

COMPANY NUMBER: 3985580

McKECHNIE EP HOLDINGS LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2004



McKECHNIE EP HOLDINGS LIMITED

DIRECTORS' REPORT

The Directors present their report and Financial Statements for the year ended to 31 July 2004.

Principal Activities and Review of the Year

The principal activity of the Company is to act as an investment holding company. The group's principal activity is the manufacture and distribution of engineered plastic components. Group sales declined from £43.0m in 2003 to £42.4m in 2004.

Subsequent to the year end, the group renegotiated its debt repayment profile inline with anticipated cashflows of the business.

Post Balance Sheet Events

On 26 May 2005 the company's ultimate parent undertaking Mozart Jersey Holdings No 1 Limited was acquired by Melrose PLC.

Likely Future Developments

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

Directors

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

Mr P A C Catterall (resigned 26 May 2005)
Mr R M Gibbon (resigned 5 May 2004)
Mr S G Moberley (resigned 26 May 2005)
Mr R J Munton (resigned 26 May 2005)
Mr A Peart (appointed 26 May 2005)
Mr S Peckham (appointed 26 May 2005)
Mr M A Stacey (resigned 26 May 2005)
Mr P D Shepherd

Dividend

The Directors do not recommend the payment of a dividend in respect of this financial year.

Share Capital

The authorised share capital of the Company is £348,000 divided into £348,000 Ordinary shares of £1 each. The total issued share capital of £348,000 is divided into £348,000 Ordinary shares of £1 each held by Mozart Jersey Holdings No. 1 Limited (240,148 Ordinary shares) and Mozart Jersey Holdings No. 2 Limited (107,852 Ordinary shares).

McKECHNIE EP HOLDINGS LIMITED

DIRECTORS' REPORT continued

Directors' Interests

The interests of the Directors in the share capital of Mozart Jersey Holdings No.1 Limited and Mozart Jersey Holdings No.2 Limited are shown in Table 1. None of the Directors maintain any options to subscribe for shares or debentures in any group Company.

Table 1

	Ordinary Shares Holding as at 31 July 2004 & 2 August 2003 <u>No.</u>
Mozart Jersey Holdings No.1 Limited	
Mr SG Moberley	11,671
Mr MA Stacey	4,244
Mr RJ Munton (1)	67
Mr PAC Catterall (1)	34
Mr P D Shepherd	3,183
Mozart Jersey Holdings No.2 Limited	
Mr SG Moberley	5,241
Mr MA Stacey	1,906
Mr RJ Munton (1)	30
Mr PAC Catterall (1)	15
Mr P D Shepherd	1,430

Notes

- (1) Held beneficially through a holding in Cinven Nominees Limited, itself having a holding in the ultimate parent undertakings.

The Directors were at no time within the period interested in the share capital of any other group company.

Ultimate Parent Undertaking

The ultimate parent undertaking is Mozart Jersey Holdings No. 1 Limited (MJH No. 1). Mozart Jersey Holdings No. 2 Limited (MJH No. 2) is associated to MJH No. 1 and controls a substantial proportion of the company.

McKECHNIE EP HOLDINGS LIMITED

DIRECTORS' REPORT continued

Employee Involvement

The Directors attach great importance to the maintenance and development of good labour relations and employee involvement and training. Employees everywhere are encouraged to be aware of the performance of their business. The responsibility for such matter lies with local management who keep employees informed in a manner appropriate to the particular circumstances of each business.

The Group's principal means of keeping in touch with the views of employees is through employee appraisals and informal consultations. These processes have been maintained and are undergoing further development. Managers throughout the Group have a continuing responsibility to keep their staff fully informed of developments and to communicate financial results and other matters of interest. This is achieved through structured communication and meetings of employees. There are clearly defined staff policies for pay and working conditions.

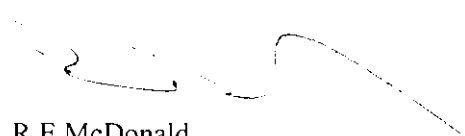
Disabled Employees

The Group recognises its responsibilities for the employment of disabled persons. Having regard to their aptitudes and abilities the Group gives full and fair consideration to applications for employment received from disabled persons, and so far as particular disabilities permit, will give employees disabled during their period of employment continued employment in the same job or, if this is not practicable, a suitable alternative job. Equal opportunities for appropriate training, career development and promotion are available for all employees regardless of any physical disability, their sex, religion, colour or nationality.

Auditors

Ernst & Young LLP are the auditors of the Company.

