

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The financial information on pages 11 to 31 has been prepared in accordance with International Financial Reporting Standards ("IFRS") adopted for use in the European Union and, except with regard to certain financial instruments, under the historical cost convention.

From the Group's perspective, there are no applicable differences between IFRS adopted for use in the European Union and IFRS as issued by the International Accounting Standards Board.

The Group's principal accounting policies are unchanged compared with the year ended 30 December 2006.

During the period, the Group adopted the following accounting pronouncements that are relevant to its operations, none of which had any impact on its results or financial position:

- IFRS 7 "Financial Instruments: Disclosures" and the related amendment to IAS 1 "Presentation of Financial Statements – Capital Disclosures"
- IFRIC 7 "Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies"
- IFRIC 8 "Scope of IFRS 2"
- IFRIC 9 "Reassessment of Embedded Derivatives"
- IFRIC 10 "Interim Financial Reporting and Impairment"
- IFRIC 11 "Group and Treasury Share Transactions"

The financial information on pages 11 to 31 is derived from the Group's consolidated financial statements for the year ended 29 December 2007 prepared in accordance with IFRS ("the financial statements") and does not constitute full accounts within the meaning of section 240 of the Companies Act 1985 or contain sufficient information to comply with IFRS disclosure requirements.

The Company's auditors, Deloitte & Touche LLP, have given an unqualified report on the financial statements which does not contain any statement under section 237 of the Companies Act 1985. Subject to their approval by shareholders, the financial statements will be filed with the Registrar of Companies following the Company's Annual General Meeting on 1 May 2008.

The financial information for the three month periods ended 29 December 2007 and 30 December 2006 has been neither audited nor reviewed by the auditors.

2. SEGMENT INFORMATION – CONTINUING OPERATIONS

A. Three months ended 29 December 2007 (unaudited)

	Segment revenue		Segment result	
	3 months ended 29 December 2007 £ million	3 months ended 30 December 2006 £ million	3 months ended 29 December 2007 £ million	3 months ended 30 December 2006 £ million
By business segment				
Industrial & Automotive:				
– Power Transmission	250.4	240.7	25.3	29.2
– Fluid Power	90.1	86.4	5.5	7.8
– Fluid Systems	76.6	64.3	6.3	2.7
– Other Industrial & Automotive	94.9	110.4	14.1	7.0
	512.0	501.8	51.2	46.7
Building Products:				
– Air Systems Components	127.1	138.7	10.3	13.9
– Other Building Products	48.4	72.8	(3.5)	2.8
	175.5	211.5	6.8	16.7
	687.5	713.3	58.0	63.4
By geographical origin				
US	376.6	432.8	32.0	30.1
UK	55.6	41.5	2.5	8.1
Rest of Europe	87.1	84.2	4.6	7.5
Rest of the World	168.2	154.8	18.9	17.7
	687.5	713.3	58.0	63.4
By geographical destination				
US	411.6	460.7		
UK	18.9	17.6		
Rest of Europe	98.6	90.3		
Rest of the World	158.4	144.7		
	687.5	713.3		

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. SEGMENT INFORMATION – CONTINUING OPERATIONS (CONTINUED)

Inter-segment sales were not significant.

Reconciliation of the aggregate segment result of continuing operations to the profit for the period:

	3 months ended 29 December 2007 £ million	3 months ended 30 December 2006 £ million
Segment result	58.0	63.4
Unallocated corporate activities	2.5	(5.6)
Gain on sale of available-for-sale investments	0.3	0.2
Share of profit of associates	(0.1)	1.0
Operating profit	60.7	59.0

B. Year ended 29 December 2007

	Segment revenue			Segment result		
	Year ended 29 December 2007 £ million	Year ended 30 December 2006* £ million	Year ended 31 December 2005* £ million	Year ended 29 December 2007 £ million	Year ended 30 December 2006* £ million	Year ended 31 December 2005* £ million
By business segment						
Industrial & Automotive:						
– Power Transmission	1,031.2	1,009.6	969.9	130.1	137.5	127.9
– Fluid Power	374.0	383.8	358.0	28.7	30.0	38.4
– Fluid Systems	291.8	244.0	245.2	25.5	9.5	20.4
– Other Industrial & Automotive	458.5	535.4	506.4	49.7	53.5	56.7
	2,155.5	2,172.8	2,079.5	234.0	230.5	243.4
Building Products:						
– Air Systems Components	541.6	583.9	485.4	45.6	53.8	57.3
– Other Building Products	244.8	377.1	398.4	32.2	25.9	29.2
	786.4	961.0	883.8	77.8	79.7	86.5
	2,941.9	3,133.8	2,963.3	311.8	310.2	329.9
By origin						
US	1,727.8	2,028.1	1,961.5	189.8	187.0	232.8
UK	204.0	140.0	130.9	13.4	15.6	12.6
Rest of Europe	366.8	349.7	312.6	31.0	32.3	28.1
Rest of the World	643.3	616.0	558.3	77.6	75.3	56.4
	2,941.9	3,133.8	2,963.3	311.8	310.2	329.9
By destination						
US	1,855.5	2,094.4	2,054.1			
UK	74.7	73.2	66.9			
Rest of Europe	404.7	373.7	331.6			
Rest of the World	607.0	592.5	510.7			
	2,941.9	3,133.8	2,963.3			

* Re-presented (see note 8)

Inter-segment sales were not significant.

