



**RESTATED FINANCIAL INFORMATION  
UNDER IFRS FOR 2004**

# FOSECO (JERSEY) LIMITED

## Introduction

For all periods up to and including the year ended 31 December 2004, Foseco (Jersey) Limited ("Foseco") has prepared its financial statements in accordance with UK generally accepted accounting practice (UK GAAP). These financial statements have been prepared in anticipation of a transaction by which Foseco (Jersey) Limited will be acquired by a company, (together "the New Group") that will be required to prepare consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Commission ('EC').

IFRS will apply for the first time in the New Group's Annual Report and Accounts for the period ended 31 December 2005. Consequently, the New Group's results for the period ended 31 December 2005 will be prepared under IFRS.

The information in this document has been prepared on the basis of IFRS expected to be in effect for the year ending 31 December 2005. The IFRS actually in effect at that date may differ owing to decisions taken by the EC on endorsement, interpretative guidance issued by the IASB or the International Financial Reporting Interpretations Committee (IFRIC) and the requirements of companies legislation. This could have an effect on the New Group's consolidated financial statements for the period ending 31 December 2005.

The general principle that should be applied on first-time adoption of IFRS is that standards in force at the first reporting date (that is, for New Group, 31 December 2005) should be applied retrospectively. However, IFRS1 'First-time Adoption of International Financial Reporting Standards' contains a number of exemptions which companies are permitted to apply. These financial statements have been prepared on the basis that New Group will take advantage of the following exemptions permitted by IFRS1:

- not to restate business combinations occurring before 1 January 2004.
- to recognise all actuarial gains and losses on pensions and other post-retirement benefits directly in shareholders' equity at 1 January 2004. This is consistent with the Group's adoption of FRS17 'Retirement Benefits'.
- to use the fair value of property at the date of the last revaluation less accumulated depreciation to the date of transition as the deemed cost as at the date of transition to IFRS.
- to deem cumulative translation differences on foreign subsidiaries to be nil at 1 January 2004.

In addition New Group have taken advantage of the exemption available for comparative periods not to present information in accordance with IAS32 'Financial Instruments: Disclosure and Presentation' and IAS39 'Financial Instruments: Recognition and Measurement' for the comparative period.

As a result of the above exemptions, certain changes apply from 1 January 2004 (New Group's date of transition) followed by further changes (due to the full implementation of IAS32 and IAS39) to apply from 1 January 2005. The New Group will adopt early IFRS5 'Non-current Assets Held for Sale and Discontinued Operations' and the amendment to IAS19 'Amendment to International Accounting Standard IAS19 Employee Benefits: Actuarial Gains and Losses, Group plans and disclosures'.

The principal differences in accounting practice and presentation for the New Group between reporting on the basis of UK GAAP and IFRS are as follows:

- Ceasing to amortise goodwill.
- Eliminating negative goodwill from the balance sheet.
- Establishing deferred taxation on property revaluations.
- Reclassifying certain operating leases as finance leases.
- Reclassifying capitalised software costs as intangible assets from tangible assets.

The financial information is shown for the year ended 31 December 2004.

## REPORT TO FOSECO (JERSEY) LIMITED ON THE PRELIMINARY IFRS FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

We have audited the accompanying preliminary International Financial Reporting Standards ("IFRS") financial statements of the Company for the year ended 31 December 2004 which comprise the Consolidated Income Statement, the Consolidated Cash Flow Statement and the Consolidated Statement of Recognised Income and Expense for the year ended 31 December 2004 and the Consolidated Balance Sheet as at 31 December 2004, together with the related accounting policies note set out on pages 7 to 15.

This report is made solely to the Company in accordance with our engagement letter dated 24 February 2005. Our audit work has been undertaken so that we might state to the Company 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 or liability to anyone other than the Company for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

These preliminary IFRS financial statements are the responsibility of the Company's directors and have been prepared as part of the Company's conversion to IFRS. They have been prepared in accordance with the basis set out in Note 2, which describes how IFRS have been applied under IFRS 1, including the assumptions management has made about the standards and interpretations expected to be effective, and the policies expected to be adopted, when management prepares its first complete set of IFRS financial statements as at 31 December 2005.

Our responsibility is to express an independent opinion on the preliminary IFRS financial statements based on our audit. We read the introduction accompanying the preliminary IFRS financial statements and consider whether it is consistent with the preliminary IFRS financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the preliminary opening balance sheet. Our responsibilities do not extend to any other information.

### **Basis of audit opinion**

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the preliminary IFRS financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the preliminary IFRS financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the preliminary IFRS financial statements. We believe that our audit provides a reasonable basis for our opinion.

### **Emphasis of matter**

Without qualifying our opinion, we draw attention to the fact that Note 2 explains why there is a possibility that the preliminary IFRS financial statements may require adjustment before constituting the final IFRS financial statements. Moreover, we draw attention to the fact that, under IFRSs only a complete set of financial statements with comparative financial information and explanatory notes can provide a fair presentation of the Company's financial position, results of operations and cash flows in accordance with IFRSs.

### **Opinion**

In our opinion, the preliminary IFRS financial statements for the year ended 31 December 2004 have been prepared, in all material respects, in accordance with the basis set out in Note 2, which describes how IFRS have been applied under IFRS 1, including the assumptions management has made about the standards and interpretations expected to be effective, and the policies expected to be adopted, when management prepares its first complete set of IFRS financial statements as at 31 December 2005.

*Ernst & Young LLP*

Ernst & Young LLP

Birmingham

Date *31 August 2005*

**FOSECO (JERSEY) LIMITED**  
**CONSOLIDATED INCOME STATEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2004**

	Note	£m
<b>Continuing operations</b>		
Revenue	3	339.3
Cost of sales		(213.7)
		<hr/>
Gross profit		125.6
Selling and distribution costs		(14.7)
Administration expenses		(74.5)
Exceptional items	4	(2.3)
		<hr/>
Profit from continuing operations before interest and taxation		34.1
Finance costs	4	(9.3)
Finance income	4	1.6
		<hr/>
Profit on ordinary activities before tax		26.4
Taxation	5	(12.7)
		<hr/>
<b>Profit for the year from continuing operations</b>		13.7
<b>Discontinued operations</b>		
Loss for the year from discontinued operations	6	(0.2)
Gain on disposal of businesses	6	17.9
		<hr/>
<b>Profit for the year</b>		31.4
		<hr/>
Attributable to:		
Equity holders of the parent		30.5
Minority interests		0.9
		<hr/>
		31.4
		<hr/>
Earnings per share		
- basic and diluted for profit for the year	7	£30.88
- basic and diluted for profit for the year from continuing operations	7	£12.96

**FOSECO (JERSEY) LIMITED**  
**CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2004**

	Note	£m
<b>ASSETS</b>		
Property, plant & equipment	8	75.1
Intangible assets	9	24.9
Available-for-sale financial assets	10	0.1
Deferred tax assets	5	1.7
		101.8
<b>Current assets</b>		
Inventories	11	34.7
Trade and other receivables	12	75.3
Cash and short term deposits	13	17.0
		127.0
<b>TOTAL ASSETS</b>		228.8
<b>EQUITY AND LIABILITIES</b>		
Issued capital	15	0.5
Share premium	15	6.4
Capital redemption reserve	15	0.2
Foreign currency translation	15	0.4
Retained earnings	15	29.3
		36.8
Minority interest	15	3.1
<b>Total equity</b>		39.9
<b>Non current liabilities</b>		
Interest-bearing loans and borrowings	16	64.6
Other long term liabilities	17	3.8
Provisions	18	4.1
Deferred tax liabilities	5	3.7
Pension	19	27.5
		103.7
<b>Current liabilities</b>		
Trade and other payables	20	62.4
Interest bearing loans and borrowings	16	12.1
Income tax payable		6.9
Provisions	18	3.8
		85.2
<b>TOTAL LIABILITIES</b>		188.9
<b>TOTAL EQUITY AND LIABILITIES</b>		228.8

Approved by the Board on 31 August 2005

Director: 

**FOSECO (JERSEY) LIMITED**  
**CONSOLIDATED CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2004**

	Note	£m	£m
<b>Cash flows from operating activities</b>			
Profit from continuing operations before interest and taxation		34.1	
Depreciation		9.2	
Amortisation of intangible fixed assets		0.6	
Increase in stock		(2.5)	
Increase in debtors		(6.2)	
Increase in creditors		1.9	
Profit on disposals of property, plant & equipment		(0.2)	
Borrowing costs		(4.4)	
Income tax paid		(11.0)	
<b>Net cash flows from operating activities</b>		<u>21.5</u>	
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant & equipment		1.0	
Purchase of property, plant & equipment		(9.7)	
Disposal of businesses	21	57.4	
Net cash sold with businesses	21	(1.8)	
Interest received		1.6	
<b>Net cash flows from investing activities</b>		<u>48.5</u>	
<b>Cash flows from financing activities</b>			
Purchase of own shares	14	(3.6)	
Issue costs of new long term loans		(0.8)	
New long term borrowings		14.6	
Repayment of borrowings		(24.2)	
Redemption of deep discounted bonds		(64.6)	
Finance lease payments		(0.6)	
Dividends paid to minority interests		(0.6)	
<b>Net cash flows used in financing activities</b>		<u>(79.8)</u>	
<b>Net increase in cash and cash equivalents</b>		(9.8)	
Exchange		(0.2)	
Cash and cash equivalents at 1 January		<u>25.8</u>	
<b>Cash and cash equivalents at 31 December</b>	13	<u>15.8</u>	

**FOSECO (JERSEY) LIMITED****CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE**

	<b>2004</b>
	<b>£m</b>
Currency translation differences on foreign currency loans	2.1
Currency translation on net investments in subsidiary undertakings	(1.8)
Actuarial adjustments on pension liabilities	2.1
Deferred tax on pension liabilities	0.7
	<hr/>
Net income recognised directly in equity	3.1
Profit for the period	31.4
	<hr/>
Total recognised income and expense for the period	34.5
	<hr/>
Attributable to:	
Equity holders of the parent	33.7
Minority interests	0.8
	<hr/>
	34.5
	<hr/>

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS at 31 December 2004**

### **1. Corporate Information**

The consolidated financial statements of Foseco (Jersey) Limited for the year ended 31 December 2004 were authorised in accordance with a resolution of the directors on 31 August 2005. Foseco (Jersey) Limited is a private limited company, incorporated in Jersey.