On behalf of the Board



R E McDonald
Secretary
Precision House
Arden Road
Alcester
Warwickshire
B49 6HN

26 May 2005

McKECHNIE EP HOLDINGS LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the Directors to prepare Financial Statements for each financial year which give a true and fair view of the state of affairs of the company and group and of the profit or loss of the group for that period. In preparing those accounts, the Directors are required to:

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and group and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and group 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 Group's Financial Statements for the year ended 31 July 2004, which comprise the Consolidated Profit and Loss Account, Consolidated Cash Flow Statement, Consolidated Balance Sheet, Company Balance Sheet, Statement of Total Recognised Gains and Losses, Reconciliation of Consolidated Shareholders Funds and the related notes 1 to 29. These Financial Statements have been prepared on the basis of 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 legal and regulatory requirements and United Kingdom 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 to you 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 McKechnie Engineered Plastics Limited 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 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.

Opinion

In our opinion the Financial Statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 July 2004 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Birmingham

26 May 2005

McKECHNIE EP HOLDINGS LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 JULY 2004

	Note	2004 £m	2003 £m
Group Turnover	2	42.4	43.0
Cost of sales		(37.0)	(34.6)
		<hr/>	<hr/>
Gross profit		5.4	8.4
Distribution costs		(2.2)	(2.3)
Administration expenses		(2.1)	(3.5)
(including goodwill amortisation of £0.8m, 2003:£0.7m)			
Exceptional administrative expenses	3	-	(1.0)
		<hr/>	<hr/>
Group operating profit	3	1.1	1.6
Profit on disposal of properties	4	-	1.0
Other finance expense	24	(0.2)	(0.1)
		<hr/>	<hr/>
Profit/ (Loss) before interest and taxation		0.9	2.5
Interest payable and similar charges	7	(12.3)	(10.8)
		<hr/>	<hr/>
Loss on ordinary activities before tax		(11.4)	(8.3)
Taxation	8	-	-
		<hr/>	<hr/>
Loss withdrawn from reserves	20	(11.4)	(8.3)
		<hr/>	<hr/>

McKECHNIE EP HOLDINGS LIMITED

Statement of total recognised gains and losses for the year ended 31 July 2004

	2004	2003
	£m	£m
Loss for the financial year	(11.4)	(8.3)
Actual return less expected return on pension scheme assets (Note 24)	-	(4.2)
Experience gains and loss on pension scheme liabilities (Note 24)	-	-
Changes in assumptions underlying the present value of pension scheme liabilities (Note 24)	1.4	(0.1)
	<hr/>	<hr/>
Total recognised losses relating to the year	(10.0)	(12.6)
	<hr/>	<hr/>

Reconciliation of movement in shareholders' funds for the year ended 31 July 2004

	2004	2003
	£m	£m
Total recognised losses for the year	(10.0)	(12.6)
	<hr/>	<hr/>
Exchange difference	-	(0.2)
	<hr/>	<hr/>
Net decrease in shareholders' funds	(10.0)	(12.8)
Opening shareholders' funds – deficit	(39.0)	(26.2)
	<hr/>	<hr/>
Closing shareholders' funds – deficit	(49.0)	(39.0)
	<hr/>	<hr/>

Note of historical cost profits and losses for the year ended 31 July 2004


There is no difference between the reported loss and the historical cost loss for the year.

McKECHNIE EP HOLDINGS LIMITED

BALANCE SHEETS AT 31 JULY 2004

	Note	Group 2004 £m	Company 2004 £m	Group 2003 £m	Company 2003 £m
Fixed assets					
Intangible assets	9	12.3	-	13.1	-
Tangible assets	10	13.7	-	16.1	-
Investments	11	-	63.0	-	63.0
		<hr/>	<hr/>	<hr/>	<hr/>
		26.0	63.0	29.2	63.0
		<hr/>	<hr/>	<hr/>	<hr/>
Current assets					
Stocks	12	3.5	-	2.4	-
Debtors	13	87.5	81.0	84.6	94.7
Cash at bank and in hand		11.1	-	6.8	-
		<hr/>	<hr/>	<hr/>	<hr/>
		102.1	81.0	93.8	94.7
		<hr/>	<hr/>	<hr/>	<hr/>
Creditors: amounts falling due within one year	14	(14.1)	(25.8)	(12.1)	(42.3)
		<hr/>	<hr/>	<hr/>	<hr/>
Net current assets		88.0	55.2	81.7	52.4
		<hr/>	<hr/>	<hr/>	<hr/>
Total assets less current liabilities		114.0	118.2	110.9	115.4
		<hr/>	<hr/>	<hr/>	<hr/>
Creditors: amounts falling due after more than one year	15	(159.8)	(159.8)	(145.6)	(145.6)
Provisions for liabilities and charges	17	-	-	-	-
		<hr/>	<hr/>	<hr/>	<hr/>
Net liabilities excluding pension asset		(45.8)	(41.6)	(34.7)	(30.2)
		<hr/>	<hr/>	<hr/>	<hr/>
Net pension liability	24	(3.2)	-	(4.3)	-
		<hr/>	<hr/>	<hr/>	<hr/>
Net liabilities		(49.0)	(41.6)	(39.0)	(30.2)
		<hr/>	<hr/>	<hr/>	<hr/>
Capital and reserves					
Called up share capital	19	0.3	0.3	0.3	0.3
Profit and loss account	20	(49.3)	(41.9)	(39.3)	(30.5)
		<hr/>	<hr/>	<hr/>	<hr/>
Equity shareholders' funds - deficit		(49.0)	(41.6)	(39.0)	(30.2)
		<hr/>	<hr/>	<hr/>	<hr/>

