interest in shares in the Company.

The Directors have the benefit of 'qualifying third party indemnity provisions' for the purposes of sections 309a to 309c of the Companies Act 1985.

Auditors

Each of the Directors at the date of approval of this annual 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 s234ZA of the Companies Act 1985.

Deloitte LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

McKechnie Engineered Plastics Limited

Directors' report for the year ended 31 December 2008 (continued)

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). The financial statements are required by law to 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 judgments and 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;
- 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 proper accounting records that 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 1985. 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.

By order of the Board



M J Richards
Director

30 October 2009

McKechnie Engineered Plastics Limited

Independent auditors' report to the members of McKechnie Engineered Plastics Limited

We have audited the financial statements of McKechnie Engineered Plastics Limited for the year ended 31 December 2008 which comprise the Profit and Loss Account, the Note of Historical Costs and Losses, the Balance Sheet and the related notes 1 to 21. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

McKechnie Engineered Plastics Limited

Independent auditors' report to the members of McKechnie Engineered Plastics Limited (continued)

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Debbie WP

Deloitte LLP

Chartered Accountants and Registered Auditors

Leeds

30 October 2009

McKechnie Engineered Plastics Limited

Profit and loss account for the year ended 31 December 2008

		Year ended 31 December 2008	Year ended 31 December 2007
	Note	£'000	£'000
Turnover	2	43,809	43,258
Cost of sales		(37,387)	(36,652)
Gross profit		6,422	6,606
Distribution expenses		(1,703)	(2,542)
Administrative expenses – other		(887)	(1,511)
Administrative expenses – exceptional	3	(4,804)	(18,254)
Total administrative expenses		(5,691)	(19,765)
Operating loss	3	(972)	(15,701)
Group Interest receivable		872	1,339
Interest payable and similar charges	4	(21)	(11)
Loss on ordinary activities before taxation		(121)	(14,373)
Tax on loss on ordinary activities	7	-	-
Loss for the year transferred from reserves	16	(121)	(14,373)

There are no recognised gains or losses for either the current or preceding year other than those included in the profit and loss account above, therefore no statement of total recognised gains and losses is presented.

All results derive from continuing operations.

McKechnie Engineered Plastics Limited

Note of historical cost profits and losses for the year ended 31 December 2008

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Reported loss on ordinary activities before taxation	(121)	(14,373)
Difference between a historical cost, depreciation charge and the actual depreciation charge calculated on the reduced amount	75	75
Historical cost loss on ordinary activities before taxation	<u>(46)</u>	<u>(14,298)</u>
Historical cost loss for the year retained after taxation	<u>(46)</u>	<u>(14,298)</u>

McKechnie Engineered Plastics Limited

Balance sheet as at 31 December 2008

	Note	2008 £'000	2007 £'000
Fixed assets			
Intangible assets	8	-	-
Tangible fixed assets	9	10,294	8,043
		<u>10,294</u>	<u>8,043</u>
Current assets			
Stocks	10	2,513	2,720
Debtors	11	18,621	22,522
Cash at bank and in hand		8,118	5,934
		<u>29,252</u>	<u>31,176</u>
Creditors: amounts falling due within one year	12	(7,905)	(7,448)
Net current assets		<u>21,347</u>	<u>23,728</u>
Total assets less current liabilities		<u>31,641</u>	<u>31,771</u>
Creditors: amounts falling due after one year	12	(2,016)	(2,105)
Provisions for liabilities	13	(675)	(595)
Net assets		<u>28,950</u>	<u>29,071</u>
Capital and reserves			
Called up share capital	15	10	10
Share premium account	16	62,400	62,400
Revaluation reserve	16	1,258	1,333
Profit and loss account	16	(34,718)	(34,672)
Equity shareholders' funds		<u>28,950</u>	<u>29,071</u>

The financial statements on pages 7 to 24 were approved by the Board of Directors on 30/10/09 and were signed on its behalf by:

M.J. Richards

M J Richards
Director

Company number: 3984537

McKechnie Engineered Plastics Limited

Notes to the financial statements for the year ended 31 December 2008

1 Principal accounting policies

The principal accounting policies are summarised below. They have been applied consistently throughout the current and preceding year.

Basis of preparation

These financial statements have been prepared under the historical cost convention, modified to include the revaluation of certain fixed assets, and in accordance with applicable United Kingdom accounting standards.

Cash flow statement

The company is a wholly owned subsidiary of Melrose UK Holdings Limited and is included in the consolidated financial statements of Melrose PLC which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard No 1 (Revised) "Cash Flow Statements".