The aggregate segment result of continuing operations includes a net gain of £31.9 million arising from restructuring initiatives (2006: net loss of £9.9 million; 2005: net gain of £4.3 million) and the amortisation of intangible assets arising on acquisition of £3.6 million (2006: £2.7 million; 2005: £0.2 million).

Restructuring initiatives are analysed by business segment in note 3.

Amortisation of intangible assets arising on acquisition may be analysed by business segment as follows: Fluid Power £0.8 million (2006: £1.3 million; 2005: £nil); Other Industrial & Automotive £0.9 million (2006: £0.5 million; 2005: £0.2 million); Air Systems Components £1.9 million (2006: £0.9 million; 2005: £nil).

Segmental analysis of the revenue and results of discontinued operations is presented in note 8.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. SEGMENT INFORMATION – CONTINUING OPERATIONS (CONTINUED)

Reconciliation of the aggregate segment result of continuing operations to the profit for the period:

	Year ended 29 December 2007 £ million	Year ended 30 December 2006* £ million	Year ended 31 December 2005* £ million
Segment result	311.8	310.2	329.9
Unallocated corporate activities	(19.5)	(28.7)	(25.3)
Gain on sale of available-for-sale investments	0.3	0.2	0.4
Share of profit of associates	0.4	1.5	0.6
Operating profit	293.0	283.2	305.6
Interest payable	(71.0)	(77.8)	(78.4)
Investment income	43.4	40.0	35.2
Other finance (expense)/income	(2.8)	(0.7)	4.2
Profit before tax	262.6	244.7	266.6
Income tax expense	(69.9)	(35.8)	(60.0)
Profit for the period from continuing operations	192.7	208.9	206.6
Loss for the period from discontinued operations	(33.3)	(11.6)	(5.4)
Profit for the period	159.4	197.3	201.2

* Re-presented (see note 8)

Management uses adjusted operating profit to assess the trading performance of the Group's businesses. Adjusted operating profit represents operating profit before restructuring initiatives and the amortisation of intangible assets arising on acquisition. A reconciliation of the segment result to the adjusted operating profit for each of the Group's business segments is provided in the "Supplemental Financial Information" on pages 32 to 36.

3. RESTRUCTURING INITIATIVES

Three months ended 29 December 2007 (unaudited)

	3 months ended 29 December 2007			3 months ended 30 December 2006		
	Restructuring costs £ million	Disposals and exit of businesses £ million	Total £ million	Restructuring costs £ million	Disposals and exit of businesses £ million	Total £ million
By business segment						
Industrial & Automotive:						
– Power Transmission	(3.0)	0.1	(2.9)	(0.2)	–	(0.2)
– Fluid Power	(1.9)	–	(1.9)	0.6	–	0.6
– Fluid Systems	0.1	(1.4)	(1.3)	–	–	–
– Other Industrial & Automotive	–	6.7	6.7	(0.5)	0.1	(0.4)
	(4.8)	5.4	0.6	(0.1)	0.1	–
Building Products:						
– Air Systems Components	(1.3)	–	(1.3)	(0.4)	–	(0.4)
– Other Building Products	(1.6)	0.1	(1.5)	–	–	–
	(2.9)	0.1	(2.8)	(0.4)	–	(0.4)
Unallocated corporate activities	(0.5)	7.7	7.2	–	–	–
	(8.2)	13.2	5.0	(0.5)	0.1	(0.4)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3. RESTRUCTURING INITIATIVES (CONTINUED)

Year ended 29 December 2007

	Year ended 29 December 2007			Year ended 30 December 2006			Year ended 31 December 2005		
	Restructuring costs £ million	Disposals and exit of businesses £ million	Total £ million	Restructuring costs £ million	Disposals and exit of businesses £ million	Total £ million	Restructuring costs £ million	Disposals and exit of businesses £ million	Total £ million
By business segment									
Industrial & Automotive:									
– Power Transmission	(3.0)	0.1	(2.9)	(6.4)	3.2	(3.2)	(1.1)	–	(1.1)
– Fluid Power	(4.3)	–	(4.3)	(3.1)	–	(3.1)	0.9	0.8	1.7
– Fluid Systems	0.1	(1.4)	(1.3)						
– Other Industrial & Automotive	–	6.7	6.7	(0.3)	(0.1)	(0.4)	(2.4)	(1.8)	(4.2)
	(7.2)	5.4	(1.8)	(9.8)	3.1	(6.7)	(2.6)	(1.0)	(3.6)
Building Products:									
– Air Systems Components	(3.7)	–	(3.7)	(3.2)	(0.1)	(3.3)	(1.7)	9.0	7.3
– Other Building Products	(2.4)	32.6	30.2	–	0.1	0.1	0.1	0.5	0.6
	(6.1)	32.6	26.5	(3.2)	–	(3.2)	(1.6)	9.5	7.9
Unallocated corporate activities									
	(0.5)	7.7	7.2	–	–	–	–	–	–
	(13.8)	45.7	31.9	(13.0)	3.1	(9.9)	(4.2)	8.5	4.3

A. Restructuring costs

In 2007, restructuring costs principally related to the rationalisation of production facilities within the Lasco Bathware and Philips Products businesses in the US (£2.4 million), the outsourcing of information technology services (£2.7 million), and the initiatives within the Fluid Power and Air Systems Components business groups that began in 2006 (£7.4 million).