Approved by the Board of Directors on 26 May 2005


Director

McKECHNIE EP HOLDINGS LIMITED
CONSOLIDATED CASH FLOW STATEMENT
FOR THE PERIOD TO 31 JULY 2004

		2004	2003
	Note	£m	£m
Operating activities	21a	3.1	(15.2)
Returns on investments and servicing of finance			
Interest Received (paid)		1.9	(10.6)
			(10.6)
Taxation paid		1.9	
Capital expenditure and financial investment			
Purchase of tangible fixed assets	10	(0.6)	(1.3)
Sale of tangible fixed assets		0.2	2.3
		(0.4)	1.0
Financing			
Repayments of long term loans		(0.3)	(0.4)
New loan term loans		-	12.7
		(0.3)	12.3
(Decrease)/increase in cash in the year	21	4.3	(12.5)
Reconciliation of Movement in Cash to Movement in Net Debt		2004	2003
		£m	£m
Increase/(Decrease) in cash in the year		4.3	(12.5)
Interest on debt added to principal		(12.7)	(12.7)
Repayment of long term loans		0.3	0.4
Exchange and other non-cash movements		-	(0.1)
Increase in net debt		(8.1)	(24.9)
Net debt at 2 August 2003		(140.9)	(116.0)
Net debt at 31 July 2004		(149.0)	(140.9)

Notes on the Financial Statements

1. Accounting Policies

Basis of accounting

The Financial Statements are prepared in accordance with the Companies Act 1985 and with applicable UK accounting standards and under the historical cost accounting rules.

Basis of consolidation

The group Financial Statements include the results of the parent undertaking, all its subsidiary undertakings. No profit and loss account is presented for McKechnie EP Holdings Limited as permitted by section 230 of the Companies Act 1985. The results of businesses acquired during the year are included from the effective date of acquisition and of those sold during the year to the effective date of disposal.

Goodwill arising on consolidation, being the difference between the purchase consideration paid for a business and the fair value of the net identifiable assets acquired, is capitalised and amortised through the profit and loss account over its expected useful life (up to a maximum of 20 years). Goodwill is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable. The gain or loss on disposal of a business is calculated as the difference between the sale consideration and the book value of the assets sold at the date of disposal.

Going Concern

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

Company

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.

Group

The financial statements of overseas subsidiary undertakings are translated at the rate of exchange ruling at the balance sheet date. The exchange difference arising on the retranslation of opening net assets is taken directly to reserves. All other translation 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 group equity investments in foreign enterprises, which are taken directly to reserves together with the exchange difference on the net investment in these enterprises. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in reserves.

Turnover

Turnover represents the amounts derived from the provision of goods and services which fall within the group's ordinary activities, stated net of sales taxes. All turnover is derived from acquisitions held as continuing operations.

Depreciation

Depreciation is calculated on original cost on a straight-line basis over the expected life of the asset so as to write the asset down to its estimated residual value. The annual rates of depreciation adopted are:

Notes on the Financial Statements (continued)

1. Accounting Policies

Depreciation (continued)

Freehold land	nil
Freehold buildings and long leasehold property	over expected economic life not exceeding 50 years
Short leasehold property	over the term of the lease
Plant and other equipment	4% to 33 1/3%

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost includes all direct expenditure and appropriate production overhead expenditure incurred in bringing goods to their current state under normal operating conditions. Net realisable value is based on estimated selling price less costs expected to be incurred to completion and disposal. Provision has been made for obsolescence or other losses where necessary.

Taxation

Corporation tax payable is provided on taxable profits at the current rate.

Deferred Taxation

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 have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable;

deferred tax assets are recognised only to the extent that the directors consider that it is 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 measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

Research and development

Expenditure on research and development is written off in the period in which it is incurred.

Pensions

The group's UK pension fund is a defined benefit scheme which is self administered. In accordance with FRS 17, the service cost of the pension provision relating to the period, together with the costs of any benefits relating to past service, is charged to the profit and loss account. A charge equal to the increase in the present value of the scheme liabilities (because the benefits are closer to settlement) and a credit equivalent to the Group's long – term expected return on assets (based on the market value of the scheme assets at the start of the period) are included in the profit and loss account under other finance income.