Tangible fixed assets

Fixed assets are shown at cost or valuation net of depreciation and any provision for impairment. Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its estimated useful life as follows:

Freehold land	Nil
Freehold buildings	Over 50 years
Plant and machinery, and office equipment	Between 3 and 12 years

Stocks

Stocks and work in progress are valued at the lower of cost and net realisable value. Cost comprises materials, labour and appropriate overhead expenses. Provisions are made as necessary for slow moving and obsolete stock.

Leased assets

The cost of operating leases are charged to the profit and loss account on a straight-line basis over the lease term. Where assets are sold and leased back and the transaction is at fair value, any profit or loss is recognised immediately. Where the sale price is greater than fair value, the excess over fair value shall be deferred and amortised over the period for which the asset is expected to be used.

McKechnie Engineered Plastics Limited

Notes to the financial statements for the year ended 31 December 2008

1 Principal accounting policies (continued)

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Pension costs

The Company operates a defined contribution pension scheme. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the scheme. In addition, the Company makes contributions to a closed scheme. These contributions are charged to the profit and loss account in accordance with a deed of guarantee (see note 17).

Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate.

McKechnie Engineered Plastics Limited

Notes to the financial statements for the year ended 31 December 2008

Intangible assets

Intangible assets acquired separately from a business are capitalised at cost. Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred.

Intangible assets are amortised on a straight line basis over their estimated useful lives up to a maximum of 20 years. The carrying value of intangible assets is reviewed for impairment at the end of each period. An impairment loss is recognised as an expense immediately.

Turnover

Turnover is stated net of VAT and trade discounts. Turnover from the sale of goods is recognised when the goods are physically delivered to the customer. Turnover from the supply of services represents the value of services provided under contracts to the extent that there is a right to consideration and is recorded at the value of the consideration due. Where a contract has only been partially completed at the balance sheet date turnover represents the value of the service provided to date based on a proportion of the total contract value. Where payments are received from customers in advance of services provided, the amounts are recorded as Deferred Income and included as part of Creditors due within one year.

Research and development

Research expenditure is written off as incurred. Development expenditure is also written off, except where the directors are satisfied as to the technical, commercial and financial viability of individual projects. In such cases, the identifiable expenditure is deferred and amortised over the period during which the Group is expected to benefit. This period is between three and five years. Provision is made for any impairment.

2 Turnover

Turnover, which is stated net of value added tax and trade discounts, represents the value of goods or services delivered to third parties. Turnover is attributable to one continuing activity, the manufacture and distribution of engineered plastic components.

	2008	2007
An analysis of turnover by geographical market is given below:	£'000	£'000
United Kingdom	37,219	37,248
Rest of Europe	5,682	4,595
United States of America	190	370
Pacific	718	1,045
	<u>43,809</u>	<u>43,258</u>

McKechnie Engineered Plastics Limited

Notes to the financial statements for the year ended 31 December 2008

3 Operating loss

	2008	2007
	£'000	£'000
This is stated after charging / (crediting)		
Depreciation of owned fixed assets	1,189	1,167
Depreciation of assets held under finance leases	29	56
Profit on disposal of fixed assets	(47)	(17)
Operating lease rentals – land and buildings	329	415
Operating lease rentals – plant and machinery	131	100
Hire of plant and machinery	11	10
Auditors' remuneration – audit fees for statutory audit of the company including expenses*	43	33

* There are no payments to the auditors for non-audit services.

Also included within operating loss are the following exceptional operating costs:

	2008	2007
	£'000	£'000
Lump sum pension contribution	4,804	18,254
	<u>4,804</u>	<u>18,254</u>

4 Interest payable and similar charges

	2008	2007
	£'000	£'000
Bank interest	17	-
Finance lease interest	4	11
	<u>21</u>	<u>11</u>

5 Directors emoluments

The directors received no remuneration for their services to the company during the year (2007: £nil). The directors of the company are also directors of a number of the companies within the Melrose Group. The director's services to the company do not occupy a significant amount of their time. As such, the directors do not consider that they have received any remuneration for their incidental services to the company.

