

COMPANY NUMBER: 3985580

McKECHNIE EP HOLDINGS LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE 17 MONTH PERIOD ENDED 31 DECEMBER 2005



McKECHNIE EP HOLDINGS LIMITED

DIRECTORS' REPORT

The Directors present their report and financial statements for the 17 month period ended 31 December 2005.

Results and Dividends

The loss for the period, amounting to £49,178,666, has been withdrawn from reserves (2004: £11,501,000 withdrawn from). The directors do not recommend the payment of a dividend (2004: Nil).

Principal Activities and Review of the Period

The principal activity of the Company is to act as an investment holding company.

Likely Future Developments

The Directors expect that the Company will continue with the principal activity set out above.

Change of Year End Date

The accounting year end date has changed from 31 July to 31 December and therefore these accounts cover the 17 month period from 1st August 2004 to 31st December 2005.

Ultimate Parent Undertakings

The ultimate parent undertaking is Melrose PLC, registered office at Precision House, Arden Road, Alcester, Warks, B49 6HN.

Directors

Directors of the company during the period were as follows:-

P.A.C Catterall (resigned 25 May 2005)
S.G. Moberley (resigned 26 May 2005)
R.J. Munton (resigned 25 May 2005)
M.A. Stacey (resigned 26 May 2005)
P.D. Shepherd (resigned 29 July 2005)
G.P. Martin (appointed 20 July 2005)
A.G. Peart (appointed 26 May 2005)
S.A. Peckham (appointed 26 May 2005)
J.C. Miller - alternate (appointed 15 July 2005)
D.A. Roper - alternate (appointed 15 July 2005)

Share Capital

The authorised share capital of the Company is £110,020,000 divided into 110,020,000 Ordinary shares of £1 each. The total issued share capital of £110,018,005 is divided into 110,018,005 Ordinary shares of £1 each held by Mozart Jersey Holdings No. 1 Limited (75,912,451 Ordinary shares) and Mozart Jersey Holdings No. 2 Limited (34,105,554 Ordinary shares).

McKECHNIE EP HOLDINGS LIMITED

DIRECTORS' REPORT continued

Directors' Interests

None of the directors holds any beneficial interest in shares in the Company.

The interests of GP Martin, DA Roper, JC Miller and SA Peckham in shares in the ultimate holding company, Melrose PLC, are disclosed in the accounts of that company. The other directors' interests in the shares of Melrose PLC are:

	At 31 December 2005		At 31 July 2004*	
	Ordinary	Convertible	Ordinary	Convertible
	Shares of £0.001	B Shares of £1.00	Shares of £0.001	B Shares of £1.00
A G Peart	82,043	2,957	32,043	2,957
* or date of appointment if later				

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

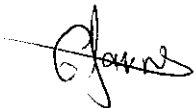
Ultimate Parent Undertaking

The ultimate parent undertaking is Melrose PLC.

Auditors

Deloitte and Touche LLP are the auditors of the Company.

On behalf of the Board



GE Barnes
Secretary
Precision House
Arden Road
Alcester
Warwickshire
B49 6HN

...30.10.2006

McKECHNIE EP HOLDINGS LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

The directors are responsible for preparing the Annual Report and the financial statements. The directors have chosen to prepare the accounts for the company in accordance with United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare such financial statements for each financial year which give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the company and of the profit or loss of the company for that period and comply with UK GAAP and the Companies Act 1985. In preparing those financial statements, the directors are required to:

- a) select suitable accounting policies and then apply them consistently;
- b) make judgements and estimates that are reasonable and prudent;
- c) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- d) 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 which disclose with reasonable accuracy at any time the financial position of the company and to 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

McKECHNIE EP HOLDINGS LIMITED

We have audited the financial statements of McKechnie EP Holdings Limited for the 17 month period ended 31 December 2005 which comprise the profit and loss account, the balance sheet, the statement of accounting policies and the related notes 1 to 14. 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

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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 if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions with the company is not disclosed.

We read the directors' report for the above 17 month period and consider the implications for our report if we become aware of any apparent misstatements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

McKECHNIE EP HOLDINGS LIMITED

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2005 and of its loss for the 17 month period then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London

30/10/2006

McKECHNIE EP HOLDINGS LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE 17 MONTH PERIOD ENDED 31 DECEMBER 2005

		17 month period ended 31 December 2005 £'000	Year ended 31 July 2004 £'000
	<i>Note</i>		
Administration expenses		(295)	(398)
Other operating expenses - exceptional	3	(29,522)	-
		<hr/>	<hr/>
Operating loss		(29,817)	(398)
Loss on disposal of investment	7	(6,852)	-
Interest receivable	4	7,143	7,179
Interest payable and similar charges	5	(19,648)	(19,888)
		<hr/>	<hr/>
Loss on ordinary activities before tax		(49,174)	(13,107)
Taxation	6	(4)	1,606
		<hr/>	<hr/>
Loss on ordinary activities after tax transferred from reserves	12	(49,178)	(11,501)
		<hr/>	<hr/>

The company has no recognised gains or losses for the current period or preceding year other than those included in the profit and loss account shown above and therefore no statement of recognised gains or losses has been presented for either period.