The difference between the market value of the assets of the scheme and the present value of accrued pension liabilities is shown as an asset or liability on the balance sheet net of deferred tax. Any difference between the expected return on assets and that actually achieved is recognised in the statement of total recognised gains and losses along with differences which arise from experience or assumption changes.

Employees in certain overseas subsidiaries are members of separate defined contribution schemes. The pension costs charged in arriving at profits are the contributions payable by the group during the year. Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

Leasing

Finance leases are capitalised at the estimated fair value at the date of inception of each lease. The total finance charges are allocated over the period of the lease so as to give an approximately constant annual rate of charge on the balance of each obligation.

Rentals paid under operating leases are charged to income evenly over the term of the lease.

McKECHNIE EP HOLDINGS LIMITED

Notes on the Financial Statements (continued)

2. Turnover

The group's principal activity is the manufacture and distribution of engineered plastic components. The group operates solely within the United Kingdom.

	2004	2003
	£m	£m
Turnover by destination:		
UK	32.9	34.6
USA	0.9	0.8
Mainland Europe	8.5	7.4
Pacific	0.1	0.1
Other	-	0.1
	<hr/> 42.4 <hr/>	<hr/> 43.0 <hr/>

3. Operating profit

	2004	2003
	£m	£m
This is stated after charging:		
Depreciation of owned assets	3.2	3.4
Goodwill amortisation (note 9)	0.8	0.7
Hire of plant and machinery	0.1	0.1
Rentals payable under operating leases – land and buildings	0.1	0.1
– plant and machinery	0.1	0.1
Staff costs (Note 5)	11.8	12.4
Loss on disposal of fixed assets	-	0.1
Auditors' remuneration - audit fees	0.1	0.1

Also included within operating profit are the following exceptional operating charges:

	2004	2003
	£m	£m
Restructuring costs	-	1.0
	<hr/>	<hr/>

4. Exceptional items

	2004	2003
	£m	£m
Profit on disposal of properties	-	1.0
	<hr/> - <hr/>	<hr/> 1.0 <hr/>

McKECHNIE EP HOLDINGS LIMITED

Notes on the Financial Statements (continued)

5. Staff costs (including emoluments of Directors)

	2004	2003
	£m	£m
Wages and salaries	10.5	10.9
Social security costs	0.7	0.8
Other pension costs (Note 24)	0.6	0.7
	<hr/>	<hr/>
	11.8	12.4
	<hr/>	<hr/>

Average number employed:

	2004	2003
	Number	Number
Manufacturing	412	406
Administration	109	110
	<hr/>	<hr/>
	521	516
	<hr/>	<hr/>

6. Directors' Remuneration

None of the directors received any emoluments in respect of their services to the group.

7. Net Interest payable and similar charges

	2004	2003
	£m	£m
Shareholder loans (Deep Discounted Bonds)	14.1	10.9
Bank loans and overdrafts	5.4	6.4
Group interest receivable	(7.2)	(6.5)
	<hr/>	<hr/>
Net interest payable	12.3	10.8
	<hr/>	<hr/>

8. Taxation

(a) Analysis of Charge in Year

	2004	2003
	£m	£m
Current tax:		
UK corporation tax at 30% (2003:30%)	-	-
Adjustment in respect of previous period	-	-
	<hr/>	<hr/>
Total current tax (note (b))	-	-
Deferred tax –		
The origination and reversal of timing differences	-	-
	<hr/>	<hr/>
Tax on loss on ordinary activities	-	-
	<hr/>	<hr/>

Notes on the Financial Statements (continued)

8. **Taxation** (continued)

(b) Factors Affecting Tax Charge For Year

The actual tax charge for the year differs from the charge calculated at the weighted average rate of tax for the reasons set out below:

	2004 £m	2003 £m
Loss on ordinary activities before tax	(11.4)	(8.3)
Loss on ordinary activities at weighted average rate of corporation tax in the group	(3.4)	(2.5)
Disallowed expenses and non taxable income	-	-
Amortisation of intangible assets	0.2	0.2
Timing differences (including fixed assets)	0.8	1.1
Excess tax losses not utilised	2.4	1.6
Chargeable disposals in year	-	(0.4)
Current tax charge for year (Note (a))	-	-

(c) Factors That May Affect Future Tax Charges

The group has an un-provided deferred tax asset in respect of operating losses of £4.8m (2003 £2.5m) (see Note 17). Based on current forecasts it is not anticipated these will be recoverable in the foreseeable future.

9. **Intangible assets – goodwill**

	Cost £m	Amortisation £m	Net book Value £m
At 2 August 2003	15.0	(1.9)	13.1
Amortisation for the year	-	(0.8)	(0.8)
At 31 July 2004	15.0	(2.7)	12.3

Goodwill is being written off over 20 years being the expected useful life.