McKechnie Engineered Plastics Limited

Notes to the financial statements for the year ended 31 December 2008

6 Staff costs

	2008	2007
	£'000	£'000
Wages and salaries	9,716	9,511
Social security costs	458	795
Other pension costs (note 17)	4,886	18,362
	<u>15,060</u>	<u>28,668</u>

The average weekly number of employees during the current year and prior year was as follows:

	2008	2007
Administration	85	85
Manufacturing	372	359
	<u>457</u>	<u>444</u>

7 Taxation on loss on ordinary activities

	2008	2007
	£'000	£'000
(a) Analysis of (credit)/charge in year		
<i>Current tax</i>		
UK corporation tax charge at 28.5% (2007: 30%)	-	-
Total current tax (note b)	<u>-</u>	<u>-</u>

McKechnie Engineered Plastics Limited

Notes to the financial statements for the year ended 31 December 2008

7 Taxation on loss on ordinary activities (continued)

(b) Factors affecting tax credit for the year

The tax assessed for the year is lower than the standard rate of corporation tax in the UK (28.5%). The differences are explained below:

	2008 £'000	2007 £'000
Loss on ordinary activities before tax	(121)	(14,373)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 28.5% (2007: 30%)	(34)	(4,312)
<i>Effects of:</i>		
Disallowed expenses and non taxable income	9	15
Capital allowances for period in excess of depreciation	(577)	(800)
Effect of spreading of pension contribution	(1,190)	3,760
Other short term timing differences	23	66
Group relief surrendered (at nil tax rate)	1,769	1,271
Current tax credit for year (note a)	-	-

(c) Factors that may affect future tax charges

The amount of the deferred tax asset not recognised at 31 December 2008 at 28% is £3.8 million (2007 at 28%: £5.4 million) due to the unpredictability of future profit streams.

McKechnie Engineered Plastics Limited

Notes to the financial statements for the year ended 31 December 2008

8 Intangible assets

	Total
	£'000
Cost	
At 1 January 2008 and 31 December 2008	<u>15,652</u>
Amortisation	
At 1 January 2008 and 31 December 2008	<u>15,652</u>
Net book value	
At 1 January 2008 and 31 December 2008	<u>-</u>

9 Tangible fixed assets

	Land and buildings	Property, plant and machinery	Total
	£	£	£
Cost or valuation			
At 1 January 2008	4,373	35,492	39,865
Additions	-	3,469	3,469
Disposals	-	(801)	(801)
At 31 December 2008	<u>4,373</u>	<u>38,160</u>	<u>42,533</u>
Depreciation			
At 1 January 2008	(279)	(31,543)	(31,822)
Charge for the year	(117)	(1,101)	(1,218)
Disposals	-	801	801
At 31 December 2008	<u>(396)</u>	<u>(31,843)</u>	<u>(32,239)</u>
Net book value			
At 31 December 2008	<u>3,977</u>	<u>6,317</u>	<u>10,294</u>
At 31 December 2007	<u>4,094</u>	<u>3,949</u>	<u>8,043</u>

McKechnie Engineered Plastics Limited

Notes to the financial statements for the year ended 31 December 2008

9 Tangible fixed assets (continued)

The net book value of plant and machinery includes an amount of £22,000 (2007: £118,000) in respect of assets held under finance leases.

Freehold land and buildings were valued externally on the basis of existing use value on 31 May 2005 by NAI Fuller Peiser, Chartered Surveyors. Included in cost or valuation of freehold land and buildings at 31 December 2008 is an amount of £959,000 in respect of this valuation. A further valuation was conducted during the year ended 31 December 2008 by the directors in accordance with the five-year cycle of valuations and it was concluded that there was no material change in the value of the property. On the historical cost basis, freehold land and buildings would have been included as follows:

	£'000
Cost:	
At 1 January 2008	3,266
At 31 December 2008	<u>3,266</u>
Cumulative depreciation based on cost:	
At 1 January 2008	816
At 31 December 2008	<u>925</u>

10 Stocks

	2008	2007
	£'000	£'000
Raw materials	1,182	1,006
Works in progress	432	588
Finished stocks	899	1,126
	<u>2,513</u>	<u>2,720</u>

The difference between purchase price or production cost of stocks and their replacement cost is not material.

McKechnie Engineered Plastics Limited

Notes to the financial statements for the year ended 31 December 2008

11 Debtors

	2008	2007
	£'000	£'000
Trade debtors	4,637	6,120
Amounts owed by fellow subsidiary undertakings	12,369	15,868
Other debtors	1,615	534
	<u>18,621</u>	<u>22,522</u>

12 Creditors

	2008	2007
	£'000	£'000
Amounts due in less than one year:		
Trade creditors	5,051	5,077
Amounts owed to fellow subsidiary undertakings	179	173
Accruals	1,039	890
Other taxes and social security costs	381	588
Other creditors	1,236	667
Obligations under finance leases	19	53
	<u>7,905</u>	<u>7,448</u>

	2008	2007
	£'000	£'000
Amounts due in more than one year:		
Deferred income	2,016	2,105
	<u>2,016</u>	<u>2,105</u>

McKechnie Engineered Plastics Limited

Notes to the financial statements for the year ended 31 December 2008

13 Provisions for liabilities

	£'000
At 1 January 2008	595
Profit and loss charge	80
At 31 December 2008	<u>675</u>

An amount of £80,000 has been recognised in the year in respect of environmental claims. These claims are expected to be settled within 2-5 years.