In 2006, restructuring costs related the transfer of the activities of Fluid Power's facility at St. Neots, UK to a new facility in the Czech Republic, the closure of Air Systems Components' Holland, Michigan facility and the initiatives within Stackpole and the Air Systems Components business group that began in 2005. In 2005, restructuring costs primarily related to the closure of Stackpole's pump components facility and Air Systems Components' facilities at Englewood, Ohio and Tabor City, North Carolina.

B. Disposals and exit of businesses

In 2007, the Group recognised a gain of £32.6 million on the disposal of Lasco Fittings Inc., a gain of £6.7 million on the disposal of Dearborn Mid-West Conveyor Company and a loss of £1.3 million on the disposal of Tridon Electronics' indicator and side object detection businesses. Also during the year, the Group recognised a gain of £7.7 million on the disposal of Corporate property.

In 2006, the Group recognised a gain of £3.1 million on the sale of property, plant and equipment relating to businesses sold in previous years. In 2005, the Group recognised a gain of £8.5 million on the disposal of businesses, principally in relation to the sale of the business and assets of Gutter Helmet, which was part of Hart & Cooley's residential business.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

4. INTEREST PAYABLE

	Year ended 29 December 2007 £ million	Year ended 30 December 2006 £ million	Year ended 31 December 2005 £ million
Interest on bank overdrafts and loans	32.2	35.9	26.0
Interest element of finance lease rentals	0.7	0.6	0.7
	32.9	36.5	26.7
Dividends payable on convertible cumulative preference shares	0.6	5.4	16.3
	33.5	41.9	43.0
Post-employment benefits:			
– Interest cost on benefit obligation	38.6	39.7	40.5
	72.1	81.6	83.5
Continuing operations	71.0	77.8	78.4
Discontinued operations	1.1	3.8	5.1
	72.1	81.6	83.5

Interest rate swaps are used to manage the interest rate profile of the Group's borrowings. Accordingly, net interest payable or receivable on interest rate swaps is included in interest payable.

5. INVESTMENT INCOME

	Year ended 29 December 2007 £ million	Year ended 30 December 2006 £ million	Year ended 31 December 2005 £ million
Interest on bank deposits	4.2	4.8	4.1
Other interest receivable	1.7	2.1	1.6
	5.9	6.9	5.7
Post-employment benefits:			
– Expected return on plan assets	38.1	36.1	34.6
	44.0	43.0	40.3
Continuing operations	43.4	40.0	35.2
Discontinued operations	0.6	3.0	5.1
	44.0	43.0	40.3

6. OTHER FINANCE (EXPENSE)/INCOME

	Year ended 29 December 2007 £ million	Year ended 30 December 2006 £ million	Year ended 31 December 2005 £ million
Hedging activities			
Fair value gain on derivatives in designated hedging relationships	0.8	0.9	–
Fair value (loss)/gain on derivatives classed as held for trading	(1.9)	(0.9)	3.3
(Loss)/gain on other instruments not qualifying for hedge accounting	(1.5)	(0.7)	0.9
	(2.6)	(0.7)	4.2
Other items			
Fair value loss on embedded derivatives	(0.2)	–	–
	(2.8)	(0.7)	4.2

Other finance (expense)/income principally represents fair value gains and losses arising on financial instruments held by the Group to hedge its translational exposures where either the economic hedging relationship does not qualify for hedge accounting or to the extent that there is deemed to be ineffectiveness in a designated hedging relationship.

Other finance (expense)/income is wholly attributable to continuing operations.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

7. TAX

	Year ended 29 December 2007 £ million	Year ended 30 December 2006 £ million	Year ended 31 December 2005* £ million
Current tax:			
– UK	1.1	(20.0)	(5.0)
– Overseas	48.6	24.0	24.0
	49.7	4.0	19.0
Deferred tax	25.5	14.2	40.9
Income tax expense	75.2	18.2	59.9
Attributable to:			
– Continuing operations	69.9	35.8	60.0
– Discontinued operations	5.3	(17.6)	(0.1)
	75.2	18.2	59.9

* Re-presented (see note 8)

8. DISCONTINUED OPERATIONS

A. Background

Discontinued operations represent Trico Products Corporation and its related businesses (“Trico”), which constituted the Group’s former Wiper Systems business segment.

The sale of Trico was completed on 29 June 2007.

During 2007, the Group recognised a loss of £29.8 million before tax on the disposal of Trico (including an impairment loss of £17.2 million that was recognised in the first quarter of 2007). Also during the period, the Group recognised a gain of £1.2 million before tax on the receipt of contingent consideration in relation to the disposal of the Group’s Valves, Taps and Mixers businesses in 2004. After the attributable tax expense of £4.0 million, a loss of £32.6 million was recognised in 2007 on the disposal of these businesses.

B. Re-presentation of prior year results

Management intended that Tridon Electronics (“Tridon”), a manufacturer of automotive indicator lights, would be included within the Trico sale and it was therefore included within discontinued operations in 2006. However, Tridon has been retained by the Group and no longer meets the conditions to be classified as held for sale. Accordingly, the Group’s income statements for 2006 and 2005 have been re-presented to reflect the re-classification of Tridon to continuing operations in 2007. During 2006, Tridon’s revenue was £9.2 million (2005: £14.9 million) and it incurred an operating loss of £0.1 million (2005: operating profit of £3.6 million).