All results derive from continuing operations.

McKECHNIE EP HOLDINGS LIMITED

BALANCE SHEET AT 31 DECEMBER 2005

		31 December 2005 £'000	31 July 2004 £'000
	Note		
Fixed assets			
Investments	7	32,982	63,038
		<hr/> 32,982 <hr/>	<hr/> 63,038 <hr/>
Current assets			
Debtors	8	-	99,796
Creditors: amounts falling due within one year	9	(14,037)	(44,600)
Net current (liabilities)/assets		<hr/> (14,037) <hr/>	<hr/> 55,196 <hr/>
Total assets less current liabilities		18,945	118,234
Creditors: amounts falling due after more than one year	10	-	(159,781)
Net assets/(liabilities)		<hr/> 18,945 <hr/>	<hr/> (41,547) <hr/>
Capital and reserves			
Called up share capital	11	110,018	348
Profit and loss account	12	(91,073)	(41,895)
Equity shareholders' funds		<hr/> 18,945 <hr/>	<hr/> (41,547) <hr/>

The notes on pages 9 to 14 form an integral part of these financial statements.

Approved by the Board of Directors on ...30/10/2006

G. Martin

GP Martin
Director

McKECHNIE EP HOLDINGS LIMITED

Notes on the Financial Statements

1. Accounting Policies

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

Accounting Convention

The financial statements have been prepared under the historical cost accounting rules, and comply with the Companies Act 1985 and with applicable accounting standards.

The company has taken the exemption under Financial Reporting standard 1 (Revised 1996) not to prepare a cash flow statement because 90% of the voting rights of the company are controlled within the Melrose Group. The company has not prepared consolidated financial statements since the results are incorporated in the consolidated financial statements of Melrose PLC. These accounts therefore only reflect the results of the company.

The accounts have been prepared on a going concern basis, as the parent company has agreed to provide financial assistance for the foreseeable future.

Foreign Currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward foreign currency contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or if appropriate at the forward contract rate. All differences are taken to the profit and loss account with the exception of differences on foreign currency borrowings, to the extent that they are used to finance or provide a hedge against foreign equity investments, which are taken directly to reserves together with the exchange difference on the carrying amount of the related investments. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in reserves.

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

In accordance with FRS 19, deferred taxation is provided at the rate ruling on the balance sheet date on timing differences that arise from the recognition of income and expenditure in differing periods for taxation and accounting purposes. Under this policy no provision has been made for the potential further liability to taxation that would arise in the event of the realisation of investment properties included at valuation in the accounts at the values attributed to them.

Investments in Subsidiaries

Investments in subsidiaries are stated at cost less provision for any permanent diminution in value.

2. Operating Loss

	17 month period ended 31 December 2005 £'000	Year ended 31 July 2004 £'000
This is stated after charging:		
Staff costs	-	-
Exchange losses	-	-

The audit fee was borne by a fellow group company.

The company has no employees and the directors are remunerated by another group company.

McKECHNIE EP HOLDINGS LIMITED

Notes on the Financial Statements continued

3. Other operating expenses – exceptional

	17 month period ended 31 December 2005 £'000	Year ended 31 July 2004 £'000
Refinancing costs	(462)	-
Impairment in investment in McKechnie Engineered Plastics Limited	(14,453)	-
Internal loan waivers	(14,602)	-
Other	(5)	-
	<hr/> (29,522) <hr/>	<hr/> - <hr/>

4. Interest receivable

	17 month period ended 31 December 2005 £'000	Year ended 31 July 2004 £'000
Group interest receivable	7,143	7,179
	<hr/>	<hr/>

5. Interest payable and similar charges

	17 month period ended 31 December 2005 £'000	Year ended 31 July 2004 £'000
Deep discounted bonds	10,470	11,383
Bank loans and overdrafts	6,679	7,690
Group interest payable	2,249	425
Other	250	390
	<hr/>	<hr/>
Net interest payable	19,648	19,888
	<hr/>	<hr/>