McKECHNIE EP HOLDINGS LIMITED

Notes on the Financial Statements (continued)

10. Tangible fixed assets

Group

	Land and buildings £m	Plant and other equipment £m	Total £m
Cost			
At 2 August 2003	6.4	40.6	47.0
Additions	0.1	0.7	0.8
Disposals	-	(0.4)	(0.4)
	<hr/>	<hr/>	<hr/>
At 31 July 2004	6.5	40.9	47.4
	<hr/>	<hr/>	<hr/>
Depreciation			
At 2 August 2003	0.6	30.3	30.9
Provision for year	0.2	3.0	3.2
Disposals	-	(0.4)	(0.4)
	<hr/>	<hr/>	<hr/>
At 31 July 2004	0.8	32.9	33.7
	<hr/>	<hr/>	<hr/>
Net book value			
At 31 July 2004	5.7	8.0	13.7
	<hr/>	<hr/>	<hr/>
At 2 August 2003	5.8	10.3	16.1
	<hr/>	<hr/>	<hr/>

The company has no tangible fixed assets.

	2004 £m	2003 £m
The net book value of land and buildings comprises:		
Freehold	5.7	5.8
Long leasehold	-	-
	<hr/>	<hr/>
Net book value	5.7	5.8
	<hr/>	<hr/>

McKECHNIE EP HOLDINGS LIMITED

Notes on the Financial Statements (continued)

11. Fixed asset investments

Company

	Shares in Subsidiary Undertakings £m
Cost	
At 2 August 2003 and 31 July 2004	63.0

- a) Details of subsidiary undertakings and joint ventures at 31 July 2004 are shown in Note 28.
- b) The company's cost of investment in subsidiary undertakings is stated at the aggregate of the cash consideration and either the nominal value of the shares issued as consideration in accordance with FRS 6 where appropriate or in all other cases the market value of the company's shares on the date they were issued as consideration.

12. Stocks

	Group 2004 £m	Group 2003 £m
Raw materials	1.5	0.9
Work-in-progress	0.6	0.4
Finished stock	1.4	1.1
	<hr/> 3.5	<hr/> 2.4

13. Debtors

	Group 2004 £m	Company 2004 £m	Group 2003 £m	Company 2003 £m
Trade debtors	6.4	-	6.7	-
Current taxation	-	1.5	-	1.7
Other debtors	0.5	-	-	-
Prepayments	1.6	0.5	1.4	0.2
Amounts due from fellow subsidiaries	79.0	79.0	76.5	76.6
Amounts due from subsidiary undertakings	-	-	-	16.2
	<hr/> 87.5	<hr/> 81.0	<hr/> 84.6	<hr/> 94.7

McKECHNIE EP HOLDINGS LIMITED

Notes on the Financial Statements (continued)

14. Creditors: amounts falling due within one year

	Group 2004 £m	Company 2004 £m	Group 2003 £m	Company 2003 £m
Current instalments due on loans (note 16)	0.3	0.3	2.1	2.1
Interest on bank loans	1.8	1.8	0.2	0.2
Trade creditors	9.0	-	5.8	-
Other creditors	0.4	0.1	0.4	-
Other taxes and social security	0.5	-	0.5	-
Accruals and deferred income	0.8	-	1.1	-
Amounts due to fellow subsidiaries	1.3	3.4	2.0	40.0
Amounts due to subsidiary undertakings	-	20.2	-	-
	<hr/> 14.1	<hr/> 25.8	<hr/> 12.1	<hr/> 42.3

The bank overdraft is secured by a floating charge over the group's net assets (see note 16).

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

	Group 2004 £m	Company 2004 £m	Group 2003 £m	Company 2003 £m
Loans	123.1	123.1	120.3	120.3
Interest on loans	36.7	36.7	25.3	25.3
	<hr/> 159.8	<hr/> 159.8	<hr/> 145.6	<hr/> 145.6

16. Loans

Amounts falling due:	Group 2004 £m	Company 2004 £m	Group 2003 £m	Company 2003 £m
In one year or less or on demand	0.3	0.3	2.1	2.1
In more than one year but not more than two years	0.4	0.4	0.8	0.8
In more than two years but not more than five years	12.8	12.8	2.0	2.0
In more than five years	146.6	146.6	142.8	142.8
	<hr/> 160.1	<hr/> 160.1	<hr/> 147.7	<hr/> 147.7
Less: included in creditors amounts falling due within one year	(0.3)	(0.3)	(2.1)	(2.1)
Loans falling due after more than one year	<hr/> 159.8	<hr/> 159.8	<hr/> 145.6	<hr/> 145.6

McKECHNIE EP HOLDINGS LIMITED

Notes on the Financial Statements (continued)

16. Loans (continued)

Details of loans not wholly repayable within five years are as follows:-

	Group 2004 £m	Company 2004 £m	Group 2003 £m	Company 2003 £m
Shareholder loans				
(Deep discounted bonds)	99.2	99.2	87.8	87.8
Secured term loan A	3.1	3.1	3.4	3.4
Secured term loan B	10.4	10.4	10.4	10.4
Secured subordinated loan	47.4	47.4	46.1	46.1
	—	—	—	—
	160.1	160.1	147.7	147.7
	—	—	—	—

Term loan A is repayable over 7 years from its drawing date on 1 November 2000 as follows:

Year following drawing	1	2	3	4	5	6	7
Term A repayment	2.5%	7.5%	14.0%	17.0%	19.0%	20.0%	20.0%

The rate of interest payable on the loan is 2.125% above LIBOR.

