

McKechnie Management Services Limited
Annual report
for the year ended 31 December 2007

Registered Number 1960638

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McKechnie Management Services Limited

Directors' report for the year ended 31 December 2007

The Directors present their annual report and the audited financial statements for the year ended 31 December 2007

Principal activities and review of business

The Company's principal activity during the year was that of a property holding company and provider of management services to fellow subsidiary companies and related parties

The Directors consider the financial position of the Company at the year end to be satisfactory. The Company will continue to act as a property holding company and provider of management services

Results and dividends

The profit for the year after taxation transferred to reserves amounted to £1,340,454 (2006 loss of £1,367,541 transferred from reserves). The Directors do not recommend the payment of a final dividend (2006 nil)

Directors

The Directors who held office during the year, except as noted, were

G P Martin
G E Barnes
S A Peckham
R Stark (resigned 30 April 2007)

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

Small Company Exemptions

The Company has elected not to present additional Directors report disclosures as permitted by the small company exemptions of section 246(4) of the Companies Act 1985

McKechnie Management Services Limited

Directors' report for the year ended 31 December 2007 (continued)

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 ought to have taken as a Director in order to make himself 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 & Touche LLP are the auditors of the Company

Statement of Directors' responsibilities

The Directors are responsible for preparing 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 as at the end of the financial year 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 estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, 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 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



GE Barnes

Director

5 Sep 2008

McKechnie Management Services Limited

Independent auditors' report to the members of McKechnie Management Services Limited

We have audited the financial statements of McKechnie Management Services Limited for the year ended 31 December 2007 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 16. 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 judgements 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 Management Services Limited

Independent auditors' report to the members of McKechnie Management Services 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 2007 and of its profit 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

Deloitte & Touche LLP

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

London, United Kingdom

5/9/2008

McKechnie Management Services Limited

Profit and loss account for the year ended 31 December 2007

| | Notes | Year ended 31 December 2007 £ | Year ended 31 December 2006 £ |
|---|-------|--|--|
| Turnover | 2 | 443,715 | 510,605 |
| Administration expenses | | (2,205,147) | (2,012,343) |
| Other operating income | 4 | 3,019,098 | - |
| Operating profit / (loss) | 3 | <u>1,257,666</u> | <u>(1,501,738)</u> |
| Unwinding of discount on provisions | 11 | (26,899) | (45,743) |
| Interest payable to Inland Revenue | | - | (389) |
| Total finance costs | | <u>(26,899)</u> | <u>(46,132)</u> |
| Interest receivable from Group companies | | 109,687 | 180,329 |
| Profit / (loss) on ordinary activities before taxation | | <u>1,340,454</u> | <u>(1,367,541)</u> |
| Taxation | 7 | - | - |
| Profit / (loss) for the year transferred to / (from) reserves | 13 | <u>1,340,454</u> | <u>(1,367,541)</u> |

There are no recognised gains or losses 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 activities

McKechnie Management Services Limited

Balance sheet as at 31 December 2007

| | | 31 December 2007 | 31 December 2006 |
|---|------|---------------------|---------------------|
| | Note | £ | £ |
| Fixed assets | | | |
| Tangible assets | 8 | - | 50,000 |
| | | <u>-</u> | <u>50,000</u> |
| Current assets | | | |
| Debtors amounts falling due within one year | 9 | 2,707,847 | 2,852,170 |
| Creditors amounts falling due within one year | 10 | (206,277) | (194,468) |
| Net current assets | | <u>2,501,570</u> | <u>2,657,702</u> |
| Total assets less current liabilities | | <u>2,501,570</u> | <u>2,707,702</u> |
| Provision for liabilities | 11 | (1,122,509) | (2,669,095) |
| Net assets | | <u>1,379,061</u> | <u>38,607</u> |
| Capital and reserves | | | |
| Called up share capital | 12 | 1,000,000 | 1,000,000 |
| Profit and loss account | 13 | 379,061 | (961,393) |
| Shareholders' funds | | <u>1,379,061</u> | <u>38,607</u> |

The financial statements on pages 6 to 17 were approved by the Board of Directors on 5/9/08 and were signed on its behalf by



GE Barnes
Director

McKechnie Management Services Limited

Notes to the financial statements for the year ended 31 December 2007

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 and in accordance with applicable United Kingdom law and accounting standards.

As permitted under Section 228 of the Companies Act 1985 no Group accounts have been prepared.

Cash flow statement

The Company is a wholly owned subsidiary of Melrose PLC 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 less accumulated depreciation. 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 expected economic life not exceeding 50 years |
| Plant and machinery | 20% to 100% |

Investments

Investments in subsidiary undertakings are stated at cost of acquisition (including any incidental cost of acquisition) together with the amount of any loans advanced to those undertakings. Current asset investments are stated at the lower of cost and net realisable value.

Where, in the opinion of the Directors, there has been an impairment in the value of the investments, appropriate provisions are made for impairment and charged to the profit and loss account.

Leased assets

The cost of operating leases is charged to the profit and loss account on a straight-line basis over the lease term.