McKECHNIE EP HOLDINGS LIMITED

Notes on the Financial Statements continued

6. Taxation

(a) Analysis of Charge/(Credit) in Period

	17 month period ended 31 December 2005 £'000	Year ended 31 July 2004 £'000
Current tax:		
UK corporation tax at 30% (2004:30%)	-	(1,549)
Adjustment in respect of previous period	4	(57)
Total current tax (note (b))	<u>4</u>	<u>(1,606)</u>
Deferred tax –		
The origination and reversal of timing differences	-	-
Tax on profit(loss) on ordinary activities	<u>4</u>	<u>(1,606)</u>

(b) Factors Affecting Tax Charge/(Credit) For Period

The actual tax charge/(credit) for the period differs from the charge calculated at 30%. The differences are explained as:

	2005 £'000	2004 £'000
Loss on ordinary activities before tax	(49,174)	(13,107)
Loss on ordinary activities at UK tax rate (30%)	<u>(14,752)</u>	<u>(3,932)</u>
Disallowed expenses and non taxable income (inc exceptionals)	10,782	-
Excess tax losses not utilised	3,961	2,383
Group relief surrendered (at nil tax rate)	9	-
Adjustments in respect of prior periods	4	(57)
Current tax charge/(credit) for period (Note (a))	<u>4</u>	<u>(1,606)</u>

(c) Factors That May Affect Future Tax Charges

The company has an un-provided deferred tax asset in respect of operating losses of £8.7m (2004 £4.1m). Based on current forecasts it is not anticipated these will be recoverable in the foreseeable future.

McKECHNIE EP HOLDINGS LIMITED

Notes on the Financial Statements continued

7. Fixed asset investments

	Shares in Subsidiary Undertakings £'000
Cost	
At 1 August 2004	63,038
Disposal during the period	(15,603)
	<hr/>
At 31 December 2005	47,435
	<hr/>
Provision	
At 1 August 2004	-
Impairment in valuation of investment	(14,453)
	<hr/>
At 31 December 2005	(14,453)
	<hr/>
Net investment at 31 December 2005	32,982
	<hr/>

The disposal during the period relates to 25% of the investment in McKechnie Engineered Plastics Limited for £8,750,000. The closing investment relates to the remaining 75% investment in McKechnie Engineered Plastics Limited (an investment holding company).

8. Debtors

	31 December 2005 £'000	31 July 2004 £'000
Current taxation	-	1,549
Other debtors	-	517
Amounts due from fellow subsidiaries	-	18,655
Amounts due from subsidiary undertakings	-	79,075
	<hr/>	<hr/>
	-	99,796
	<hr/>	<hr/>

McKECHNIE EP HOLDINGS LIMITED

Notes on the Financial Statements continued

9. Creditors: amounts falling due within one year

	31 December 2005 £'000	31 July 2004 £'000
Current instalments due on loans	-	300
Interest on bank loans	-	1,791
Other creditors	-	60
Amounts due to fellow subsidiaries	11,095	39,033
Amounts due to subsidiary undertakings	2,942	3,416
	<hr/>	<hr/>
	14,037	44,600
	<hr/>	<hr/>

10. Creditors: amounts falling due after more than one year

	31 December 2005 £'000	31 July 2004 £'000
Loans	-	123,101
Interest on loans	-	36,680
	<hr/>	<hr/>
	-	159,781
	<hr/>	<hr/>

The external loans were repaid during the period.

11. Share capital

Ordinary shares of £1 each

	Authorised		Allotted, called up and fully paid	
	No. of Shares	£	No. of Shares	£
At 1 August 2004	348,000	348,000	348,000	348,000
Issues in period	109,672,000	109,672,000	109,670,005	109,670,005
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2005	110,020,000	110,020,000	110,018,005	110,018,005
	<hr/>	<hr/>	<hr/>	<hr/>

During the period, the company allotted 109,670,005 Ordinary £1 shares with a nominal value of £109,670,005 in connection with the capitalisation of deep discounted bonds.

McKECHNIE EP HOLDINGS LIMITED

Notes on the Financial Statements continued

12. Reserves

	Share capital £'000	Profit and Loss Account £'000
At 1 August 2004	348	(41,895)
Issue of share capital	109,670	-
Loss transferred from reserves	-	(49,178)
	<hr/>	<hr/>
At 31 December 2005	110,018	(91,073)
	<hr/>	<hr/>

13. Ultimate Parent Undertaking

The immediate and ultimate parent undertaking and ultimate controlling party is Melrose PLC. The results of McKechnie EP Holdings Limited have been included in the group accounts of this company.

Copies of its group financial statements are available from Precision House, Arden Road, Alcester, Warks, B49 6HN.

14. 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.