The loss for the period from discontinued operations may be analysed as follows:

	Year ended 29 December 2007 £ million	Year ended 30 December 2006* £ million	Year ended 31 December 2005* £ million
Loss for the period of discontinued operations			
Sales	79.9	187.5	219.1
Cost of sales	(66.5)	(162.0)	(183.3)
Gross profit	13.4	25.5	35.8
Distribution costs	(6.5)	(13.4)	(15.6)
Administrative expenses	(5.0)	(11.5)	(13.0)
Restructuring costs	(0.8)	(6.5)	(16.1)
Operating profit/(loss)	1.1	(5.9)	(8.9)
Interest payable	(1.1)	(3.8)	(5.1)
Investment income	0.6	3.0	5.1
Profit/(loss) before tax	0.6	(6.7)	(8.9)
Income tax (expense)/benefit	(1.3)	(2.8)	1.0
Loss after tax	(0.7)	(9.5)	(7.9)
(Loss)/profit on disposal of discontinued operations			
(Loss)/profit before tax	(28.6)	(22.5)	3.4
Income tax (expense)/benefit	(4.0)	20.4	(0.9)
(Loss)/profit after tax	(32.6)	(2.1)	2.5
Loss for the period from discontinued operations	(33.3)	(11.6)	(5.4)

* Re-presented

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

8. DISCONTINUED OPERATIONS (CONTINUED)

Restructuring costs in all three years relate to the transfer of manufacturing activities from the Wiper Systems facility at Pontypool, UK to more cost competitive locations.

The segment revenue and result of discontinued operations may be analysed as follows:

	Segment revenue			Segment result		
	Year ended 29 December 2007 £ million	Year ended 30 December 2006* £ million	Year ended 31 December 2005* £ million	Year ended 29 December 2007 £ million	Year ended 30 December 2006* £ million	Year ended 31 December 2005* £ million
By business segment						
Industrial & Automotive:						
– Wiper Systems	79.9	187.5	219.1	1.1	(5.9)	(8.9)
By geographical origin						
US	62.4	142.4	161.3	2.3	4.2	13.0
UK	6.9	22.8	32.3	(1.2)	(7.4)	(22.5)
Rest of Europe	–	0.1	–	–	–	–
Rest of the World	10.6	22.2	25.5	–	(2.7)	0.6
	79.9	187.5	219.1	1.1	(5.9)	(8.9)
By geographical destination						
US	57.6	127.0	137.5			
UK	3.8	7.9	9.8			
Rest of Europe	4.7	15.8	22.1			
Rest of the World	13.8	36.8	49.7			
	79.9	187.5	219.1			

* Re-presented

Reconciliation of the aggregate segment result of discontinued operations to the loss for the period from discontinued operations:

	Year ended 29 December 2007 £ million	Year ended 30 December 2006* £ million	Year ended 31 December 2005* £ million
Segment result	1.1	(5.9)	(8.9)
Interest payable	(1.1)	(3.8)	(5.1)
Investment income	0.6	3.0	5.1
Profit/(loss) before tax	0.6	(6.7)	(8.9)
Income tax (expense)/benefit	(1.3)	(2.8)	1.0
Loss for the period of discontinued operations	(0.7)	(9.5)	(7.9)
(Loss)/profit on disposal of discontinued operations	(32.6)	(2.1)	2.5
Loss for the period from discontinued operations	(33.3)	(11.6)	(5.4)

* Re-presented

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

9. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the period attributable to equity shareholders by the weighted average number of the Company's ordinary shares in issue during the period. The weighted average number of the Company's ordinary shares in issue during the period excludes 4,331,018 shares (2006: 3,759,701 shares; 2005: 2,888,908 shares), being the weighted average number of own shares held during the period.

Diluted earnings per share takes into account the dilutive effect of options and awards outstanding under the Group's employee share schemes and the dilutive effect of the potential conversion of the Company's preference shares into the Company's ordinary shares. The weighted average number of the Company's ordinary shares used in the calculation of diluted earnings per share excludes the effect of options and awards over 9,318,429 shares (2006: 1,229,593 shares; 2005: 2,549,390 shares) that were anti-dilutive for the periods presented but could dilute earnings per share in the future.

	Year ended 29 December 2007 £ million	Year ended 30 December 2006* £ million	Year ended 31 December 2005* £ million
Continuing operations			
Profit for the period from continuing operations	192.7	208.9	206.6
Minority interests in continuing operations	(12.5)	(11.2)	(9.0)
Earnings for calculating basic earnings per share	180.2	197.7	197.6
Effect of dilutive potential ordinary shares:			
– Dividends payable on preference shares	0.6	5.4	16.3
Earnings for calculating diluted earnings per share	180.8	203.1	213.9
Discontinued operations			
Loss for the period from discontinued operations, being earnings for calculating basic and diluted earnings per share	(33.3)	(11.6)	(5.4)
Continuing and discontinued operations			
Profit for the period	159.4	197.3	201.2
Minority interests	(12.5)	(11.2)	(9.0)
Earnings for calculating basic earnings per share	146.9	186.1	192.2
Effect of dilutive potential ordinary shares:			
– Dividends payable on preference shares	0.6	5.4	16.3
Earnings for calculating diluted earnings per share	147.5	191.5	208.5
	Year ended 29 December 2007 Number	Year ended 30 December 2006 Number	Year ended 31 December 2005 Number
Weighted average number of ordinary shares			
For calculating basic earnings per share	870,297,953	838,893,502	771,416,964
Effect of dilutive potential ordinary shares:			
– Share options and awards	4,018,619	5,173,658	2,593,300
– Preference shares	9,714,541	39,759,222	102,375,159
For calculating diluted earnings per share	884,031,113	883,826,382	876,385,423

