

Directors' responsibilities in relation to the financial statements

The Directors are responsible for preparing the individual financial statements of Tomkins plc ("the Company").

The Directors have prepared the Company's financial statements under United Kingdom Generally Accepted Accounting Practice ("UK GAAP"), rather than International Financial Reporting Standards ("IFRS").

The Directors are required by law to ensure that the Company's financial statements give a true and fair view of the state of affairs of the Company at the end of the financial year and of its profit or loss for the financial year. However, the Directors are permitted by section 230 of the Companies Act 1985 not to include the Company's profit and loss account in the financial statements.

In preparing the Company's financial statements, the Directors are required to select suitable accounting policies and apply them consistently, make judgements and estimates that are reasonable and prudent, and state whether applicable accounting standards have been followed subject to any material departures that must be disclosed and explained in the financial statements.

The Directors are responsible for ensuring that the Company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the Company's financial statements comply with applicable law.

The Directors are responsible for safeguarding the assets of the Company and hence for taking such steps as are reasonably open to them to prevent and detect fraud and other irregularities.

The Directors are responsible for including in the Annual Report a report on Directors' remuneration which complies with the requirements of the Companies Act 1985.

The Directors are also responsible for the maintenance and integrity of the financial information contained on the corporate website, www.tomkins.co.uk. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditors' report

To the members of Tomkins plc

We have audited the individual financial statements of Tomkins plc ("the Company") for the year ended 29 December 2007 ("the Company's financial statements") which comprise the Company's balance sheet and the related notes 1 to 18. These financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the consolidated financial statements of Tomkins plc and its subsidiaries for the year ended 29 December 2007 and on the information in the Remuneration Committee's report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report, the Company's financial statements and the Remuneration Committee report in accordance with applicable law and United Kingdom accounting standards (United Kingdom Generally Accepted Accounting Practice ("UK GAAP")) are set out in the statement of directors' responsibilities on page 138.

Our responsibility is to audit the Company's financial statements and the part of the Remuneration Committee report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Company's financial statements give a true and fair view and whether they have been properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the Directors' report is consistent with the Company's financial statements.

In addition, we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the Company's financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Company's financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Company's financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Company's financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Company's financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the Company's financial statements.

Opinion

In our opinion:

- the Company's financial statements give a true and fair view, in accordance with UK GAAP, of the state of the Company's affairs as at 29 December 2007;
- the Company's financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the Company's financial statements.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
London
20 February 2008

Company balance sheet

	Note	As at 29 December 2007 £ million	As at 30 December 2006 £ million
Fixed assets			
Tangible assets	5	0.4	4.8
Investments in subsidiaries	6	1,578.6	1,576.7
		1,579.0	1,581.5
Current assets			
Debtors:			
– Amounts falling due within one year	7	4.5	4.5
– Amounts falling due after more than one year	7	174.7	99.6
		179.2	104.1
Creditors: amounts falling due within one year			
Convertible cumulative preference shares	17	–	(0.4)
Other creditors	8	(17.6)	(22.3)
		(17.6)	(22.7)
Net current assets		161.6	81.4
Total assets less current liabilities		1,740.6	1,662.9
Creditors: amounts falling due after more than one year			
Convertible cumulative preference shares	17	–	(67.1)
Other creditors	9	(295.6)	(307.1)
		(295.6)	(374.2)
Net assets before net pension liability		1,445.0	1,288.7
Net pension liability	11	(5.9)	(3.6)
Net assets		1,439.1	1,285.1
Capital and reserves			
Ordinary share capital	14	44.2	42.9
Share premium account	14	397.3	332.1
Own shares	15	(11.2)	(11.7)
Capital redemption reserve	16	462.5	461.9
Merger reserve	16	115.4	115.4
Capital reserve	16	56.5	56.5
Profit and loss account reserve	16	374.4	288.0
Shareholders' funds		1,439.1	1,285.1

Approved by the Board on 20 February 2008 and signed on its behalf by:

J Nicol, Director

J W Zimmerman, Director

1. Principal accounting policies

A. Basis of preparation

The financial statements of the Company have been prepared in accordance with the Companies Act 1985 and applicable UK accounting standards (United Kingdom Generally Accepted Accounting Practice) and, except as described under the heading "Financial instruments", under the historical cost convention.

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

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

- UITF 41 "Scope of FRS 20"
- UITF 42 "Reassessment of Embedded Derivatives"
- UITF 44 "Group and Treasury Share Transactions"

During the period, the Company also adopted the amendment to FRS 17 "Retirement Benefits" issued by the Accounting Standards Board in December 2006 which aligns the disclosure requirements of FRS 17 with those specified by the equivalent international standard, IAS 19 "Employee Benefits".