The principal activities of the Group are described in note 3.

### **2. Summary of significant accounting policies**

#### **Statement of compliance**

This restatement of financial information for the year ended 31 December 2004 has been prepared on the basis of International Financial Reporting Standards (IFRSs) (with the exception of IAS32 'Financial Instruments: Disclosure and Presentation' and IAS39 'Financial Instruments: Recognition and Measurement') and Standing Interpretations Committee (SIC) and International Reporting Interpretations Committee (IFRIC) interpretations issued by the International Accounting Standards Board (IASB) effective for the Group's reporting for the year ending 31 December 2005, on the assumption that they will be endorsed by the European Commission (EC). The failure of the EC to endorse some of these standards and interpretations in time for 2005 financial reporting could result in the need to change the basis of accounting or presentation of certain financial information from that presented in these financial statements. It is possible therefore that further changes will be required to this information before it is published as comparative financial information in the 2005 Annual Report and accounts. In addition, New Group has decided to early adopt the amendment to IAS19 'Amendment to international accounting standard IAS19 Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures'.

The general principle that should be applied on the first-time adoption of IFRS is that standards in force at the first reporting date (that is, for New Group 31 December 2005) should be applied retrospectively. These financial statements have been prepared on the basis that New Group will take advantage of the following exemptions permitted by IFRS1:

- not to present comparative information in accordance with IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement'.
- not to restate business combinations occurring before 1 January 2004.
- to recognise all actuarial gains and losses on pensions and other post-retirement benefits directly in shareholders' equity at 1 January 2004. This is consistent with the Group's adoption of FRS17 'Retirement Benefits'.
- to use the fair value of property at the date of the last revaluation less accumulated depreciation to the date of transition as the deemed cost as at the date of transition to IFRS.
- to deem cumulative translation differences on foreign subsidiaries to be nil at 1 January 2004.

The disclosures required by IFRS1 'First-time adoption of International Financial Reporting Standards' are given on pages 35 to 39.

#### **Basis of preparation**

The consolidated financial statements have been prepared on a historical cost basis. The consolidated financial statements are presented in sterling and all values are rounded to the nearest hundred thousand (£0.1m) except when otherwise indicated.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS at 31 December 2004**

### **2. Summary of significant accounting policies (continued)**

#### **Basis of consolidation**

The consolidated financial statements comprise the financial statements of Foseco (Jersey) Limited and its subsidiaries as at 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another party.

The financial statements of subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All inter-company balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which Foseco (Jersey) Limited has control.

Minority interests represent the interests in Foseco India Ltd, Foseco (Thailand) Ltd and Foseco Golden Gate Co Ltd not held by the Group.

#### **Interest in joint venture**

A jointly controlled entity is a joint venture which involves the establishment of an entity to engage in economic activity which the Group jointly controls with its fellow venturers. Joint control requires that there be a contractual agreement between the venturers sharing control over the entity; and which, among other things, requires the unanimous consent of venturers to all strategic financial and operating decisions.

The Group's interest in its joint venture is accounted for by proportionate consolidation, which involves recognising a proportionate share of the joint venture's assets, liabilities, income and expenses with similar items in the consolidated financial statements on a line-by-line basis.

Financial statements of jointly controlled entities have been prepared for the same reporting period as the Group. Where necessary, adjustments are made to the financial statements of the jointly controlled entities to bring the accounting policies into line with those used by the Group.

#### **Foreign currency translation**

The functional and presentation currency of Foseco (Jersey) Limited is sterling (£). Transactions in foreign currencies are recorded in the functional currency at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Any resulting exchange differences are taken to the consolidated income statement with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the consolidated income statement. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction.

The functional currency of the overseas subsidiaries is shown in note 24. As at the reporting date, the assets and liabilities of these overseas subsidiaries and joint venture are translated into the presentation currency of Foseco (Jersey) Limited at the rate of exchange ruling at the balance sheet date, and their income statements are translated at the average exchange rates for the year.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS at 31 December 2004**

### **2. Summary of significant accounting policies (continued)**

#### **Foreign currency translation (continued)**

The exchange differences arising on the retranslation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation shall be recognised in the income statement.

#### **Business combinations and goodwill**

Business combinations are accounted for using the purchase method. The cost of an acquisition is measured as the cash paid, and the fair value of other assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair value at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (ie. discount on acquisition) is credited to the income statement in the period of acquisition. Where the Group does not acquire 100% ownership of the acquired company, the interest of the minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent.

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units acquired. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. When there is a potential disposal of a cash generating unit, goodwill relating to the operation disposed of is taken into account in determining the gain or loss on disposal of that operation. The amount of goodwill allocated to a partial disposal is measured on the basis of the relative values of the operation disposal of and the operation retained.

#### **Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value.

The initial cost of an asset comprises its purchase price or construction cost, and any costs directly attributable to bringing the asset into operation. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. The capitalised value of a finance lease is also included within property, plant and equipment.

For property, the deemed cost as at the date of transition to IFRS is the fair value at the date of the last valuation of these assets less accumulated depreciation until the date of transition.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS at 31 December 2004

### 2. Summary of significant accounting policies (continued)

#### Property, plant and equipment (continued)

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

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 estimated useful lives of property, plant and equipment are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in the income statement in the cost of sales line item.

Exchanges of assets are measured at the fair value of the asset given up unless the exchange transaction lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measurable.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognised.

#### Intangible assets

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses.

Computer software, intellectual property rights and other intangible assets are initially recorded at cost. Where these assets have been acquired through a business combination, this will be the fair value allocated in the acquisition accounting. Where these have been acquired other than through a business combination, the initial cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Computer software and other intangible assets are amortised over their useful lives on a straight line basis. Estimated useful life is the shorter of legal duration and economic useful life.

As with property, plant and equipment, intangible assets are tested for impairment annually or more frequently whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment losses are measured on a similar basis to property, plant and equipment. Useful lives are also examined on an annual basis and adjustments, where applicable are made on a prospective basis.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS at 31 December 2004**

### **2. Summary of significant accounting policies (continued)**

#### **Research and development costs**

Research costs are expensed as incurred.

Clearly defined and identifiable development projects in which the technical degree of exploitation, adequacy of resources and potential market or development possibility in the undertaking are recognisable, and where it is the intention to produce, market or execute the project, are capitalised when a correlation exists between the costs incurred and future benefits. Costs not meeting such criteria are expensed as incurred.

#### **Inventories**

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows for both the current and previous year:

Raw materials	purchase cost on a first-in, first-out basis;
Finished goods and work-in-progress	cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

#### **Trade and other receivables**

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for doubtful debts. An allowance is recorded for the difference between the carrying amount and the estimated recoverable amount.

#### **Cash and cash equivalents**

Cash and short-term deposits in the balance sheet comprise cash in hand and current balances with banks and similar institutions and short-term deposits with an original maturity of three months or less which are subject to insignificant risks of changes in value.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

#### **Interest-bearing loans and borrowings**

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised or impaired, as well as through the amortisation process.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS at 31 December 2004**

### **2. Summary of significant accounting policies (continued)**

#### **Leases**

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the lease or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

#### **Derivative financial instruments**

As the group has opted not to adopt IAS39 in the comparative periods, the accounting policy below relates to UK GAAP and is to be applied for the period to 31 December 2004.

The Group uses derivative financial instruments (derivatives) to manage certain exposures to fluctuations in foreign currency exchange rates and interest rates.