Secured bank term loans accrue interest at variable interest rates linked to LIBOR or EURIBOR plus margins set by the loan agreements. The group has entered into interest rate swaps which result in the variable element of the interest charge being fixed.

Secured bank term loans are secured by multi-party debentures entered into or acceded to by all active subsidiaries. Within these debentures, security is provided by:

- a) Charges on shares
- b) Mortgage or first fixed charge on various assets of the Company and its subsidiary undertakings
- c) First floating charge on all its undertakings and assets subject to a) and b)

In addition, certain overseas subsidiaries holding shares in other subsidiaries have pledged these shares.

Certain subsidiaries have also provided guarantees of the obligations of the Company, McKechnie Holdings (UK) Limited and McKechnie Aerospace Holdings Limited under the secured bank term loans.

Secured subordinated loan is payable after 10 years from the date of drawing, and the rate of interest payable is 10%, plus 2% per annum, increasing every six months to a maximum of 6% per annum. This interest is to be capitalised on each interest payment date and shall become part of the principal amount of the secured subordinated loan.

Unsecured loan notes 2010 (Deep Discounted Bonds)

The loan notes have a nominal value of £77.8m and were issued at a deep discount. The notes are due to be redeemed on 1 November 2010 at 100% of the nominal value. The notes can be redeemed at an earlier date subject to the approval of the majority note holders and the provisions of a priority agreement. The priority agreement allows repayment only once all senior loans have been repaid and therefore cannot be redeemed within one year. The repayment is based on an annual compounding formula. Interest is accrued and not paid prior to redemption. The notes are neither secured nor guaranteed by any other group members. The rate of interest payable on the bonds is 13%.

McKECHNIE EP HOLDINGS LIMITED

Notes on the Financial Statements (continued)

17. Provisions for liabilities and charges

Deferred taxation

Group	Amounts provided 2004 £m	Amounts not provided 2004 £m	Amounts provided 2003 £m	Amounts not provided 2003 £m
Potential capital gains	-	1.6	-	1.6
Timing difference on depreciation	-	(2.1)	-	(1.3)
Other timing differences	-	-	-	(0.1)
Excess tax losses (note 8c)	-	(4.8)	-	(2.5)
	<hr/>	<hr/>	<hr/>	<hr/>
	-	(5.3)	-	(2.3)
	<hr/>	<hr/>	<hr/>	<hr/>

No provision for deferred taxation is required by the Company.

Other provisions are £Nil (2003: Nil).

18. Obligations under leases and hire purchase contracts

There are no commitments under finance leases and hire purchase contracts.

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

Group	Land and buildings 2004 £m	Other 2004 £m	Land and buildings 2003 £m	Other 2003 £m
Operating leases which expire:				
Within one year	-	0.1	0.1	-
In two to five years	-	0.1	0.1	0.1
In over five years	-	-	-	0.1
	<hr/>	<hr/>	<hr/>	<hr/>
	-	0.2	0.2	0.2
	<hr/>	<hr/>	<hr/>	<hr/>

The Company has no operating lease commitments.

McKECHNIE EP HOLDINGS LIMITED

Notes on the Financial Statements (continued)

19. **Share capital**

Ordinary shares of £1 each

	Authorised No. of Shares	£	Allotted, called up and fully paid No. of Shares	£
At 2 August 2003 and 31 July 2004	348,000	348,000	348,000	348,000
	_____	_____	_____	_____

20. **Reserves**

Company

	Share capital £m	Profit and Loss Account £m
At 2 August 2003	0.3	(30.5)
Loss withdrawn	-	(11.4)
	_____	_____
At 31 July 2004	0.3	(41.9)
	_____	_____

Group

	Share capital £m	Profit and Loss Account £m
At 2 August 2003	0.3	(39.3)
Loss withdrawn	-	(10.0)
	_____	_____
At 31 July 2004	0.3	(49.3)
	_____	_____

The loss for the company is £11.4m (2003:£8.6m).