The Company is exempt from applying FRS 29 "Financial Instruments: Disclosures" because the required disclosures are provided in the Group's consolidated financial statements.

The Company's annual financial statements are drawn up to the Saturday nearest 31 December. These financial statements cover the financial year from 31 December 2006 to 29 December 2007 ("2007") with comparative figures for the financial year from 1 January 2006 to 30 December 2006 ("2006").

B. Investments in subsidiaries

A subsidiary is an entity controlled, either directly or indirectly, by the Company, where control is the power to govern the financial and operating policies of the entity so as to obtain benefit from its activities. Investments in subsidiaries represent interests in the Company's subsidiaries that are directly owned by the Company and are stated at cost less any provision for impairment.

C. Foreign currency translation

Transactions denominated in foreign currencies are translated into the Company's functional currency at the exchange rate ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate ruling on the balance sheet date. Currency translation differences are recognised in the profit and loss account.

D. Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and any provision for impairment. Freehold land is not depreciated. Depreciation of other tangible fixed assets is provided on a straight-line basis over their expected useful lives, which are as follows:

Freehold buildings	50 years
Plant, equipment and vehicles	2 to 20 years

E. Financial instruments

(i) Derivative financial instruments

The Company uses derivative financial instruments to manage its exposure to exchange rate and interest rate movements. The Company does not hold or issue derivatives for speculative or trading purposes.

Derivative financial instruments are recognised as assets and liabilities measured at their fair values at the balance sheet date. Changes in their fair values are recognised in the profit and loss account and this is likely to cause volatility in situations where the carrying value of the hedged item is either not adjusted to reflect fair value changes arising from the hedged risk or is so adjusted but that adjustment is not recognised in the profit and loss account. Provided the conditions specified by FRS 26 "Financial Instruments: Recognition and Measurement" are met, hedge accounting may be used to mitigate such volatility.

The Company applies hedge accounting to hedges of its interest rate exposures where it is permissible to do so under FRS 26. When hedge accounting is used, the hedging relationship is classified either as a fair value hedge or as a cash flow hedge.

Where the hedging relationship is classified as a fair value hedge, the carrying amount of the hedged asset or liability is adjusted by the increase or decrease in its fair value attributable to the hedged risk and the resulting gain or loss is recognised in the profit and loss account where, to the extent that the hedge is effective, it offsets the change in the fair value of the hedging instrument.

Where the hedging relationship is classified as a cash flow hedge, to the extent that the hedge is effective, changes in the fair value of the hedging instrument are included in other recognised gains and losses rather than in the profit and loss account. When the hedged item is recognised in the financial statements, the accumulated gains and losses on the hedging instrument are either recycled to the profit and loss account or, if the hedged item results in a non-financial asset, are recognised as adjustments to its initial carrying amount.

Derivative financial instruments are classified as current assets or liabilities unless they qualify for hedge accounting under FRS 26 and the hedged item is classified as a non-current asset or liability.

(ii) Financial guarantee contracts

Financial guarantees issued by the Company to third parties in respect of the obligations of certain of its subsidiaries are measured at fair value on initial recognition. Over the term of the guarantee, the initial fair value is recognised as revenue. Subsequent to initial recognition, guarantees are measured at the higher of their initial fair value less amounts recognised as revenue and the best estimate of the amount that the Company will be required to pay to settle the obligation.

(iii) Embedded derivatives

Derivatives embedded in non-derivative host contracts are recognised separately as derivative financial instruments when their risks and characteristics are not closely related to those of the host contract and the host contract is not stated at its fair value with changes in its fair value recognised in the profit and loss account.

Notes to the financial statements

continued

1. Principal accounting policies continued

(iv) Own shares

Own shares represent the Company's ordinary shares that are held by the Company and sponsored ESOP trusts in relation to the Group's employee share schemes. Own shares are deducted at cost in arriving at shareholders' funds and gains and losses on their sale or transfer are recognised directly in reserves.

F. Retirement benefits

Retirement benefits comprise pension benefits provided to employees in the UK.

For defined contribution plans, the pension cost represents the Company's contributions to the plans and is recognised in the profit and loss account in the period in which the contributions fall due.

For defined benefit plans, the pension cost is determined using the projected unit credit method based on actuarial valuations of each of the plans that are carried out annually at the Company's balance sheet date by independent qualified actuaries. The current service cost represents the increase in the present value of the plan liabilities expected to arise from employee service in the current period. Past service costs resulting from enhanced benefits are recognised in the profit and loss account on a straight-line basis over the vesting period, or immediately if the benefits have vested.