14 Obligations under leases and hire purchase contracts

	2008	2007
	£'000	£'000
Amounts payable:		
Within one year	19	53
	<u>19</u>	<u>53</u>

Annual commitments under non-cancellable operating leases are as follows:

	Land and buildings		Other	
	31 December 2008 £'000	31 December 2007 £'000	31 December 2008 £'000	31 December 2007 £'000
Operating leases which expire:				
Within one year	-	57	50	103
In two to five years	37	40	51	138
After five years	271	271	-	-
At 31 December 2008	<u>308</u>	<u>368</u>	<u>101</u>	<u>241</u>

McKechnie Engineered Plastics Limited

Notes to the financial statements for the year ended 31 December 2008

15 Share capital

Ordinary shares of £0.01 each	Authorised		Allotted, called up and fully paid	
	No of shares	£	No of shares	£
At 1 January 2008 and 31 December 2008	<u>1,000,000</u>	<u>10,000</u>	<u>1,000,000</u>	<u>10,000</u>

16 Reconciliation of shareholders' funds and movements on reserves

	Share capital	Share premium	Revaluation reserve	Profit and loss account	Total shareholders' funds
	£'000	£'000	£'000	£'000	£'000
At 1 January 2007	10	62,400	1,408	(20,374)	43,444
Loss transferred to reserves	-	-	-	(14,373)	(14,373)
Transfer in respect of depreciation on revalued buildings	-	-	(75)	75	-
At 31 December 2007	<u>10</u>	<u>62,400</u>	<u>1,333</u>	<u>(34,672)</u>	<u>29,071</u>
Loss transferred to reserves	-	-	-	(121)	(121)
Transfer in respect of depreciation on revalued buildings	-	-	(75)	75	-
At 31 December 2008	<u>10</u>	<u>62,400</u>	<u>1,258</u>	<u>(34,718)</u>	<u>28,950</u>

17 Pension costs

The Company is a participating employer in the McKechnie Pension Plan which is now closed. This is a defined benefit multi-employer scheme, the assets and liabilities of which are held independently from the member companies. The Company is unable to identify its share of the underlying assets and liabilities of the scheme and accordingly accounts for the scheme as if it were a defined contribution scheme.

Contributions to the scheme for the year were £4,804,000 and the agreed contribution rate for period to December 2009 is £4,819,000.

McKechnie Engineered Plastics Limited

Notes to the financial statements for the year ended 31 December 2008

17 Pension costs (continued)

As stated in the Melrose PLC financial statements for the year ended 31 December 2008, the full actuarial valuation at 31 December 2005 was updated to 31 December 2008 by a qualified actuary and showed that the market value of the scheme's assets was £116.2m (2007: £114.7m) and that the actuarial value of these assets represented 93% (2007: 88%) of the benefits that had accrued to members.

The assets in the scheme and the expected rates of return at 31 December 2008 were:

	2008	2008	2007	2007
	Long term rate of return expected %	Value £m	Long term rate of return expected %	Value £m
Equities	7.7	26.4	7.4	29.8
Debt instrument	3.7	11.4	4.6	11.5
Other assets	6.3	78.4	6.8	73.4
		<hr/>		<hr/>
Total market value of assets		116.2		114.7
Present value of scheme liabilities		124.8		130.7
		<hr/>		<hr/>
Deficit in scheme		8.6		16.0
		<hr/>		<hr/>

The figures shown above were calculated on the basis of the following assumptions:

	2008	2007
	%	%
Discount rate	6.30	5.7
Rate of increase in salaries	3.25	3.8
Rate of increase in pensions in payment	2.90	3.3
Inflation assumption	2.75	3.3
	<hr/>	<hr/>

McKechnie Engineered Plastics Limited

Notes to the financial statements for the year ended 31 December 2008

17 Pension costs (continued)

Movements in the present value of defined benefit obligations were as follows:

	2008 £m	2007 £m
At 1 January	130.7	128.4
Interest cost	7.4	6.5
Actuarial gains/(losses)	(24.6)	(1.2)
Benefits paid	(2.8)	(3.0)
Limit on pension scheme surplus	14.1	-
At 31 December	<u>124.8</u>	<u>130.7</u>

Movements in the fair value of scheme assets were as follows:

	2008 £m	2007 £m
At 1 January	114.7	83.0
Expected return on plan assets	8.1	6.5
Actuarial gains/(losses)	(10.8)	2.4
Member company contributions	7.0	25.8
Benefits paid	(2.8)	(3.0)
At 31 December	<u>116.2</u>	<u>114.7</u>
Funded status	<u>(8.6)</u>	<u>(16.0)</u>

The three year history of experience adjustments is as follows:

	31 December 2008 £m	31 December 2007 £m	31 December 2006 £m
Present value of defined benefit obligations	(124.8)	(130.7)	(147.9)
Fair value of scheme assets	<u>116.2</u>	<u>114.7</u>	<u>92.5</u>
Surplus/(deficit) in the scheme	<u>(8.6)</u>	<u>(16.0)</u>	<u>(55.4)</u>
Experience adjustments on scheme liabilities			
Amount £	24.6	0.1	(0.5)
Percentage of scheme liabilities (%)	20%	0%	0%
Experience adjustments on scheme assets			
Amount £	(10.8)	2.3	1.7
Percentage of scheme liabilities	<u>(9%)</u>	<u>2%</u>	<u>1%</u>

Melrose PLC holds a deed of guarantee with McKechnie Pension Trust Limited, the trustee of the McKechnie Pension Plan, pursuant to which Melrose PLC guaranteed the obligations of the Participating Employers, to contribute £6.1 million to the McKechnie Pension Plan for each of the three Plan Years (as defined in the McKechnie Pension Plan) from 1 July 2007 until 1 April 2010 (the "Guaranteed Contributions"). Melrose PLC has agreed to indemnify the trustee against all costs, losses or liabilities resulting from the failure by the Participating Employers to make the Guaranteed Contributions.

McKechnie Engineered Plastics Limited

Notes to the financial statements for the year ended 31 December 2008

17 Pension costs (continued)

Mortality assumptions

Investigations have been carried out within the past three years into the mortality experience of the McKechnie Pension Plan. These investigations concluded that the current mortality assumptions include sufficient allowance for future improvements in mortality rates. The assumed life expectancy on retirement at age 65 are:

	31 December 2008	31 December 2007
Male currently aged 65	85.7	85.6
Male currently aged 45	87.5	87.4
Female currently aged 65	88.8	88.7
Female currently aged 45	90.7	90.6

Defined contribution scheme

The Company participates in the McKechnie 2005 Pension Scheme. Contributions to this scheme in the year were £82,000 (2007: £108,000). The McKechnie 2005 Pension Scheme is a trust based defined contribution pension scheme established under the provisions of Chapter I, Part XIV of the Income and Corporation Taxes Act 1988. The scheme is administered and managed by Scottish Life. The trustee of the scheme is McKechnie Pension Trust (Alcester) Limited.

18 Financial instruments not included in fair value

The company makes sales in the European economic area and the USA and, as such, is exposed to movements in foreign exchange rates. To protect cash flows, the company enters into forward contracts, currently on a rolling monthly basis, to hedge a proportion of its exposures to foreign exchange movements.

At 31 December 2008, the company held the following forward exchange contracts with Lloyds TSB and Commerzbank:

Contract	Currency	Principal £'000	Maturity	Exchange rate
Pays	Sterling	449.4	6 January 2009	Euro Sterling rate of €0.7955
Receives	Euros	565.0	6 January 2009	Euro Sterling rate of €0.7955
Pays	Euros	1,630.0	Various dates between 14 January 2009 and 17 June 2009	Various Euro Sterling rates ranging from 0.8141 to 0.8146
Receives	Sterling	1,327.3	Various dates between 14 January 2009 and 17 June 2009	Various Euro Sterling rates ranging from 0.8141 to 0.8146

The fair value of the forward exchange contracts is calculated using mark to market methodology. The fair value of the contracts at 31 December 2008 was a liability of £224,000 (2007: £nil).

McKechnie Engineered Plastics Limited

Notes to the financial statements for the year ended 31 December 2008

19 Related party transactions

The Company has taken advantage of the exemption of FRS 8 Related Party Transactions from disclosing transactions with related parties between members of the Melrose PLC Group of Companies.

20 Contingent liabilities

As part of a group debt arrangement, the company has entered into a multilateral cross guarantee with certain group undertakings in respect of group borrowings. Other outstanding bonds and guarantees at the year end amounted to £718.2 million.

21 Ultimate parent undertaking and controlling party

The immediate parent company is McKechnie EP Holdings Limited which is registered in England and Wales. The ultimate parent undertaking and controlling party is Melrose PLC which is incorporated in Great Britain and registered in England and Wales.

The results of the Company are included in the Group accounts of Melrose PLC. Copies of Group financial statements can be obtained from Precision House, Arden Road, Alcester, Warwickshire, B49 6HN.