McKECHNIE EP HOLDINGS LIMITED

Notes on the Financial Statements (continued)

21. Notes to the cash flow statement

	2004 £m	2003 £m
a) Reconciliation of operating profit to cash flow from operating activities		
Operating profit	1.1	1.6
Depreciation	3.2	3.4
Amortisation of intangible fixed assets	0.8	0.7
(Increase)/Decrease in debtors	(2.9)	37.0
(Increase)/Decrease in stock	(1.1)	0.5
Increase/(Decrease) in creditors	2.0	(58.0)
Exchange difference and movement on provisions	-	(0.4)
	<hr/>	<hr/>
Cash flow from operating activities	3.1	(15.2)
	<hr/>	<hr/>

b) **Analysis of movement in net debt**

	2 August 2003	Cash flow	Exchange and other non-cash movements	31 July 2004
	£m	£m	£m	£m
Cash at bank and in hand	6.8	4.3	-	11.1
Overdraft	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Cash	6.8	4.3	-	11.1
Loans	(147.7)	0.3	(12.7)	(160.1)
	<hr/>	<hr/>	<hr/>	<hr/>
	(140.9)	4.6	(12.7)	(149.0)
	<hr/>	<hr/>	<hr/>	<hr/>

22. **Capital commitments**

Group

	2004 £m	2003 £m
Capital commitments not provided for in the financials statements in respect of contracts placed and agreements made	0.5	0.1
	<hr/>	<hr/>

The Company has no capital commitments.

McKECHNIE EP HOLDINGS LIMITED

Notes on the Financial Statements (continued)

23. **Contingent liabilities**

a) Value Added tax

The Company and its UK subsidiaries are members of a group VAT registration together with the UK companies in the relevant groups headed by McKechnie Aerospace (UK) Limited and McKechnie Holdings (UK) Limited. All companies within the groups are jointly and severally liable for any amounts due to Customs and Excise in respect of Value Added Tax.

b) Loans

As noted in Note 16 guarantees have been issued to and received from the members of the related groups headed by McKechnie Holdings (UK) Limited and McKechnie Aerospace Holdings Limited. The amounts outstanding at 31 July 2004 in respect of the securities given amounted to £139.5m (2003:£175.6m).

24. **Pensions**

The group operates a number of pension plans throughout the world. In the UK the principal scheme is the McKechnie Pension Plan ("the Plan") which provides defined benefit pensions for its members. This scheme is now closed to new members, consequently under the projected unit method the current service cost will increase as the members of the scheme approach retirement based on exiting benefits. The assets of the Plan are held in a fund administered by McKechnie Pension Trust Limited, an independent trustee company. A full actuarial valuation of the Plan was carried out at 6 April 2001 and updated to 31 July 2004 by a qualified independent actuary. The major assumptions used by the actuary for FRS17 purposes were (in nominal terms):

	At 31 July 2004	At 2 August 2003	At 3 August 2002
Rate of increase in salaries	3.3%	4.2%	4.0%
Rate of increase of pensions in payment	2.7%	2.7%	2.5%
Discount rate	5.8%	5.5%	6.0%
Inflation assumption	2.8%	2.7%	2.5%

McKECHNIE EP HOLDINGS LIMITED

Notes on the Financial Statements (continued)

24. Pensions (continued)

The assets and liabilities of the scheme and the expected rate of return were:-

	31 July 2004		2 August 2003		3 August 2002	
	Expected rate of return	£m	Expected rate of return	£m	Expected rate of return	£m
Equities	6.4%	4.7	6.5%	4.2	6.5%	4.7
Bonds	5.4%	0.7	5.5%	0.5	6.0%	0.5
		<hr/>		<hr/>		<hr/>
Total market value of assets		5.4		4.7		5.2
Actuarial value of liabilities		(8.6)		(9.0)		(5.2)
		<hr/>		<hr/>		<hr/>
Deficit/ surplus in the scheme		(3.2)		(4.3)		-
Related deferred tax liability		-		-		-
		<hr/>		<hr/>		<hr/>
Net pension (liability)/asset		(3.2)		(4.3)		-
		<hr/>		<hr/>		<hr/>
Analysis of the amount charged to operating profit			Year to 31 July 2004	Year to 2 August 2003	Year to 3 August 2002	
			£m	£m	£m	
Current service cost			(0.7)	(0.6)	(1.0)	
Past service cost			-	(0.1)	(0.1)	
			<hr/>	<hr/>	<hr/>	
Total operating charge			(0.7)	(0.7)	(1.1)	
			<hr/>	<hr/>	<hr/>	
Analysis of the amount charged to other finance income			Year to 31 July 2004	Year to 2 August 2003	Year to 3 August 2002	
			£m	£m	£m	
Expected return on pension scheme assets			0.3	0.3	0.5	
Interest on pension scheme liabilities			(0.5)	(0.4)	(0.5)	
			<hr/>	<hr/>	<hr/>	
Net return			(0.2)	(0.1)	-	
			<hr/>	<hr/>	<hr/>	

Notes on the Financial Statements (continued)