* Re-presented (see note 8)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

10. DIVIDENDS ON ORDINARY SHARES

	Year ended 29 December 2007 per share	Year ended 30 December 2006 per share	Year ended 31 December 2005 per share
Paid or proposed in respect of the period			
Interim dividend	5.32p	5.32p	5.07p
Final dividend	8.57p	8.57p	8.16p
	13.89p	13.89p	13.23p

	Year ended 29 December 2007 £ million	Year ended 30 December 2006 £ million	Year ended 31 December 2005 £ million
Recognised in the period			
Interim dividend for the period of 5.32p (2006: 5.32p; 2005: 5.07p) per share	46.8	45.5	39.4
Final dividend for the prior period of 8.57p (2006: 8.16p; 2005: 7.77p) per share	75.2	69.8	60.0
	122.0	115.3	99.4

The Directors propose a final dividend for 2007 of 8.57p per share that, subject to approval by shareholders, will be paid on 15 May 2008 to shareholders on the register on 18 April 2008.

Based on the number of ordinary shares currently in issue, the final dividend for 2007 is expected to absorb £75.5 million.

11. CASH FLOW

A. Reconciliation of profit for the period to cash generated from operations

	Year ended 29 December 2007 £ million	Year ended 30 December 2006 £ million	Year ended 31 December 2005 £ million
Profit for the period	159.4	197.3	201.2
Interest payable	72.1	81.6	83.5
Investment income	(44.0)	(43.0)	(40.3)
Other finance expense/(income)	2.8	0.7	(4.2)
Income tax expense	75.2	18.2	59.9
Profit from continuing and discontinued operations	265.5	254.8	300.1
Share of profit of associates	(0.4)	(1.5)	(0.6)
Amortisation of intangible assets	10.3	13.3	2.4
Depreciation of property, plant and equipment	107.5	112.7	116.7
Impairment of property, plant and equipment	0.4	0.9	5.3
Impairment of goodwill	0.4	1.6	–
Cost of share-based incentives	8.0	7.9	7.4
(Gain)/loss on sale of property, plant and equipment	(5.6)	2.9	(0.1)
Gain on available for sale investment	(0.3)	(0.2)	–
(Gain)/loss on disposal of businesses:			
– Continuing operations	(38.0)	(3.1)	(8.5)
– Discontinued operations	28.6	22.5	(3.4)
Decrease in post-employment benefit obligations	(37.1)	(34.8)	(55.4)
Decrease in provisions	(1.2)	(9.7)	(2.6)
Operating cash flows before movements in working capital	338.1	367.3	361.3
Increase in inventories	(10.0)	(20.4)	(22.3)
Increase in receivables	(37.0)	(10.1)	(22.3)
Increase/(decrease) in payables	28.1	(5.3)	19.8
Cash generated from operations	319.2	331.5	336.5

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

11. CASH FLOW (CONTINUED)

B. Reconciliation of net (decrease)/increase in cash and cash equivalents to movement in net debt

	Year ended 29 December 2007 £ million	Year ended 30 December 2006 £ million	Year ended 31 December 2005 £ million
Net debt at the beginning of the period	(470.5)	(641.3)	(244.5)
Adoption of IAS 32 and IAS 39	–	–	(271.7)
	(470.5)	(641.3)	(516.2)
Decrease/(increase) in net debt resulting from cash flows:			
– (Decrease)/increase in cash and cash equivalents	(23.5)	(82.2)	65.9
– Decrease/(increase) in debt and lease financing	142.3	(25.9)	(133.5)
– Redemption of preference shares	0.6	–	–
– (Decrease)/increase in collateralised cash	(1.2)	(1.4)	0.5
	118.2	(109.5)	(67.1)
Conversion of preference shares	65.3	225.6	–
Leases disposed of on sale of businesses	3.1	–	–
Leases obtained on acquisition of businesses	–	–	(2.0)
Other non-cash movements	(0.8)	1.1	4.6
Foreign currency translation	(12.1)	53.6	(60.6)
Decrease/(increase) in net debt during the period	173.7	170.8	(125.1)
Net debt at the end of the period	(296.8)	(470.5)	(641.3)

C. Analysis of net debt

	As at 29 December 2007 £ million	As at 30 December 2006 £ million	As at 31 December 2005 £ million
Cash and cash equivalents	148.5	172.5	230.9
Collateralised cash	2.9	4.1	5.3
Bank overdrafts	(7.9)	(5.7)	(10.4)
Bank and other loans	(431.7)	(568.1)	(562.1)
Obligations under finance leases	(4.8)	(9.3)	(12.3)
Derivatives hedging translational exposures	(3.8)	3.5	14.1
Net debt excluding preference shares	(296.8)	(403.0)	(334.5)
Preference shares	–	(67.5)	(306.8)
Net debt including preference shares	(296.8)	(470.5)	(641.3)