Gains or losses on curtailments or settlements are recognised in the profit and loss account in the period in which the curtailment or settlement occurs. Actuarial gains and losses, which represent differences between the expected and actual returns on the plan assets and the effect of changes in actuarial assumptions, are included in other recognised gains and losses in the period in which they occur. The net pension liability or asset recognised in the balance sheet comprises the net total for each plan of the present value of the benefit obligation at the balance sheet date, minus any past service costs not yet recognised, minus the fair value of the plan assets, if any, at the balance sheet date and is stated net of deferred tax. Where a plan is in surplus, the asset recognised is limited to the present value of any amounts that the Company expects to recover by way of refunds or a reduction in future contributions.

G. Share-based incentives

Share-based incentives are provided to certain employees under the Company's share option, bonus and other share award schemes. The Company recognises a compensation expense in respect of these schemes that is based on the fair value of the awards, where appropriate measured using an option-pricing model. Fair value is determined at the date of grant and is not subsequently re-measured unless the conditions on which the award was granted are modified. Generally, the compensation expense is recognised on a straight-line basis over the vesting period. Adjustments are made to reflect expected and actual forfeitures during the vesting period due to failure to satisfy service conditions or non-market performance conditions. In the event of a cancellation, the compensation expense that would have been recognised over the remainder of the vesting period is recognised immediately in the profit and loss account.

In accordance with the transitional provisions of FRS 20 "Share-based Payment", the Company has not applied this policy to awards that were granted on or before 7 November 2002.

H. Taxation

Deferred tax is recognised on a full provision basis on timing differences between the recognition of gains and losses in the financial statements and their recognition for tax purposes. Deferred tax assets are recognised only to the extent that it is considered more likely than not that future taxable profits will be available against which the asset can be utilised. Deferred tax is determined using the tax rates that have been enacted or substantially enacted at the balance sheet date and are expected to apply in the periods in which the timing differences are expected to reverse. Deferred tax assets and liabilities are not discounted.

I. Dividends on ordinary shares

Dividends payable on ordinary shares are recognised in the financial statements when they have been appropriately authorised and are no longer at the Company's discretion. Accordingly, interim dividends are recognised when they are paid and final dividends are recognised when they are declared following approval by shareholders at the Company's Annual General Meeting. Dividends on ordinary shares are recognised as an appropriation of shareholders' funds.

2. Profit for the period

As permitted by section 230 of the Companies Act 1985, the Directors have elected not to present the profit and loss account of the Company. The Company's profit for the period was £212.7 million (2006: £142.0 million).

3. Dividends on ordinary shares

	Year ended 29 December 2007 per share	Year ended 30 December 2006 per share
Paid or proposed in respect of the period		
Interim dividend	5.32p	5.32p
Final dividend	8.57p	8.57p
	13.89p	13.89p
Recognised in the period		
Interim dividend for the period of 5.32p (2006: 5.32p) per share	46.8	45.5
Final dividend for the prior period of 8.57p (2006: 8.16p) per share	75.2	69.8
	122.0	115.3

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

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

4. Auditors' remuneration

Fees payable to the Company's auditors, Deloitte & Touche LLP ("Deloitte") in respect of the audit of the Company's accounts were £30,000 (2006: £30,000).

Fees payable to Deloitte in respect of the audit of the Company's associated pension schemes were £21,400 (2006: £17,940).

Fees payable to Deloitte and its associates for non-audit services to the Company and its associated pension schemes are not presented in these accounts because they are included in the disclosures that are presented in the Group's consolidated financial statements.

5. Tangible fixed assets

	Freehold land and buildings £ million	Long leasehold property £ million	Plant, equipment and vehicles £ million	Total £ million
Cost				
As at 30 December 2006	5.4	0.1	2.4	7.9
Additions	–	–	0.1	0.1
Disposals	(5.4)	–	(0.3)	(5.7)
As at 29 December 2007	–	0.1	2.2	2.3
Accumulated depreciation and impairment losses				
As at 30 December 2006	1.4	–	1.7	3.1
Depreciation charge for the period	0.1	–	0.3	0.4
Disposals	(1.5)	–	(0.1)	(1.6)
As at 29 December 2007	–	–	1.9	1.9
Net book value				
As at 30 December 2006	4.0	0.1	0.7	4.8
As at 29 December 2007	–	0.1	0.3	0.4

Notes to the financial statements

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6. Investments in subsidiaries

	£ million
Cost and net book value	
As at 30 December 2006	1,576.7
Additions	1.9
As at 29 December 2007	1,578.6

Details of the Company's principal subsidiaries are set out on page 154. A complete list of the Company's subsidiaries will be filed with the Company's next annual return.