The purpose for which a derivative contract is to be used is identified at inception. To qualify as a derivative used for risk management, the contract must be in accordance with established guidelines which ensure that it is effective in achieving its objective. All contracts not identified at inception as being for the purpose of risk management are designated as being held for trading purposes and accounted for using the deferral method as follows:

Gains and losses from derivatives are deferred and recognised in earnings or as adjustments to carrying amounts, as appropriate, when the underlying debt matures or the hedged transaction occurs. This method is used for derivatives used to convert non-Sterling borrowings into Sterling or to hedge significant non-Sterling firm commitments or anticipated transactions. Derivatives used to convert non-Sterling borrowings into Sterling include foreign currency swap agreements and forward contracts. Gains and losses on these derivatives are deferred and recognised on maturity of the underlying debt, together with the matching loss or gain on the debt. Derivatives used to hedge significant non-Sterling transactions include foreign currency forward contracts and interest rate swaps. Gains and losses on these contracts are deferred and recognised in the income statement or as adjustments to carrying amounts, as appropriate, when the hedged transaction occurs.

Where derivatives used to manage interest rate risk or to convert non-Sterling debt or to hedge other anticipated cash flows are terminated before the underlying debt matures or the hedged transaction occurs, the resulting gain or loss is recognised on a basis that matches the timing and accounting treatment of the underlying debt or hedged transaction. When an anticipated transaction is no longer likely to occur or finance debt is terminated before maturity, any deferred gain or loss that has arisen on the related derivative is recognised in the income statement, together with any gain or loss on the terminated item.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS at 31 December 2004**

### **2. Summary of significant accounting policies (continued)**

#### **Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain is the expense relating to any provision presented in the income statement, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

#### **Environmental liabilities**

Environmental expenditure that relates to current or future revenues is expensed or capitalised as appropriate. Expenditure relating to an existing condition caused by past operations and not contributing to current or future earnings, is expensed.

Liabilities for environmental costs are recognised when environmental assessments or clean-ups are probable and the associated costs can be reasonably estimated. Generally, the timing of these provisions coincides with the commitment to a formal plan of action. The amount recognised is the best estimate of the expenditure required. Where the liability will not be settled for a number of years, the amount recognised is the present value of the estimated future expenditure.

#### **Employee Benefits**

Wages, salaries, bonuses, social security contributions, paid annual leave and sick leave are accrued in the year in which the associated services are rendered by employees of the Group. The accounting policy for pensions and other post-retirement benefits is described below.

#### **Pensions and other post-employment benefits**

The Group operates a number of defined benefit pension schemes and defined contribution schemes, which require contributions to be made to administered funds separate from the Group.

For defined benefit pension and post-retirement benefit plans, plan assets are measured at fair value and plan liabilities are measured on an actuarial basis, using the projected unit credit method and discounted at an interest rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the plan liabilities.

The service cost of providing pension and other post-retirement benefits to employees for the year is charged to the income statement. The cost of making improvements to pension and other post-retirement benefits is recognised in the income statement on a straight line basis over the period during which the increase in benefits vests. To the extent that the improvement in benefits vest immediately, the cost is recognised immediately. These costs are recognised as an expense.

A charge representing the unwinding of the discount on the plan liabilities during the year is included within other finance expense.

A credit representing the expected return on the plan assets during the year is included within other finance expense. This credit is based on the market value of the plan assets, and expected rates of return, at the beginning of the year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS at 31 December 2004

### 2. Summary of significant accounting policies (continued)

#### Pensions and other post-employment benefits (continued)

Actuarial gains and losses may result from: differences between the expected return and the actual return on plan assets; differences between the actuarial assumptions underlying the plan liabilities and actual experience during the year; or changes in the actuarial assumptions used in the valuation of the plan liabilities. Actuarial gains and losses, and taxation thereon, are recognised in the statement of recognised income and expense.

For defined contribution plans, contributions payable for the year are charged to the income statement as an operating expense.

#### Taxation

Tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on the taxable profits for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises on goodwill that is not tax deductible or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS at 31 December 2004

### 2. Summary of significant accounting policies (continued)

#### Taxation (continued)

Tax relating to items recognised directly in equity are recognised in equity and not in the income statement.

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- where the sales tax incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

#### Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

##### *Sale of goods*

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business, net of discounts, customs duties and sales taxes.

##### *Interest*

Interest income is recognised as the interest accrues (using the effective interest method, that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

##### *Dividends*

Dividend income from investments is recognised when the shareholders' right to receive the payment is established.

##### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

All other borrowing costs are recognised as interest payable in the income statement in the period in which they are incurred.

##### Issue costs of loans

The finance cost recognised in the income statement in respect of capital instruments is allocated to periods over the terms of the instrument at a constant rate on the carrying amount.

##### Use of estimates

The preparation of financial statements in conformity with generally accepted accounting practice requires management to make estimates and assumptions that affect the reported amount of assets and liabilities as well as the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from those estimates.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **at 31 December 2004**

#### **3. Segment information**

The Group's primary reporting format is business segments and its secondary format is geographical segments. The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The foundry segment is a supplier of technical product and service solutions to the foundry industry.

The steel mills segment provides high performance consumables and services to the steel making industry.

Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties.

The Group's geographical segments are determined by the location of the Group's assets and operations.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS at 31 December 2004

### 3 Segment Information

#### Business segments

The following tables present revenue and profit information and certain asset and liability information regarding the Group's business segments for the year ended 31 December 2004.

#### Area of Activity:

	Continuing Operations			Discontinued Operations	Total Operations
	Foundry £m	Steel £m	Total £m	Chem-Trend £m	£m
<b>Revenue</b>					
Sales to external customers	269.4	69.9	339.3	0.8	340.1
Inter-segment sales	0.6	1.5	2.1	-	2.1
<b>Segment Revenue</b>	<b>270.0</b>	<b>71.4</b>	<b>341.4</b>	<b>0.8</b>	<b>342.2</b>
<b>Result</b>					
Segment result	34.8	5.0	39.8	(0.2)	39.6
Unallocated expenses			(5.7)	-	(5.7)
Profit before tax and finance costs			34.1	(0.2)	33.9
Profit on sale of business			-	17.9	17.9
Net finance costs			(7.7)	-	(7.7)
Profit before income tax and minority interest			26.4	17.7	44.1
Income tax expense			(12.7)	-	(12.7)
<b>Net profit for the year</b>			<b>13.7</b>	<b>17.7</b>	<b>31.4</b>
<b>Assets and liabilities</b>					
Segment assets	160.4	39.2	199.6	0.9	200.5
Unallocated assets			28.3	-	28.3
<b>Total assets</b>			<b>227.9</b>	<b>0.9</b>	<b>228.8</b>
Segment liabilities	90.6	19.1	109.7	-	109.7
Unallocated liabilities			79.2	-	79.2
<b>Total liabilities</b>			<b>188.9</b>	<b>-</b>	<b>188.9</b>
<b>Other segment information</b>					
Capital expenditure:					
Tangible fixed assets	6.9	2.9	9.8	-	9.8
Intangible assets	0.2	-	0.2	-	0.2
Depreciation	7.2	2.0	9.2	-	9.2
Amortisation	0.3	-	0.3	-	0.3
Unallocated expenses			0.3	-	0.3
			0.6	-	0.6

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS at 31 December 2004

### 3 Segmental analysis (continued)

#### Geographical segments

The following tables present revenue, expenditure and certain asset information regarding the Group's geographical segments for the year ended 31 December 2004.

	Continuing Operations				Total £m	Discontinued Operations	Total Operations £m
	UK £m	Americas £m	Europe £m	Rest of the world £m		Chem-Trend £m	
<b>Revenue</b>							
Sales to external customers	19.0	84.3	150.5	85.5	339.3	0.8	340.1
Inter-segment sales	16.2	0.2	10.2	0.1	26.7	-	26.7
<b>Segment Revenue</b>	<b>35.2</b>	<b>84.5</b>	<b>160.7</b>	<b>85.6</b>	<b>366.0</b>	<b>0.8</b>	<b>366.8</b>
<b>Assets and liabilities</b>							
Segment assets	15.9	39.8	86.6	57.3	199.6	0.9	200.5
Unallocated assets					28.3	-	28.3
<b>Total assets</b>					<b>227.9</b>	<b>0.9</b>	<b>228.8</b>
<b>Other segment information</b>							
Capital expenditure:							
Tangible fixed assets	0.5	3.4	4.1	1.8	9.8	-	9.8
Intangible assets	-	-	0.1	0.1	0.2	-	0.2

### 4 Revenues and expenses

	<b>2004</b> <b>£m</b>
<b>Exceptional items</b>	
Costs of attempted disposal (note a)	2.7
Costs of abortive acquisition (note b)	0.5
Project management costs (note c)	0.3
Relocation of European manufacturing facilities (note d)	0.4
Release of fair value provisions (note e)	(1.4)
Profit on sale of property, plant and equipment (note f)	(0.2)
	<b>2.3</b>

- a) Professional fees incurred during an abortive attempt to sell the group.
- b) During the year the group incurred advisors' fees relating to an unsuccessful attempt to purchase a steel business.
- c) Project management costs associated with the Chem-Trend disposal, the resolution of outstanding issues following the Fosbel disposal in 2003, and the abortive attempt to sell the group.
- d) Manufacture of certain product lines was relocated from the UK to a number of European locations, resulting in redundancy costs in the UK and other costs associated with the transfer of production facilities and closure of UK facilities.
- e) Various provisions, which were originally set up during the fair value exercise undertaken when the group's businesses were acquired, were released during the year in the light of changed circumstances and additional evidence as to the true liability. The provisions primarily related to environmental liabilities.
- f) The profit on sale of fixed assets principally arose from the sale of a surplus site in Spain.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
at 31 December 2004**

**4 Revenues and expenses (continued)**

	<b>2004</b>
	<b>£m</b>
<b>Finance costs</b>	
Bank loans and overdrafts	5.2
Other loans	3.6
Finance cost of pensions	0.4
Finance charges payable under finance lease and hire purchase contracts	0.1
	<hr/>
Total finance costs	9.3
	<hr/>

The finance cost of pensions is the net of the interest cost on benefit obligations of £4.3 million and the expected return on plan assets of £3.9 million (see note 19).