12. TRADE AND OTHER RECEIVABLES

	As at 29 December 2007 £ million	As at 30 December 2006 £ million
Current assets		
Financial assets:		
– Trade receivables		430.8
– Derivative financial instruments		2.8
– Other receivables		37.1
– Collateralised cash		2.9
		473.6
Non-financial assets:		
– Prepayments		22.7
		496.3
Non-current assets		
Financial assets:		
– Derivative financial instruments		3.1
– Other receivables		9.4
		12.5

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

13. ASSETS HELD FOR SALE

Management has an ongoing programme of identifying non-core businesses for disposal. During the fourth quarter of 2006, management approved the disposal of the following businesses whose assets and liabilities were classified as held for sale as at 30 December 2006:

- Trico Products Corporation and its related businesses ("Trico"), which constituted the Group's Wiper Systems business segment and are classed as discontinued operations;
- Lasco Fittings Inc., a manufacturer of injection moulded fittings that was included within the Other Building Products business segment; and
- Dearborn Mid-West Conveyor Company, a manufacturer of automotive assembly lines and materials handling equipment that was included within the Other Industrial & Automotive business segment.

All of these businesses were sold during 2007.

As at 29 December 2007, the assets and liabilities of the following businesses for which management began actively seeking prospective buyers during the second quarter of 2007 were classified as held for sale:

- Stant Manufacturing, Inc. ("Stant"), a manufacturer of automotive closure caps; and
- Standard-Thomson Corporation, a manufacturer of automotive thermostats.

Both Stant and Standard-Thomson Corporation are included within the Fluid Systems business segment.

Assets held for sale also include vacant properties no longer required by the Group for manufacturing operations.

Assets classified as held for sale and directly associated liabilities were as follows:

	As at 29 December 2007 £ million	As at 30 December 2006 £ million
Assets held for sale		
Intangible assets	0.3	0.1
Property, plant and equipment	17.9	34.7
Deferred tax assets	–	1.5
Inventories	7.8	42.4
Trade and other receivables	19.6	73.3
	<u>45.6</u>	<u>152.0</u>
Liabilities directly associated with assets held for sale		
Trade and other payables	(11.1)	(49.3)
Post employment benefit obligations	(1.2)	(11.4)
Deferred tax liabilities	(1.1)	–
Provisions (note 15)	(0.7)	(3.4)
	<u>(14.1)</u>	<u>(64.1)</u>
	<u>31.5</u>	<u>87.9</u>

In 2006, the Group recognised an impairment loss of £26.6 million on assets classified as held for sale.

As at 29 December 2007, cumulative currency translation differences recognised directly in equity in relation to foreign operations classified as held for sale amounted to £2.8 million (30 December 2006: £9.1 million).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

14. TRADE AND OTHER PAYABLES

	As at 29 December 2007 £ million	As at 30 December 2006 £ million
Current liabilities		
Financial liabilities:		
– Trade payables	217.2	217.5
– Other taxes and social security	18.0	15.5
– Derivative financial instruments	1.7	0.1
– Other payables	21.0	17.8
	257.9	250.9
Non-financial liabilities:		
– Accruals and deferred income	112.7	102.4
	370.6	353.3
Non-current liabilities		
Financial liabilities:		
– Derivative financial instruments	6.6	0.5
– Other payables	9.3	8.5
	15.9	9.0
Non-financial liabilities:		
– Accruals and deferred income	5.8	2.7
	21.7	11.7

15. PROVISIONS

	Restructuring costs £ million	Environmental remediation £ million	Workers compensation £ million	Other £ million	Total £ million
As at 31 December 2005	10.7	6.2	21.9	20.7	59.5
Charge for the period	8.5	0.2	10.5	3.8	23.0
Acquisition of subsidiaries	–	–	–	0.1	0.1
Utilised during the period	(14.2)	(2.0)	(10.8)	(7.2)	(34.2)
Foreign currency translation	(0.4)	(0.5)	(2.6)	(1.3)	(4.8)
As at 30 December 2006	4.6	3.9	19.0	16.1	43.6
Charge for the period	7.7	2.0	6.3	6.3	22.3
Utilised during the period	(7.4)	(1.4)	(8.8)	(6.3)	(23.9)
Disposal of subsidiaries	(0.1)	–	(1.7)	(0.5)	(2.3)
Foreign currency translation	0.2	0.1	(0.3)	(0.1)	(0.1)
As at 29 December 2007	5.0	4.6	14.5	15.5	39.6

Provisions are presented in the Group's balance sheet as follows:

	As at 29 December 2007 £ million	As at 30 December 2006 £ million
Ongoing businesses:		
– Current liabilities	25.2	26.3
– Non-current liabilities	13.7	13.9
	38.9	40.2
Businesses to be sold (note 13)	0.7	3.4
	39.6	43.6

Other provisions comprise warranty provisions of £7.6 million (30 December 2006: £5.7 million), product liability provisions of £3.8 million (30 December 2006: £4.4 million) and insurance provisions of £4.1 million (30 December 2006: £6.0 million).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