24. Pensions (continued)

Analysis of the amount recognised in the statement of total recognised gains and losses	Year to 31 July 2004 £m	Year to 2 August 2003 £m	Year to 3 August 2002 £m
Actual return less expected return on pension scheme assets	0.1	(4.2)	-
Experience gains and losses arising on the scheme liabilities	(0.4)	-	-
Change in assumptions underlying the present value of the scheme liabilities	1.7	(0.1)	-
	<hr/>	<hr/>	<hr/>
Actuarial gain/(loss) recognised in statement of total recognised gains and losses	1.4	(4.3)	-
	<hr/>	<hr/>	<hr/>
Movement in net pension asset/(liability) during the year	Year to 31 July 2004 £m	Year to 2 August 2003 £m	Year to 3 August 2002 £m
Surplus/(deficit) in scheme at beginning of year	(4.3)	-	0.1
Movement in period:			
Current service cost	(0.8)	(0.6)	(0.9)
Contributions	0.7	0.7	0.8
Past service costs	-	-	-
Net return on assets/interest cost	(0.2)	(0.1)	-
Actuarial gain/ (loss)	1.4	(4.3)	-
	<hr/>	<hr/>	<hr/>
Deficit in scheme at end of year	(3.2)	(4.3)	-
	<hr/>	<hr/>	<hr/>
History of experience gains and losses	2004	2003	2002
Difference between the expected and actual return on scheme assets:			
Amount (£m)	0.1	(4.2)	-
Percentage of scheme assets	1.7%	89.3%	-
Experience gains and losses on scheme liabilities:			
Amount (£m)	0.5	-	-
Percentage of the present value of the scheme liabilities	4.6%	-	-
Total amount recognised in statement of total recognised gains and losses:			
Amount (£m)	1.4	(4.3)	-
Percentage of the present value of the scheme liabilities	16.3%	47.8%	-

In locations outside the UK pension schemes are operated in accordance with local custom. The contributions to these schemes are charged against profits as incurred, and the introduction of FRS 17 in respect of these schemes would not result in any material change to the group's pension charge.

The net pension charge for the Plan in the year was £0.7m.

McKECHNIE EP HOLDINGS LIMITED

Notes on the Financial Statements (continued)

25. Related party transactions

The group has taken advantage of the exemption under FRS8 to not disclose transactions between subsidiary undertakings.

During the year the group entered into transactions in the ordinary course of business with other related parties. transactions entered into and balances outstanding at the year-end are as follows:

	<u>Transactions during the year ended 31 July 2004</u>				<u>At 31 July 2004</u>	
	Interest Paid to Related Party £m	Interest Received from Related Party £m	Fixed Assets Transferred to Related Party £m	Fixed Assets Transferred from Related Party £m	Amounts Due to Related Party £m	Amounts Due from Related Party £m
McKechnie Aerospace Holdings Ltd	-	6.0	-	-	-	65.6
McKechnie Holdings (UK) Ltd	-	1.2	-	-	1.3	13.4
Mozart Jersey No1 Ltd	-	-	-	-	-	-
Mozart Jersey No2 Ltd	-	-	-	-	-	-

	<u>Transactions during the year ended 2 August 2003</u>				<u>At 2 August 2003</u>	
	Interest Paid to Related Party £m	Interest Received from Related Party £m	Fixed Assets Transferred to Related Party £m	Fixed Assets Transferred from Related Party £m	Amounts Due to Related Party £m	Amounts Due from Related Party £m
McKechnie Aerospace Holdings Ltd	-	5.4	-	-	-	59.6
McKechnie Holdings (UK) Ltd	-	1.1	-	-	2.0	16.9
Mozart Jersey No1 Ltd	-	-	-	-	-	-
Mozart Jersey No2 Ltd	-	-	-	-	-	-

The entire issued share capital of McKechnie Aerospace Holdings Limited and McKechnie EP Holdings Limited were controlled by Mozart Jersey Holdings No1 Limited and Mozart Jersey Holdings No.2 Limited.

McKECHNIE EP HOLDINGS LIMITED

Notes on the Financial Statements (continued)

26. Post Balance Sheet Events

27. Ultimate Parent Undertaking

The ultimate parent undertaking is Mozart Jersey Holdings No 1 Limited, registered in Jersey. 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 Whitely Chambers, Don Street, St Helier, JE4 9WG.

28. Subsidiary undertakings and joint ventures

The share capital of the subsidiary undertaking is designated as ordinary shares.

The subsidiary undertaking operates in the UK and is registered in England.

The shareholding represents 100% of the equity and the voting rights.

The subsidiary undertaking is:-

McKechnie Engineered Plastics Limited (trading as McKechnie Plastic Components (Pickering and Stamford Bridge) and Burnett Polymer Engineering).

29. Post Balance Sheet Events

On 26 May 2005 the company's ultimate parent undertaking Mozart Jersey Holdings No 1 Limited was acquired by Melrose PLC.