	<b>2004</b>
	<b>£m</b>
<b>Finance income</b>	
Bank interest receivable	1.6
	<hr/>
Total finance income (on historical cost basis)	1.6
	<hr/>

**Depreciation, amortisation, foreign exchange differences and costs of inventories included in consolidated income statement**

Cost of inventories recognised as an expense within cost of sales	213.7
	<hr/>
Depreciation	9.2
Amortisation of intangible assets	0.6
Net foreign exchange differences	0.3
Minimum lease payments recognised as an operating lease expense	3.9
	<hr/>

**Employee benefits expense**

Wages and salaries	70.1
Social security costs	13.0
Pension costs	4.3
	<hr/>
	87.4
	<hr/>

**Research and development costs**

Research and development costs consist of £3.9 million charged directly to administration expenses in the income statement and £nil of amortisation of previously capitalised development costs.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS at 31 December 2004

### 5 Income tax

Major components of income tax expense for the year ended 31 December 2004 are:

	<b>2004 £m</b>
<b>Consolidated income statement</b>	
<i>Current income tax</i>	
Current income tax charge	11.9
Adjustments in respect of current income tax of previous years	0.1
	<hr/> 12.0
<i>Deferred income tax</i>	
Relating to origination and reversal of temporary differences	0.7
	<hr/> 12.7

### Consolidated statement of changes in equity

<i>Deferred income tax</i>	
Net gain on pension actuarial adjustments	0.7
	<hr/> 0.7
Income tax benefit reported within equity	<hr/> 0.7

A reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the Group's effective income tax rate for the year ended 31 December 2004 is as follows:

		<b>2004 £m</b>
Accounting profit before tax from continuing operations		26.4
Profit before tax from discontinued operations		17.7
		<hr/> 44.1
At Foseco (Jersey) Limited statutory income tax rate of 30%		13.2
Expenses not deductible for tax purposes		6.2
Deferred tax asset not recognised		0.4
Items taxed at non-standard rates		(0.2)
Lower tax rates on overseas earnings		(0.2)
Capital gain on disposal of Chem-Trend taxed at zero rate		(8.3)
Utilisation of tax losses		(0.1)
Unrelieved losses in UK and USA		0.6
Withholding taxes on remittances from overseas		1.0
Adjustments to tax charge in respect of previous periods		0.1
		<hr/> 12.7
At effective income tax rate of 29%	29	<hr/> 12.7

	<b>2004 £m</b>
Income tax expense reported in consolidated income statement	12.7
Income tax attributable to discontinued operation	-
	<hr/> 12.7

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
at 31 December 2004**

**5 Income tax (continued)**

**Deferred income tax**

Deferred income tax at 31 December relates to the following:

	<b>Consolidated Balance Sheet 2004 £m</b>	<b>Consolidated Balance Sheet 2004 £m</b>	<b>Consolidated Income Statement 2004 £m</b>
<i>Deferred income tax liabilities</i>			
Accelerated depreciation for tax purposes	-	(0.1)	0.2
Fair value adjustments on acquisition	(2.1)	(4.5)	-
	<hr/>	<hr/>	
Gross deferred income tax liabilities	(2.1)	(4.6)	
<i>Deferred income tax assets</i>			
Post employment benefits	1.7	0.9	-
Short term timing differences	0.6	-	0.5
Losses available for offset against future taxable income	0.1	-	-
Fair value adjustments on acquisition	1.4	-	-
	<hr/>	<hr/>	
Gross deferred income tax assets	3.8	0.9	-
	<hr/>	<hr/>	
Deferred income tax charge	-	-	<hr/> 0.7 <hr/>
	<hr/>	<hr/>	
Net deferred income tax asset/(liability)	1.7	(3.7)	

The Group has tax losses of £10.5 million in the UK and £3.7 million in the USA that are available indefinitely for offset against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they may not be used to offset taxable profits elsewhere in the Group and their utilisation in future periods is not probable.

At 31 December 2004 there was no recognised deferred tax liability for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates or joint venture, since the Group has no liability to additional taxation because it can control the reversal of any timing differences and has no intention to remit the earnings retained at that date. There are no income tax consequences attaching to the payment of dividends by Foseco (Jersey) Limited to the shareholders of the company.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS at 31 December 2004

### 6 Discontinued operations

Discontinued operations comprise the results of Chem-Trend divisions until their date of sale on 9 March 2004. Chem-Trend is a manufacturer of mould releasent chemicals.

The results of Chem Trend divisions for the period are presented below:

	<b>2004</b> <b>£m</b>
Revenue	0.8
Expenses	(0.9)
Operating loss	(0.1)
Share of operating loss in joint venture	(0.1)
Loss before tax from discontinued operations	(0.2)
Income tax expense	-
Net loss attributable to discontinued operations	(0.2)
Gain on disposal of businesses comprises:	
Profit on disposal of Chem-Trend business (note a)	17.2
Profit on sale of Remet business (note b)	0.4
Profit on sale of Fosbel business (note c)	0.3
Gain on disposal of businesses	17.9

- a) The group sold the Chem-Trend business for a consideration of £56.6 million on 9 March 2004. The profit on sale is after charging £22.2 million of goodwill on acquisition.
- b) The 2004 profit on sale of the Remet business, which was sold late in 2003, arose from purchase price adjustments based upon the balance sheet at the date of disposal.
- c) The 2004 profit on sale of the Fosbel joint venture, which was sold in mid 2003, arose from the release of surplus provisions and the receipt of some tax refunds.

The operating cash flows and net cash flows incurred by Chem-Trend divisions are both nil for the period.

Earnings per share:

Basic and diluted from discontinued operations	<u>£17.92</u>
--	---------------

### 7 Earnings per share

Basic and diluted earnings per share are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

The following reflects the income and share data used in the total operations basic and diluted earnings per share computations.

	<b>2004</b> <b>£m</b>
Net profit attributable to equity holders for continuing operations	12.8
Profit attributable to equity holders from discontinued operations	17.7
Net profit attributable to ordinary shareholders for basic and diluted earnings per share	<u>30.5</u>
Weighted average number of ordinary shares for basic and diluted earnings per share	<u>987,785</u>

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

To calculate discontinued earnings per share, the weighted average number of ordinary shares for both basic and diluted is as per the table above. The following table provides the profit figure used as the numerator:

	<b>2004</b> <b>£m</b>
Net profit attributable to ordinary shareholders from discontinued operations for basic and diluted earnings per share	<u>17.7</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS at 31 December 2004

### 8 Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Total £m
Cost at 1 January 2004, net of accumulated depreciation	49.8	36.2	86.0
Additions	0.8	9.0	9.8
Disposals	(0.2)	(0.4)	(0.6)
Attributable to discontinued operation	(6.3)	(3.8)	(10.1)
Reclassifications	0.2	(0.2)	-
Depreciation charge for the year	(1.5)	(7.7)	(9.2)
Exchange adjustments	(0.3)	(0.5)	(0.8)
	<hr/>	<hr/>	<hr/>
At 31 December 2004, net of accumulated depreciation	42.5	32.6	75.1
	<hr/>	<hr/>	<hr/>
At 1 January 2004			
Cost	49.8	52.0	101.8
Accumulated depreciation and impairment	-	(15.8)	(15.8)
	<hr/>	<hr/>	<hr/>
Net carrying amount	49.8	36.2	86.0
	<hr/>	<hr/>	<hr/>
At 31 December 2004			
Cost or fair value	44.0	45.4	89.4
Accumulated depreciation and impairment	(1.5)	(12.8)	(14.3)
	<hr/>	<hr/>	<hr/>
Net carrying amount	42.5	32.6	75.1
	<hr/>	<hr/>	<hr/>

The net carrying amount of plant and equipment includes £1.4 million in respect of assets held under finance leases. Leased assets are pledged as security for the related finance lease liabilities.

Included in plant and equipment at 31 December 2004 is an amount of £2.2 million relating to expenditure on assets in the course of construction.

### 9 Intangible assets

	Goodwill £m	Intellectual Property Rights £m	Computer Software £m	Other £m	Total £m
Cost at 1 January 2004 net of accumulated amortisation	41.1	6.8	0.5	0.1	48.5
Additions	-	-	0.2	-	0.2
Attributable to discontinued operations	(22.2)	(1.0)	-	-	(23.2)
Amortisation	-	(0.3)	(0.2)	(0.1)	(0.6)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2004	18.9	5.5	0.5	-	24.9
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 1 January 2004					
Cost (gross carrying amount)	41.1	8.2	2.1	0.1	51.5
Accumulated amortisation and impairment	-	(1.4)	(1.6)	-	(3.0)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net carrying amount	41.1	6.8	0.5	0.1	48.5
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2004					
Cost (gross carrying amount)	18.9	6.6	2.2	0.1	27.8
Accumulated amortisation and impairment	-	(1.1)	(1.7)	(0.1)	(2.9)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net carrying amount	18.9	5.5	0.5	-	24.9
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Intellectual property rights were purchased as part of a business combination. The useful lives of these rights are estimated to be 20 years. As at 31 December 2004 these assets were tested for impairment (See note 2).