McKechnie Management Services Limited

Notes to the financial statements for the year ended 31 December 2007

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 taxation

Deferred tax is provided in accordance with FRS 19 'Accounting for Deferred Taxation', at the rate ruling on the balance sheet date on all timing differences that arise from the recognition of income and expenditure in differing periods for taxation and accounting purposes

Pension costs

The Company is a member of a multi-employer defined benefit scheme, in addition to a defined contribution scheme, which requires contributions to be made to separately administered funds

The Company is unable to identify its share of the underlying assets and liabilities of the defined benefit scheme and accordingly contributions are charged to the profit and loss account as if it was in a defined contribution scheme

For defined contribution schemes, the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet

Further information on pensions is disclosed in note 14

Provisions

Provision for onerous leases and dilapidations are discounted using an appropriate annual rate

2 Turnover

Turnover, which is stated net of value added tax, represents rental income receivable from operating leases during the year

The turnover and pre-tax profit is attributable to the principal activity, that of a property holding company and relates to rentals receivable from fellow subsidiary undertakings based in the United Kingdom and from sub-letting properties held under long term leases to external tenants

McKechnie Management Services Limited

Notes to the financial statements for the year ended 31 December 2007

3 Operating profit/(loss)

| | Year ended 31 December 2007 | Year ended 31 December 2006 |
|---|-----------------------------------|-----------------------------------|
| Operating profit/(loss) is stated after (crediting)/charging | £ | £ |
| Rental income | (443,715) | (510,605) |
| Depreciation | 8,301 | 14,720 |
| Loss on disposal of fixed assets | 47,750 | - |
| Rent of buildings – operating leases | <u>681,265</u> | <u>749,805</u> |

The auditors' fees of £3,000 (2006 £3,000) for the audit of the company's annual accounts were borne by another Group company in the current and prior year. There were no non audit fees paid in the current or prior year.

4 Other operating income

| | Year ended 31 December 2007 | Year ended 31 December 2006 |
|---|-----------------------------------|-----------------------------------|
| | £ | £ |
| Other operating income | | |
| Management charges | 1,600,000 | - |
| Release of rent and dilapidation provisions | 1,419,098 | - |
| | <u>3,019,098</u> | <u>-</u> |

The Aerospace and PSM Fastener divisions of the Melrose PLC group were disposed of in May 2007. The company released the onerous lease and dilapidation provisions held in respect of properties sold as part of the disposal.

McKechnie Management Services Limited

Notes to the financial statements for the year ended 31 December 2007

5 Annual commitments under operating leases

| | Land and buildings 2007 £'000 | Land and buildings 2006 £'000 |
|----------------------|--|--|
| Expiring:- | | |
| Within one year | 122 | 89 |
| In two to five years | 231 | 283 |
| Over five years | 175 | 325 |
| | <u>528</u> | <u>697</u> |

6 Staff costs

| | Year ended 31 December 2007 £ | Year ended 31 December 2006 £ |
|-------------------------------|--|--|
| Wages and salaries | 991,495 | 988,088 |
| Social security costs | 113,030 | 94,070 |
| Other pension costs (note 14) | 57,992 | 45,184 |
| | <u>1,162,517</u> | <u>1,127,342</u> |

The average number of employees during the year was 15 (2006 16)

No Directors received any remuneration in respect of services to the Company. The Directors were remunerated by a fellow Group company.

McKechie Management Services Limited

Notes to the financial statements for the year ended 31 December 2007

7 Taxation on profit/(loss) on ordinary activities

| | Year ended 31 December 2007 | Year ended 31 December 2006 |
|---------------------------------------|-----------------------------------|-----------------------------------|
| | £ | £ |
| (a) Analysis of charge in year | | |
| Current tax | | |
| UK Corporation tax at 30% (2006 30%) | - | - |
| Total current tax (note (b)) | - | - |

(b) Factors affecting tax charge for the year

The tax assessed for the year is lower than the standard rate of corporation tax in the UK (30%) The differences are explained below

| | Year ended 31 December 2007 | Year ended 31 December 2006 |
|---|-----------------------------------|-----------------------------------|
| | £ | £ |
| Profit/(loss) on ordinary activities before tax | <u>1,340,454</u> | <u>(1,367,541)</u> |
| Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2006 30%) | 402,136 | (410,262) |
| Disallowed expenses and non taxable income | 30,518 | 15,000 |
| Capital allowances for year in excess of depreciation | (6,973) | (5,049) |
| Short term timing differences | (299,476) | (1,295) |
| Group relief (claimed) / surrendered (at nil tax rate) | (126,205) | 401,606 |
| Current tax charge for year (note (a)) | <u>-</u> | <u>-</u> |

(c) Factors that may affect future tax charges

The amount of deferred tax asset not recognised is as follows

| | 2007 | 2006 |
|---|----------------|----------------|
| | £ | £ |
| Industrial buildings, plant and machinery | 22,875 | 31,482 |
| Other timing differences | 247,718 | 555,386 |
| | <u>270,593</u> | <u>586,868</u> |