16. CONVERTIBLE CUMULATIVE PREFERENCE SHARES

	Year ended 29 December 2007		Year ended 30 December 2006	
	Number of shares	Nominal value US\$ million	Number of shares	Nominal value US\$ million
Convertible cumulative preference shares of US\$50 each				
Authorised				
At the beginning and end of the period	13,920,000	696.0	13,920,000	696.0
				Carrying amount
	Number of shares	Nominal Value £ million	Accrued dividend payable £ million	Total £ million
Allotted and fully paid				
As at 1 January 2005	10,506,721	337.2	–	337.2
Adoption of IAS 32 and IAS 39	–	(63.6)	1.9	(61.7)
	10,506,721	273.6	1.9	275.5
Shares converted	(43,947)	(1.4)	–	(1.4)
Foreign currency translation	–	32.5	0.2	32.7
As at 31 December 2005	10,462,774	304.7	2.1	306.8
Shares converted	(7,837,636)	(225.6)	–	(225.6)
Charge for the period	–	–	5.4	5.4
Dividend paid	–	–	(7.1)	(7.1)
Foreign currency translation	–	(12.0)	–	(12.0)
As at 30 December 2006	2,625,138	67.1	0.4	67.5
Shares converted	(2,600,973)	(65.3)	–	(65.3)
Shares redeemed	(24,165)	(0.6)	–	(0.6)
Dividend accrued for the period	–	–	0.6	0.6
Dividend paid	–	–	(1.0)	(1.0)
Foreign currency translation	–	(1.2)	–	(1.2)
As at 29 December 2007	–	–	–	–

On 29 July 1996, Tomkins plc (“the Company”) issued 10,532,732 convertible cumulative preference shares of US\$50 each (“the preference shares”) in connection with the acquisition of The Gates Corporation. The preference shares were issued on terms that they could be converted at any time, at the shareholder’s option, into fully paid ordinary shares of 5p each in the Company on the basis of 9.77 ordinary shares for every one preference share so converted. With effect from 26 July 2006, the Company had the option to redeem at par at any time all or any of the issued and outstanding preference shares.

On 21 May 2007, the Company gave notice that it would exercise its right to redeem all of the preference shares that remained in issue and outstanding as at 24 July 2007.

During the period from 30 December 2006 to the redemption date, 2,600,973 preference shares were converted into 25,411,499 ordinary shares in the Company. On the redemption date, there remained 24,165 preference shares in issue and outstanding that were redeemed for £0.6 million in cash.

Holders of the preference shares had a right to receive dividends at an annual rate of 5.560% in preference to the holders of the Company’s ordinary shares.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

17. ORDINARY SHARES

	Year ended 29 December 2007		Year ended 30 December 2006	
	Number of shares	£ million	Number of shares	£ million
Ordinary shares of 5p each				
Authorised				
At the beginning and end of the period	1,585,164,220	79.2	1,585,164,220	79.2
Allotted and fully paid				
As at 1 January 2005	773,889,884	38.7	94.0	132.7
Shares issued during the period:				
– Conversion of preference shares	429,356	–	1.4	1.4
– Exercise of employee share options	175,884	–	0.4	0.4
	605,240	–	1.8	1.8
As at 31 December 2005	774,495,124	38.7	95.8	134.5
Shares issued during the period:				
– Conversion of preference shares	76,573,697	3.8	221.8	225.6
– Exercise of employee share options	7,140,701	0.4	14.5	14.9
	83,714,398	4.2	236.3	240.5
As at 30 December 2006	858,209,522	42.9	332.1	375.0
Shares issued during the period:				
– Conversion of preference shares	25,411,499	1.3	64.0	65.3
– Exercise of employee share options	485,751	–	1.2	1.2
	25,897,250	1.3	65.2	66.5
As at 29 December 2007	884,106,772	44.2	397.3	441.5

Ordinary shareholders have no entitlement to share in the profits of the Company, except for dividends that have been declared and in the event of the liquidation of the Company.

Ordinary shareholders have the right to attend, and vote at, general meetings of the Company or to appoint a proxy to attend and vote at such meetings on their behalf. Ordinary shareholders have one vote for every share held.

Share capital represents the nominal value of ordinary shares issued.

The share premium account records the difference between the nominal value of ordinary shares issued and the fair value of the consideration received. The share premium account is not distributable but may be used for certain purposes specified by UK law, including to write off expenses on any issue of shares or debentures and to pay up fully paid bonus shares. The share premium account may be reduced by special resolution of the Company's shareholders and with the approval of the court.

18. ACQUISITIONS

A. Current year acquisitions

Industrial & Automotive

Fluid Systems

On 8 March 2007, the Group acquired the 40% minority interest in Schrader Engineered Products (Kunshan) Co Ltd. Goodwill of £0.4 million was recognised on the acquisition.

On 26 September 2007, the Group acquired 100% of Swindon Silicon Systems Ltd ("SSSL"). SSSL is located in the UK and designs, develops and supplies integrated circuits. Provisional goodwill of £2.7 million has been recognised, which represents benefits from the further development of Schrader Electronics' RTPMS made possible by the acquisition.

B. Adjustments in respect of prior year acquisitions

On the completion of initial accounting for acquisitions completed in 2006, attributable goodwill was reduced by £7.1 million as follows:

	Provisional goodwill £ million	Adjustment £ million	Final goodwill £ million
Heat-Fab Inc	6.2	(4.0)	2.2
Eastern Sheet Metal	4.4	(3.2)	1.2
ENZED Fleximak Ltd	8.8	0.1	8.9
		(7.1)	

Adjustments to goodwill principally reflect the allocation of additional amounts to identifiable intangible assets.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

18. ACQUISITIONS (CONTINUED)

Comparative information has not been restated to reflect these adjustments because they are not material to the Group's results or financial position.