With effect from 1 January 2004, goodwill is no longer amortised and is annually tested for impairment (see note 2).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**at 31 December 2004**

**10 Available-for-sale financial assets**

	<b>2004</b>
	<b>£m</b>
Shares - listed	0.1

Available-for-sale financial assets comprise investments in ordinary shares, and therefore have no fixed maturity date or coupon rate.

**11 Stocks**

	<b>2004</b>
	<b>£m</b>
Raw materials (at cost)	8.0
Work-in-progress (at cost)	8.4
Finished goods (at lower of cost and net realisable value)	18.3
	<u>34.7</u>

The group wrote down the value of stocks by £0.4 million during the year. This amount is included within the cost of inventories recognised as an expense within cost of sales in note 4.

**12 Trade and other receivables (current)**

	<b>2004</b>
	<b>£m</b>
Trade debtors	65.2
Other debtors	7.9
Prepayments	2.2
	<u>75.3</u>

Trade receivables are non-interest bearing and are generally on credit terms usual for the businesses and territories in which the group operates.

The net amount of sales tax receivable and sales tax payable is non-interest bearing and is settled with the appropriate taxation authorities regularly throughout the year.

**13 Cash and short term deposits**

	<b>2004</b>
	<b>£m</b>
Cash at bank and in hand	14.8
Short term deposits	2.2
	<u>17.0</u>

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. Short term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the group, and earn interest at the respective short term deposit rates. The fair value of the cash and cash equivalents is £17.0 million.

At 31 December 2004 the group had available £14.9 million of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise the following at 31 December:

		<b>2004</b>
		<b>£m</b>
Cash at bank and in hand		14.8
Short term deposits		2.2
Bank overdrafts (note 16)	16	(1.2)
		<u>15.8</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS at 31 December 2004

### 14 Issued capital and reserves

<b>Share capital:</b>	<b>Number</b>	<b>£</b>
a) Authorised:		
Ordinary shares of £0.01 each	1,000,000	10,000
Preference shares of £0.01 each	9,900,000	99,000
Deferred shares of £0.01 each	1,000	10
Redeemable "A" deferred shares of £0.01 each	1,876	19
Redeemable "B" deferred shares of £1 each	582,516	582,516
	<hr/>	<hr/>
	11,485,392	691,545

#### b) Allotted, called up and fully paid

	<b>Number</b>			<b>£</b>		
	At 1 January 2004	Purchased and cancelled during the period	At 31 December 2004	At 1 January 2004	Purchased and cancelled during the period	At 31 December 2004
Equity shares:						
Ordinary Shares	998,400	(18,340)	980,060	9,984	(183)	9,801
Non-equity shares:						
Preference shares	9,884,160	(181,500)	9,702,660	98,842	(1,815)	97,027
Deferred shares	984	(166)	818	10	(2)	8
Redeemable "A" deferred shares	1,876	(1,840)	36	19	(18)	1
Redeemable "B" deferred shares	582,516	(132,390)	450,126	582,516	(132,390)	450,126
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	10,469,536	(315,896)	10,153,640	681,387	(134,225)	547,162
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	11,467,936	(334,236)	11,133,700	691,371	(134,408)	556,963

During the year the company purchased a number of its own shares from Chem-Trend senior managers as a consequence of the disposal of that business. These shares were subsequently cancelled. Shares with a nominal value of £134,408 were purchased for a consideration of £3,600,241. The premium on redemption of £3,465,833 was charged direct to retained reserves.

The preference shares carry a fixed cumulative preferential dividend at the rate of 4% per annum on the issue price of £1.00 per share. The company can redeem the preference shares for £1.00 each plus any outstanding accrued dividends with 30 days notice, or the preference shares are redeemed on a sale or listing.

The deferred shares have rights to income and a return of capital in the case of a sale or listing to the extent of £3,000,000 dependent upon the majority shareholder receiving a particular return on its investment, or in the event that the holders of the redeemable "A" deferred shares have previously received in aggregate the amount of £498,000. Following the sale of the Chem-Trend business the maximum amount receivable by the holders of the deferred shares is £2,502,000.

The redeemable "A" and "B" deferred shares have no rights to participate in the profits of the Company.

The redeemable "A" deferred shares were redeemable at an amount based upon a complex calculation involving the sale proceeds of the Chem-Trend business and group net debt. Following the sale of Chem-Trend the remaining redeemable "A" deferred shares have no entitlement to an amount on redemption.

The redeemable "B" deferred shares are redeemable at an amount which escalates from par at a compound rate of 12% per annum. The redeemable "B" deferred shares are redeemable on a sale or listing. Upon a redemption of the deep discounted bonds, the Company was also able to redeem an equivalent proportion of the "B" deferred shares upon giving between 30 and 60 days notice. However on redemption of the deep discount bonds on 28 June 2004, the Company did not exercise this right.

On a return of capital on a winding up, reduction of capital or otherwise, the surplus asset of the Company remaining after payment of its liabilities shall be applied in the following order of priority:

1. firstly, paying the holders of redeemable "B" deferred shares the redemption price;
2. unpaid accruals of the preference shares fixed dividend;
3. preference shares issue price;
4. issue price of the ordinary shares;
5. the par values of the deferred shares and redeemable "A" deferred shares;
6. lastly, the remainder is distributed amongst the holders of the ordinary shares.

None of the shares carry voting rights with the exception of the ordinary shares which carry one vote per share.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
at 31 December 2004**

**15 Statement of changes in equity for the year ended 31 December 2004**

	Attributable to equity holders of the parent					Total	Minority interest	Total equity
	Issued capital	Share premium (note c)	Retained earnings	Capital redemption reserve (note d)	Foreign			
					currency translation reserve (note e)			
£m	£m	£m	£m	£m	£m	£m	£m	
At 1 January 2004	0.7	9.8	(2.5)	-	-	8.0	3.1	11.1
Changes in equity for 2004:								
Currency translation adjustments	-	-	-	-	(1.7)	(1.7)	(0.1)	(1.8)
Net gain on hedge of net investments	-	-	-	-	2.1	2.1	-	2.1
Profit for the period	-	-	30.5	-	-	30.5	0.9	31.4
Actuarial adjustments on pension liabilities	-	-	2.1	-	-	2.1	-	2.1
Deferred tax on pension liabilities	-	-	0.7	-	-	0.7	-	0.7
Total recognised income and expense for the period	-	-	33.3	-	0.4	33.7	0.8	34.5
Redemption of share capital (note 14 b)	(0.2)	(3.4)	-	-	-	(3.6)	-	(3.6)
Transfer between reserves	-	-	(0.2)	0.2	-	-	-	-
Non-equity dividends (note a)	-	-	(0.4)	-	-	(0.4)	-	(0.4)
Previous appropriations in respect of non-equity shares transferred to creditors (note b)	-	-	(0.9)	-	-	(0.9)	-	(0.9)
Equity dividends	-	-	-	-	-	-	(0.8)	(0.8)
At 31 December 2004	0.5	6.4	29.3	0.2	0.4	36.8	3.1	39.9

a) The company's preference shares carry a fixed cumulative preferential dividend at the rate of 4% per annum on the issue price of £1.00 per share.

b) At 1 January 2004, the company had no distributable reserves, and cumulative unpaid dividends of £0.9 million had been shown as appropriations. As sufficient distributable reserves are now available, these unpaid amounts have been reinstated as creditors.

**Nature and purpose of other reserves**

c) Share premium

The share premium reserve arose from the issue of non-equity shares.

d) Capital redemption reserve

This reserve records the nominal value of shares redeemed by the company.

e) Foreign currency translation reserve

This reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries. It is also used to record the net investments hedged in these subsidiaries.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS at 31 December 2004

### 16 Interest bearing loans and borrowings

	Effective interest Rate %	Maturity	2004 £m
<b>Current</b>			
Obligations under finance leases and hire purchase contracts (note 22)		2005	0.6
Bank overdrafts		On demand	1.2
Secured bank loans:			
€7.1 m Tranche A	LIBOR + 1.25	June & December 2005	5.0
£3.1 m Tranche D	LIBOR + 1.25	June & December 2005	3.1
\$1.6 m Tranche A	LIBOR + 1.25	June & December 2005	0.8
Yen 50.2 m Tranche A	LIBOR + 1.25	June & December 2005	0.3
Unsecured loans:			
RMB16.0 m	5.62%		1.0
€0.2 m	Nil		0.1
			12.1
<b>Non-current</b>			
Obligations under finance leases and hire purchase contracts (note 22)		2006-2007	0.7
Secured bank loans:			
€22.6 m Tranche A	LIBOR + 1.25	2006-2008	16.0
€4.0 m Tranche B	LIBOR + 1.75	2008-2009	2.9
€4.0 m Tranche C	LIBOR + 3.25	2009-2010	2.9
£10.0 m Tranche D	LIBOR + 1.25	2006-2008	10.0
\$5.2 m Tranche A	LIBOR + 1.25	2006-2008	2.8
\$10.7 m Tranche B	LIBOR + 1.75	2008-2009	5.5
\$31.5 m Tranche C	LIBOR + 3.25	2009-2010	16.5
Yen 159.7 m Tranche A	LIBOR + 1.25	2006-2008	0.7
Yen 2,000 m Tranche B	LIBOR + 1.75	2008-2009	10.2
Issue costs			(3.6)
			64.6

#### Bank overdrafts

The bank overdrafts are secured by floating charge over the group's net assets.