The amounts not provided are based on a corporation tax rate of 28% (2006 30%) The unprovided tax asset will be recognised when future profits become more certain

McKechnie Management Services Limited

Notes to the financial statements for the year ended 31 December 2007

8 Tangible fixed assets

| | Land and buildings £ | Plant and machinery £ | Total £ |
|---|----------------------------|-----------------------------|-------------------|
| Cost | | | |
| At 1 January 2007 | 50,000 | 251,129 | 301,129 |
| Additions | - | 8,301 | 8,301 |
| Disposals | (50,000) | (27,599) | (77,599) |
| At 31 December 2007 | <u>-</u> | <u>231,831</u> | <u>231,831</u> |
| Depreciation | | | |
| At 1 January 2007 | - | 251,129 | 251,129 |
| Disposals | - | (27,599) | (27,599) |
| Provision for year | - | 8,301 | 8,301 |
| At 31 December 2007 | <u>-</u> | <u>231,831</u> | <u>231,831</u> |
| Net book value at 31 December 2007 | <u>-</u> | <u>-</u> | <u>-</u> |
| Net book value at 31 December 2006 | <u>50,000</u> | <u>-</u> | <u>50,000</u> |

9 Debtors: amounts falling due within one year

| | 2007 £ | 2006 £ |
|--|------------------|------------------|
| Trade debtors | 83,741 | 46,936 |
| Prepayments and accrued income | - | 112,000 |
| Amounts owed by fellow subsidiary undertakings | 2,624,106 | 2,693,234 |
| | <u>2,707,847</u> | <u>2,852,170</u> |

McKechnie Management Services Limited

Notes to the financial statements for the year ended 31 December 2007

10 Creditors: amounts falling due within one year

| | 2007 | 2006 |
|------------------------------|----------------|----------------|
| | £ | £ |
| Accruals and deferred income | 206,277 | 194,468 |
| | <u>206,277</u> | <u>194,468</u> |

11 Provisions for liabilities

| | 2007 | 2006 |
|-------------------------------------|------------------|------------------|
| | £ | £ |
| Opening provision | 2,669,095 | 2,963,811 |
| Utilisation | (154,387) | (162,709) |
| Release to profit and loss (note 4) | (1,419,098) | (177,750) |
| Unwinding of discount | 26,899 | 45,743 |
| Closing provision | <u>1,122,509</u> | <u>2,669,095</u> |

Provisions relate to future rent and dilapidations of surplus leasehold properties. The rent and dilapidation provisions are settled in accordance with the relevant leases. The liability is discounted at 6% (2006: 5%) per annum.

12 Share capital

| Ordinary Shares of £1 each | Authorised | | Allotted, called up and fully paid | |
|--|------------------|------------------|------------------------------------|------------------|
| | No of shares | £ | No of shares | £ |
| At 1 January 2007 and 31 December 2007 | <u>1,000,000</u> | <u>1,000,000</u> | <u>1,000,000</u> | <u>1,000,000</u> |

McKechnie Management Services Limited

Notes to the financial statements for the year ended 31 December 2007

13 Reconciliation of shareholders' funds and movements in reserves

| | Share capital | Profit and loss account | Total shareholders' funds |
|------------------------------|------------------|----------------------------|---------------------------------|
| | £ | £ | £ |
| At 31 December 2006 | 1,000,000 | (961,393) | 38,607 |
| Retained profit for the year | - | 1,340,454 | 1,340,454 |
| At 31 December 2007 | <u>1,000,000</u> | <u>379,061</u> | <u>1,379,061</u> |

14 Pension costs

The Company is a member of the McKechnie Pension Plan defined benefit scheme and McKechnie 2005 Pension Scheme, which is a defined contribution scheme

McKechnie Pension Plan

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 Group. 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 period were £8,000 (2006 £12,000) and the agreed contribution rate for year to December 2008 is £4,760,000.

McKechnie Management Services Limited

Notes to the financial statements for the year ended 31 December 2007

14 Pension costs (continued)

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

The assets in the scheme and the expected rates of return at 31 December 2007 were

| | Long term rate of return expected % | Value £m |
|-------------------------------------|---|-------------|
| Equities | 7.4 | 29.8 |
| Debt instruments | 4.6 | 11.5 |
| Other costs | 6.8 | 73.4 |
| Total market value of assets | | 114.7 |
| Present value of scheme liabilities | | 130.7 |
| Deficit in scheme | | 16.0 |

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

| | 2007 % |
|---|-----------|
| Discount rate | 5.7 |
| Rate of increase in salaries | 3.8 |
| Rate of increase in pensions in payment | 3.3 |
| Inflation assumption | 3.3 |

On 10 May 2007, Melrose PLC entered into 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 2005 Pension Scheme

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.

Contributions to the scheme for the period were £49,992 (2006 £33,184)

McKechnie Management Services Limited

Notes to the financial statements for the year ended 31 December 2007

15 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

16 Ultimate parent undertaking and controlling party

The immediate parent company is Melrose UK 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