C. Financial effect of acquisitions

	As at the date of acquisition		
	Acquiree's carrying amount in accordance with IFRS £ million	Fair value adjustments £ million	Fair value £ million
Net assets acquired			
Intangible assets	0.1	5.4	5.5
Property, plant and equipment	0.7	2.8	3.5
Deferred tax assets	–	0.1	0.1
Inventories	1.2	0.1	1.3
Trade and other receivables	3.8	–	3.8
Cash and cash equivalents	–	–	–
Trade and other payables	(2.0)	(0.2)	(2.2)
Income tax liabilities	(0.4)	–	(0.4)
Minority interest	0.5	–	0.5
	3.9	8.2	12.1
Goodwill on current year acquisitions			3.1
Adjustments to goodwill on prior year acquisitions			(7.1)
Consideration (including transaction costs)			8.1

The net cash outflow on acquisitions during the period was as follows:

	Year ended 29 December 2007 £ million	Year ended 30 December 2006 £ million	Year ended 31 December 2005 £ million
Consideration paid on current period acquisitions	7.6	112.2	103.3
Cash and cash equivalents acquired	–	(2.8)	(1.7)
Adjustment to consideration on prior period acquisitions	0.9	0.2	(0.3)
	8.5	109.6	101.3

Businesses acquired during the year contributed £0.7 million to the Group's sales and £0.3 million to the Group's profit for the year ended 29 December 2007. If the businesses had been acquired on 31 December 2006, it is estimated that they would have contributed £8.7 million to the Group's sales and £0.8 million to the Group's profit for the year ended 29 December 2007.

19. DISPOSALS

A. Continuing operations

Industrial & Automotive

Other Industrial & Automotive

On 23 November 2007, the Group sold Dearborn Mid-West Conveyor Company ("Dearborn"), a manufacturer of automotive assembly lines and materials handling equipment. A gain of £6.7 million was recognised on the disposal.

On 19 November 2007, the Group sold Tridon Electronics' indicator and side object detection businesses. A loss of £1.3 million was recognised on the disposal.

Building Products

Other Building Products

On 23 February 2007, the Group sold the business and assets of Lasco Fittings Inc., a manufacturer of injection moulded fittings. A gain of £32.6 million was recognised on the disposal.

B. Discontinued operations

Wiper Systems

On 29 June 2007, the Group completed the sale of Trico Products Corporation and its related businesses ("Trico"), which constituted the Group's former Wiper Systems business segment. The Group recognised a loss of £29.8 million on the disposal (including an impairment loss of £17.2 million that was recognised in the first quarter of 2007).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

19. DISPOSALS (CONTINUED)

Valves, Taps and Mixers

During 2007, the Group recognised a gain of £1.2 million on the receipt of contingent consideration in relation to the disposal of the Group's Valves, Taps and Mixers businesses in 2004.

C. Financial effect of disposals

	Continuing operations £ million	Discontinued operations £ million	Total £ million
Proceeds			
Cash	73.1	43.8	116.9
Deferred	6.6	2.2	8.8
Loan notes	1.3	7.1	8.4
	81.0	53.1	134.1
Net assets disposed of			
Intangible assets	(0.1)	(0.2)	(0.3)
Property, plant and equipment	(14.7)	(17.1)	(31.8)
Inventories	(7.5)	(39.6)	(47.1)
Trade and other receivables	(45.2)	(45.3)	(90.5)
Income tax recoverable	–	(0.5)	(0.5)
Cash and cash equivalents	(2.0)	(2.6)	(4.6)
Trade and other payables	31.4	28.8	60.2
Finance lease obligations	–	3.1	3.1
Deferred tax liabilities	0.2	0.4	0.6
Post-employment benefit obligations	0.2	1.7	1.9
Provisions	1.2	1.1	2.3
	(36.5)	(70.2)	(106.7)
Disposal costs	(1.7)	(1.9)	(3.6)
Currency translation differences transferred from equity	(4.8)	(9.6)	(14.4)
Gain/(loss) on disposal	38.0	(28.6)	9.4

The net cash inflow on disposals during the period was as follows:

	Year ended 29 December 2007 £ million	Year ended 30 December 2006 £ million	Year ended 31 December 2005 £ million
Proceeds received on current period disposals	116.9	–	18.9
Disposal costs paid	(4.5)	–	–
Cash and cash equivalents disposed of	(4.6)	–	–
Proceeds received on prior period disposals	0.3	6.8	10.4
	108.1	6.8	29.3

20. CONTINGENCIES

The Group is, from time to time, party to legal proceedings and claims, which arise in the ordinary course of business. The Directors do not anticipate that the outcome of any current proceedings or known claims, either individually or in aggregate, will have a material adverse effect upon the Group's financial position.

21. SUBSEQUENT EVENT

Subsequent to the year end, the Group acquired a 60% interest in Rolastar Pvt Ltd ("Rolastar"), a duct manufacturer based in India that will be included within the Air Systems Components business segment.

Rolastar's annual sales are approximately £9.0 million. At this early stage, it is not possible to reliably estimate the amount of goodwill that will be recognised on the acquisition.