#### Secured bank loans (senior loans)

Bank senior 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.

Active subsidiaries have also provided guarantees of the obligations of the borrowers under the bank senior loans.

Tranche A loans are repayable in increasing six-monthly instalments over 7 years from the original drawing date of 28 September 2001, and carry an interest rate of LIBOR plus 1.25%.

Tranche B loans are repayable in equal instalments on 31 December 2008 and 30 June 2009, and carry an interest rate of LIBOR plus 1.75%.

Tranche C loans are repayable in two instalments on 31 December 2009 and 30 June 2010, and carry an interest rate of LIBOR plus 3.25%.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS at 31 December 2004

### 17 Other long term liabilities

	2004 £m
Redundancy costs	1.7
Deferred sales taxes	1.3
Other creditors	0.8
	3.8

### 18 Provisions

	Provision for environmental liabilities £m	Other provisions £m	Total £m
At 1 January 2004	4.7	6.0	10.7
Made during the year	0.2	0.3	0.5
Released during the year	(1.2)	(0.1)	(1.3)
Attributable to discontinued operations	(0.7)	(0.8)	(1.5)
Utilised	(0.1)	(0.4)	(0.5)
	2.9	5.0	7.9
At 31 December 2004			
Current 2004	1.1	2.7	3.8
Non-current 2004	1.8	2.3	4.1
	2.9	5.0	7.9
Current 2003	-	0.2	0.2
Non-current 2003	4.7	5.8	10.5
	4.7	6.0	10.7

- a) The provision for environmental liabilities represents the best estimate of the cost of remediation of sites on which it operates or has operated. Given the inherent difficulty of estimating the cost of remediation, the directors have taken expert advice concerning these liabilities. The provision is expected to be utilised within three years.
- b) Other provisions includes an amount for potential employee related claims under Health & Safety regulations. These provisions are expected to be utilised within three years.

### 19 Pensions

The Group operates a number of pension plans throughout the world. The profit and loss account charge for 2004 for benefits under Foseco's retirement benefit schemes was £4.3 million, including £1.4 million in respect of defined contribution schemes. Actuarial gains of £2.1 million have been included in the statement of recognised income and expense. The total market value of assets of the schemes was £55.9 million as at 31 December 2004. The major defined benefit schemes are subject to regular valuations based on the accepted actuarial practice and standards within the country in which the plan is established. The largest plans are directly invested and others are invested in insurance contracts. The remainder are unfunded schemes. The German scheme has been disclosed separately as it represents the vast majority of the unfunded liabilities.

The most recent actuarial valuations were carried out at various dates between 1 January 2004 and 31 December 2004. The results of these valuations were updated to 31 December 2004 by independent qualified actuaries.

The major assumptions used by the actuary were (in nominal terms):

	Germany	Other
Rate of increase in salaries	3.00%	4.01%
Rate of increase of pensions in payment	2.00%	2.78%
Discount rate	4.75%	5.53%
Inflation assumption	2.00%	2.78%
Expected return on equities	-	8.4%
Expected return on bonds	-	4.5%
Expected return on cash & cash equivalents	-	2.8%

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**at 31 December 2004**

**19 Pensions (continued)**

**Net benefit expense**

	<b>Germany</b>	<b>Other</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Current service cost	0.6	2.3	2.9
Interest cost on benefit obligation	0.7	3.6	4.3
Expected return on plan assets	-	(3.9)	(3.9)
Net actuarial (gains)/losses recognised in the year	1.6	(3.7)	(2.1)
Curtailement gain	-	(0.1)	(0.1)
	<hr/>	<hr/>	<hr/>
Net benefit expense	2.9	(1.8)	1.1
	<hr/>	<hr/>	<hr/>
Actual return on plan assets	-	5.9	5.9
	<hr/>	<hr/>	<hr/>

The net benefit expense detailed above is all recognised in arriving at operating profit, and is included within cost of sales, selling and distribution costs and administration expenses.

**Benefit (assets)/liabilities**

	<b>Germany</b>	<b>Other</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Benefit obligations	16.0	67.4	83.4
Plan assets	-	(55.9)	(55.9)
	<hr/>	<hr/>	<hr/>
Benefit liabilities - non current	16.0	11.5	27.5
	<hr/>	<hr/>	<hr/>

**Movements in the benefit (assets)/liabilities during the year ended 31 December 2004**

	<b>Germany</b>	<b>Other</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
At 1 January	13.5	20.8	34.3
Benefit expense	2.9	(1.8)	1.1
Contributions	(0.5)	(1.5)	(2.0)
Disposal of subsidiaries	-	(5.5)	(5.5)
Exchange adjustment	0.1	(0.5)	(0.4)
	<hr/>	<hr/>	<hr/>
At 31 December	16.0	11.5	27.5
	<hr/>	<hr/>	<hr/>

**20 Trade and other payables (current)**

	<b>2004</b>
	<b>£m</b>
Trade creditors	33.8
Other creditors	9.3
Other taxes and social security	4.1
Accruals	13.9
Dividend on preference shares	1.3
	<hr/>
	62.4
	<hr/>

Terms and conditions of the above financial liabilities:

For terms and conditions relating to related parties, refer to note 24.

Trade payables are non-interest bearing. Normal settlement terms vary by country, usually being either 30 or 60 days. The group-wide average is approximately 45 days.

Other payables are non-interest bearing and have an average term of approximately two months.

The net of sales tax payable and sales tax receivable is remitted to the appropriate tax body regularly throughout the year.

Interest payable is normally settled quarterly throughout the year.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
at 31 December 2004**

21 **Notes to the cash flow statement**

<b>Disposals of businesses</b>	<b>Remet</b>	<b>Fosbel</b>	<b>Chem- Trend</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Goodwill on acquisition	-	-	22.2	22.2
Intangible fixed assets	-	-	1.0	1.0
Tangible fixed assets	-	-	10.1	10.1
Stocks	-	-	5.5	5.5
Debtors	-	-	15.6	15.6
Creditors	(0.2)	(0.1)	(8.9)	(9.2)
Cash	-	-	1.8	1.8
Provisions	-	-	(7.5)	(7.5)
Minority share of net assets	-	-	(0.4)	(0.4)
	<hr/>			
Net assets sold	(0.2)	(0.1)	39.4	39.1
Profit on disposal	0.4	0.3	17.2	17.9
	<hr/>			
Proceeds on disposal, net of costs	0.2	0.2	56.6	57.0
Deferred consideration received	0.6	-	-	0.6
Deferred consideration	(0.2)	-	-	(0.2)
	<hr/>			
Cash received on disposal of business	0.6	0.2	56.6	57.4
	<hr/>			

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS at 31 December 2004

### 22 Commitments and contingencies

#### Amounts due under finance leases and hire purchase contracts:

The Group has finance leases and hire purchase contracts for various items of plant and machinery, these leases have no terms of renewal or purchase options and escalation clauses. Future minimum lease payments under finance leases and hire purchase contracts together with the net present value of the minimum lease payments are as follows:

	<b>2004</b>
	<b>£m</b>
Amounts payable:	
Within one year	0.6
After one year but no more than five years	0.8
	<hr/>
Total minimum lease payments	1.4
Less amounts representing finance charge	(0.1)
	<hr/>
Present value of minimum lease payments	1.3
	<hr/>

#### Operating lease commitments

The group has entered into commercial leases on certain motor vehicles, items of small machinery, and land and buildings where it is not in the best interest of the group to purchase these assets. The plant and machinery has an average life of between 5 and 10 years with renewal terms included in the contracts. Renewals are at the option of the specific entity that holds the lease. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	<b>Land &amp; Buildings</b>	<b>Plant &amp; Machinery</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Amounts payable:			
Within one year	1.0	1.6	2.6
After one year but no more than five years	4.0	2.1	6.1
In over five years	3.3	-	3.3
	<hr/>	<hr/>	<hr/>
	8.3	3.7	12.0
	<hr/>	<hr/>	<hr/>

#### Capital commitments

At 31 December 2004, the group has commitments of £0.6 million relating to the acquisition of new plant and machinery.

#### Guarantees

Foseco (Jersey) Limited has the following contingent liabilities at 31 December 2004:

The Group's UK subsidiaries are members of a Group VAT registration. All companies within the Group registration are jointly and severally liable for any amounts due to Customs and Excise in respect of Value Added Tax.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS at 31 December 2004

### 23 Financial instruments

Set out below is a comparison by category of carrying amounts and fair values of all of the group's financial instruments that are carried in the financial statements at other than fair values.

	Carrying amount £m	Fair value £m
Financial assets		
Cash	17.0	17.0
Trade receivables	75.3	75.3
Available-for-sale financial assets	0.1	0.1
Financial liabilities		
Bank overdraft	(1.2)	(1.2)
Trade and other payables	(62.4)	(62.4)
Interest bearing loans and borrowings:		
Obligations under finance leases and hire purchase contracts	(1.3)	(1.4)
Floating rate borrowings	(77.8)	(77.8)

Market values have been used to determine the fair value of listed available-for-sale financial assets. The fair value of derivative items have been calculated by discounting the expected future cash flows at prevailing interest rates.

#### Interest rate risk

The following table sets out the carrying amount, by maturity, of the group's financial instruments that are exposed to interest rate risk:

#### Year ended 31 December 2004

Fixed rate	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	Total £m
Obligations under finance leases and hire purchase contracts	(0.6)	(0.6)	(0.1)	-	-	-	(1.3)
Floating rate	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	Total £m
Cash assets	17.0	-	-	-	-	-	17.0
Bank overdrafts	(1.2)	-	-	-	-	-	(1.2)
Bank loans	(10.3)	(11.0)	(12.2)	(15.6)	(19.0)	(9.7)	(77.8)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS at 31 December 2004

### 23 Financial instruments (continued)

#### Hedging activities

##### Cash flow hedges

At 31 December 2004, the group held foreign exchange contracts designated as hedges of expected future sales to customers for which the group has firm commitments. The group also has foreign exchange contracts outstanding at 31 December 2004 designated as hedges of expected future purchases. The exchange contracts are being used to reduce the exposure to foreign exchange risk. The terms of the contracts are as follows:

	Maturities	Exchange rates
Sell		
€11.0 million	31 January 2005 - 28 February 2006	€/£ 1.4235 - 1.4035
Buy		
€3.1 million	4 January 2005	\$/£ 1.4142
€1.3 million	22 February 2005 - 14 December 2005	€/SEK 9.0112 - 8.9828
\$2.2 million	27 January 2005 - 22 December 2005	\$/€ 1.2029 - 1.2127
\$1.0 million	31 January 2005	\$/£ 1.8084
NOK3.4 million	17 January 2005 - 7 March 2005	NOK/€ 8.2157 - 8.0639

##### Hedge of net investments in foreign entities

Included in interest bearing loans at 31 December 2004 are the following amounts, which have been designated as hedges of net investments in the group's subsidiaries in Europe, USA and Japan and are being used to reduce the exposure to foreign exchange risk:

Borrowings in local currency	£m
€37.7 million	26.8
\$49.0 million	25.6
Yen 2,209.9 million	11.2

Gains or losses on the retranslation of these borrowings are transferred to equity to offset any gains or losses on translation of the net investment in the subsidiaries.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS at 31 December 2004

### 24 Related party transactions

The consolidated financial statements include the financial statements of Foseco (Jersey) Limited and the subsidiaries listed in the following table:

Name:	Country of incorporation	Functional currency	% equity interest
Foseco Holding Limited	UK	Sterling	100
Foseco UK Limited	UK	Sterling	100
Foseco International Limited	UK	Sterling	100
Foseco Limited	UK	Sterling	100
Foseco Austria GmbH	Austria	Euro	100
Foseco SA	Belgium	Euro	100
Foseco Ceska s.r.o	Czech Republic	Coruna	100
Foseco SAS	France	Euro	100
Foseco GmbH	Germany	Euro	100
Foseco Srl	Italy	Euro	100
Foseco Nederland BV	Netherlands	Euro	100
Foseco Polska sp z.o.o	Poland	Zloty	100
Foseco Portugal Produtos para Fundicao Lda	Portugal	Euro	100
Foseco o.o.o	Russia	Rouble	100
Foseco Espanola SA	Spain	Euro	100
SMC - Foseco Productos Fundicion SA	Spain	Euro	100
Foseco AB	Sweden	Krone	100
Foseco (Switzerland) AG	Switzerland	S Franc	100
Foseco Dokum Sanavi ve Ticaret Limited Sirketi	Turkey	Lira	100
Foseco Industria E Comercio Ltda	Brazil	Real	100
Foseco Canada Inc	Canada	C\$	100
Foseco Metallurgical Inc	USA	US\$	100
Foseco SA de CV	Mexico	M Peso	100
Foseco (Pty) Limited	Australia	A\$	100
Foseco Foundry (China) Ltd	China	Renmimbi	100
Foseco India Ltd	India	Rupee	66.48
PT Foseco Indonesia	Indonesia	Rupiah	100
Foseco Japan Ltd	Japan	Yen	100
Foseco Korea Ltd	Korea	Won	100
Foseco NZ Limited	New Zealand	NZ\$	100
Foseco Philippines Inc	Philippines	P Peso	100
Foseco (Foundry Services) Pte Limited	Singapore	S\$	100
Foseco South Africa (Pty) limited	South Africa	Rand	100
Foseco Golden Gate Co Ltd	Taiwan	T\$	51
Foseco (Thailand) Ltd	Thailand	Baht	74

During the period the group entered into transactions in the ordinary course of business with related parties. Transactions entered into and balances outstanding at 31 December 2004 are as follows:

	Joint ventures £m	Cinven Limited £m	Directors £m	Foseco Holding Limited £m
Amounts due to joint ventures	0.8	-	-	-
Amounts due to subsidiary companies	-	-	-	29.7
Monitoring fee (note a)	-	0.2	-	-
Shares purchased from former directors (note b)	-	-	1.0	-

- a) The group pays a quarterly monitoring fee to Cinven Limited, a company that controls the investment funds which control Foseco (Jersey) Limited.
- b) In accordance with the Articles of Association, the sale of the Chem-Trend business triggered the purchase by the group of all Foseco (Jersey) Limited shares held by two directors. The total consideration, calculated from formulae defined in the Articles of Association, was £985,248. These directors resigned on 30 April 2004.

Terms and conditions of related parties:

Sales to and purchases from related parties are made priced as arm's length transactions and generally are settled on 30 day terms. Funding balances with related parties are interest bearing at variable rates based on LIBOR plus a margin. The group provides guarantees to third parties for certain borrowings of its subsidiaries.

#### Compensation of key management personnel of the group

	2004 £000s
Short-term employee benefits	624
Post-employment benefits	70
<b>Total compensation paid to key management personnel</b>	<b>694</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**at 31 December 2004**

**25 Reconciliation of equity at 1 January 2004 (Date of transition to IFRS)**

	Note	UK GAAP	Reclassify equipment at customer sites	Effect of transition to IFRS	IFRS
<b>ASSETS</b>					
Property, plant & equipment	a	84.6	0.3	1.1	86.0
Intangible assets	b	39.3	-	9.2	48.5
Deferred tax assets	c+e+i	-	-	4.3	4.3
Joint ventures	d	0.2	-	(0.2)	-
Investments		0.4	(0.3)	-	0.1
		124.5	-	14.4	138.9
<b>Current assets</b>					
Inventories		38.2	-	-	38.2
Trade and other receivables	e	86.5	-	(3.1)	83.4
Cash and short term deposits	d	26.9	-	0.2	27.1
		151.6	-	(2.9)	148.7
<b>TOTAL ASSETS</b>		276.1	-	11.5	287.6
<b>EQUITY AND LIABILITIES</b>					
Issued capital		0.7	-	-	0.7
Share premium		9.8	-	-	9.8
Retained earnings	k	(2.8)	-	0.3	(2.5)
		7.7	-	0.3	8.0
Minority interest	j	3.3	-	(0.2)	3.1
<b>Total equity</b>		11.0	-	0.1	11.1
<b>Non current liabilities</b>					
Interest-bearing loans and borrowings	f	138.7	-	1.0	139.7
Other long term liabilities		3.4	-	-	3.4
Provisions	g	10.7	-	(0.2)	10.5
Deferred tax liabilities	h	-	-	4.7	4.7
Pensions	i	29.2	-	5.1	34.3
		182.0	-	10.6	192.6
<b>Current liabilities</b>					
Trade and other payables		67.4	-	-	67.4
Interest bearing loans and borrowings	f	9.4	-	0.6	10.0
Income tax payable		6.3	-	-	6.3
Provisions	g	-	-	0.2	0.2
		83.1	-	0.8	83.9
<b>TOTAL LIABILITIES</b>		265.1	-	11.4	276.5
<b>TOTAL EQUITY AND LIABILITIES</b>		276.1	-	11.5	287.6

In the 31 December 2004 balance sheet, equipment at customer sites was reclassified as fixed assets in the UK GAAP accounts. This reclassification has been shown as occurring at 1 January 2004 in the above balance sheet.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**at 31 December 2004**

**Notes to the reconciliation of equity at 1 January 2004**

- a) Software costs of £0.5 million treated as tangible fixed assets under UK GAAP have been reclassified as intangible fixed assets under IFRS. Leased assets valued at £1.6 million have been capitalised as finance leases under IFRS, whereas under UK GAAP they were treated as operating leases.
- b) Software with a net book value of £0.5 million has been reclassified from tangible fixed assets. Negative goodwill of £8.7 million recognised under UK GAAP has been written off and credited to equity under IFRS.
- c) Deferred tax assets of £3.8 million which had been netted off against pension liabilities under UK GAAP were reclassified as non-current assets under IFRS. A further £3.1 million was reclassified from trade and other receivables (see note e). These assets were then reduced by £2.6 million which arose from the recognition under IFRS of deferred taxation on fair value adjustments to the valuations of land and buildings.
- d) The share of net assets of joint ventures, disclosed separately under UK GAAP, has been broken down into its components and consolidated on a line by line basis under IFRS. The net assets are included on the cash line.
- e) Deferred tax assets of £3.1 million shown as debtors under UK GAAP have been reclassified as non-current assets under IFRS.
- f) The capitalisation of leased assets (see note a above) resulted in the recognition of current liabilities of £0.6 million and non-current liabilities of £1.0 million.
- g) Under IFRS, provisions are split between current and non-current liabilities, whereas they were shown as a single figure under UK GAAP.
- h) Deferred taxation of £7.3 million has been recognised under IFRS on fair value adjustments to the valuations of land and buildings. Of this liability, £2.6 million has been offset against deferred tax assets held in the same territories, leaving a liability of £4.7 million.
- i) Pension liabilities increased by £1.3 million under IFRS because the method of valuing pension scheme assets differs from UK GAAP, and because liabilities for non-service related benefits are recognised earlier than under UK GAAP. Deferred tax assets of £3.8 million which were netted off against the related pension liabilities under UK GAAP are now included within the deferred tax headings on the face of the balance sheet
- j) The change in deferred taxation in note h above has a consequent effect on the minority interest in the net assets of the group.
- k) The adjustments to retained earnings are as follows:

	<b>Note</b>	<b>£m</b>
Negative goodwill	b	8.7
Deferred taxation	h	(7.3)
Pension liability	i	(1.3)
Minority share of deferred taxation	j	0.2
		0.3

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**at 31 December 2004**

**26 Reconciliation of profit for 2004**

	<b>Note</b>	<b>UK GAAP</b>	<b>Effect of transition to IFRS</b>	<b>IFRS</b>
Gross profit		125.6	-	125.6
Distribution costs		(14.7)	-	(14.7)
Administration expenses	a)	(75.5)	1.0	(74.5)
Exceptional items	b)	(2.5)	0.2	(2.3)
Non-operating exceptional items	b)	0.2	(0.2)	-
Finance costs	c)	(7.6)	(0.1)	(7.7)
Profit before tax		25.5	0.9	26.4
Taxation	d)	(12.9)	0.2	(12.7)
Profit for the year from continuing activities		12.6	1.1	13.7
Discontinued operations		(0.2)	-	(0.2)
Gain on disposal of businesses	e)	19.2	(1.3)	17.9
Profit for the year from discontinued activities		19.0	(1.3)	17.7
Profit for the year		31.6	(0.2)	31.4

**Notes to the reconciliation of profit for 2004**

- a) Administration expenses decrease for the following reasons:
- Goodwill is no longer amortised under IFRS, resulting in a reduction of expenses of £0.8 million.
  - The capitalisation of certain leases resulted in decreased expense of £0.1 million, representing the difference between depreciation on the capitalised assets and the operating lease payments previously charged.
  - The earlier recognition of certain pension liabilities under IFRS resulted in a reduction in regular service cost of £0.1 million.
- b) £0.2 million profit on sale of fixed assets classified as non-operating exceptional items under UK GAAP has been reclassified as "Exceptional items".
- c) Finance costs increase for the following reasons:
- The capitalisation of additional leases under IFRS results in a small finance charge.
  - The valuation of pension scheme assets under IFRS produces a lower value, which results in slightly lower expected returns on the pension scheme assets.
- d) Deferred taxation decreased by £0.2 million as a result of the depreciation of fair valued land and buildings.
- e) The writing off of negative goodwill reduced the profit on sale of the Chem-Trend business by £1.8 million, whereas the provision of deferred tax on fair valued land and buildings increased the profit on that disposal by £0.5 million.

**Explanation of material adjustments to the cash flow statement for 2004**

The capitalisation of certain leases increased profit before interest and taxation by £0.1 million, increased depreciation charges by £0.5 million and increased borrowing costs by £0.1 million, resulting in additional net cash inflow from operations of £0.5 million. Offsetting this, finance lease payments of £0.6 million are shown as cash outflow from financing activities. There are no other material differences between the cash flow statement presented under IFRS and the cash flow statement presented under UK GAAP.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**at 31 December 2004**

27 Reconciliation of equity at 31 December 2004

	Note	UK GAAP	Effect of transition to IFRS	IFRS
<b>ASSETS</b>				
Property, plant & equipment	a	74.4	0.7	75.1
Intangible assets	b	17.0	7.9	24.9
Deferred tax assets	c+e+h	-	1.7	1.7
Joint ventures	d	0.1	(0.1)	-
Investments		0.1	-	0.1
		<b>91.6</b>	<b>10.2</b>	<b>101.8</b>
<b>Current assets</b>				
Inventories		34.7	-	34.7
Trade and other receivables	e	77.3	(2.0)	75.3
Cash and short term deposits	d	16.9	0.1	17.0
		<b>128.9</b>	<b>(1.9)</b>	<b>127.0</b>
<b>TOTAL ASSETS</b>		<b>220.5</b>	<b>8.3</b>	<b>228.8</b>
<b>EQUITY AND LIABILITIES</b>				
Issued capital		0.5	-	0.5
Share premium		6.4	-	6.4
Capital redemption reserve		0.2	-	0.2
Foreign currency translation		-	0.4	0.4
Retained earnings	k	29.9	(0.6)	29.3
		<b>37.0</b>	<b>(0.2)</b>	<b>36.8</b>
Minority interest	j	3.2	(0.1)	3.1
<b>Total equity</b>		<b>40.2</b>	<b>(0.3)</b>	<b>39.9</b>
<b>Non current liabilities</b>				
Interest-bearing loans and borrowings	f	64.1	0.5	64.6
Other long term liabilities		3.8	-	3.8
Provisions	g	7.9	(3.8)	4.1
Deferred tax liabilities	h	-	3.7	3.7
Pensions	i	23.6	3.9	27.5
		<b>99.4</b>	<b>4.3</b>	<b>103.7</b>
<b>Current liabilities</b>				
Trade and other payables		62.4	-	62.4
Interest bearing loans and borrowings	f	11.6	0.5	12.1
Income tax payable		6.9	-	6.9
Provisions	g	-	3.8	3.8
		<b>80.9</b>	<b>4.3</b>	<b>85.2</b>
<b>TOTAL LIABILITIES</b>		<b>180.3</b>	<b>8.6</b>	<b>188.9</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>220.5</b>	<b>8.3</b>	<b>228.8</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS at 31 December 2004

### Notes to the reconciliation of equity at 31 December 2004

- a) Software costs of £0.5 million treated as tangible fixed assets under UK GAAP have been reclassified as intangible fixed assets under IFRS. Leased assets valued at £1.2 million have been capitalised as finance leases under IFRS, whereas under UK GAAP they were treated as operating leases.
- b) Software with a net book value of £0.5 million has been reclassified from tangible fixed assets. Negative goodwill of £7.4 million recognised under UK GAAP has been written off and credited to equity under IFRS.
- c) Deferred tax assets of £2.6 million which had been netted off against pension liabilities under UK GAAP were reclassified as non-current assets under IFRS. These assets were then reduced by £2.9 million which arose from the recognition under IFRS of deferred taxation on fair value adjustments to the valuations of land and buildings.
- d) The share of net assets of joint ventures, disclosed in aggregate under UK GAAP, has been broken down into its components and consolidated on a line by line basis under IFRS. The net assets are included on the cash line.
- e) Deferred tax assets of £2.0 million shown as debtors under UK GAAP have been reclassified as non-current assets under IFRS.
- f) The capitalisation of leased assets (see note a above) resulted in the recognition of current liabilities of £0.5 million and non-current liabilities of £0.5 million.
- g) Under IFRS, provisions are split between current and non-current liabilities, whereas they were shown as a single figure under UK GAAP.
- h) Deferred taxation of £6.6 million has been recognised under IFRS on fair value adjustments to the valuations of land and buildings. Of this liability, £2.9 million has been offset against deferred tax assets held in the same territories, leaving a liability of £3.7 million.
- i) Pension liabilities increased by £1.3 million under IFRS because the method of valuing pension scheme assets differs from UK GAAP, and because liabilities for non-service related benefits are recognised earlier than under UK GAAP. Deferred tax assets of £2.6 million which were netted off against the related pension liabilities under UK GAAP are now included within the deferred tax headings on the face of the balance sheet
- j) The change in deferred taxation in note h above has a consequent effect on the minority interest in the net assets of the group.
- k) The adjustments to retained earnings are as follows:

	Note	£m
Per reconciliation of equity at 1 January 2004		0.3
Per reconciliation of profit for the year		(0.2)
Opening exchange adjustment on goodwill & deferred tax		(0.3)
Transfer to foreign currency translation reserve		(0.4)
		(0.6)