7. Debtors

	As at 29 December 2007 £ million	As at 30 December 2006 £ million
Amounts falling due within one year		
Amounts owed by subsidiaries	2.9	1.5
Other taxes and social security	0.2	0.2
Other debtors	0.3	0.2
Prepayments and accrued income	1.1	2.6
	4.5	4.5
Amounts falling due after more than one year		
Amounts owed by subsidiaries	173.6	99.6
Derivative financial instruments (note 10)	1.1	–
	174.7	99.6
	179.2	104.1

Amounts owed by subsidiaries classified as falling due after more than one year have no specified terms of repayment and are intended to be settled on a net basis more than one year after the balance sheet date. Generally, these amounts bear interest at floating rates based on prevailing market interest rates applicable to the currencies in which they are denominated.

8. Creditors: amounts falling due within one year

	As at 29 December 2007 £ million	As at 30 December 2006 £ million
Trade creditors	0.9	–
Bank overdrafts – unsecured	0.6	2.3
Loan notes – unsecured	0.2	0.3
Other loans – unsecured (note 9)	0.8	0.9
Amounts owed to subsidiaries	0.7	1.0
Other taxes and social security	0.4	–
Other creditors	9.4	8.7
Accruals and deferred income	4.6	9.1
	17.6	22.3

The loan notes must be repaid at par, by the Company on 30 June 2012. Until that time, the note holders have the right to require full or part repayment, at par, half yearly on 30 June and 31 December and for this reason they are classified as current liabilities. The loan notes bear interest at a fixed rate of 2.6% per annum.

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

	As at 29 December 2007 £ million	As at 30 December 2006 £ million
Other loans – unsecured	148.1	147.4
Amounts owed to subsidiaries	138.5	150.4
Derivative financial instruments (note 10)	–	0.3
Accruals and deferred income	9.0	9.0
	295.6	307.1

Other loans comprise a £150 million bond drawn down by the Company under the Group's Euro Medium Term Note Programme. The bond is repayable at par on 20 December 2011 and bears interest at a fixed rate of 8% per annum.

The carrying amount of other loans may be analysed as follows:

	As at 29 December 2007 £ million	As at 30 December 2006 £ million
Principal amount	150.0	150.0
Accrued interest payable	0.3	0.3
Unamortised transaction costs	(0.3)	(0.3)
Carrying amount before hedge accounting	150.0	150.0
Fair value hedge adjustment (note 10)	(1.0)	(1.7)
Carrying amount	149.0	148.3

	As at 29 December 2007 £ million	As at 30 December 2006 £ million
Maturity analysis:		
Within one year	0.8	0.9
Between one and two years	0.7	0.7
Between two and five years	147.5	146.7
	149.0	148.3

Amounts owed to subsidiaries classified as falling due after more than one year have no specified terms of repayment and are intended to be settled on a net basis more than one year after the balance sheet date. Generally, these amounts bear interest at floating rates based on prevailing market interest rates applicable to the currencies in which they are denominated.

10. Derivative financial instruments

The Company holds derivative financial instruments in accordance with the Group's policy in relation to financial risk management. Details of that policy are set out in note 32 of the Group's consolidated financial statements.

The carrying value of derivative financial instruments held by the Company was as follows:

	As at 29 December 2007		As at 30 December 2006	
	Assets £ million	Liabilities £ million	Assets £ million	Liabilities £ million
Carrying value				
Interest rate swaps	1.1	–	–	(0.3)

Interest rate swaps are used to swap borrowings by the Company under the Group's Euro Medium Term Note Programme from fixed interest rates to floating interest rates. As at 29 December 2007, the nominal value of the contracts outstanding was £150 million (30 December 2006: £150 million). These contracts have been designated and are effective as fair value hedges in relation to the borrowings. During 2007, the Company recognised a fair value gain of £1.4 million (2006: loss of £6.6 million) in relation to these contracts and the carrying amount of the hedged borrowings was increased by £0.7 million (2006: decreased by £7.7 million) to reflect the change in the fair value of the borrowings attributable to the hedged risk and the amortisation of the transitional adjustment that was recognised on initial adoption of FRS 26. During 2007, a net gain of £0.7 million (2006: net gain of £1.1 million) was therefore recognised in the profit and loss account in relation to these hedges.

Notes to the financial statements

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10. Derivative financial instruments continued

The profile of interest rate swaps held by the Company was as follows:

	Notional principal amount million	Interest rate		Variable rate index
		Payable	Receivable	
		Variable	Fixed	
As at 29 December 2007				
Maturity date – December 2011	£150.0	8.6%	8.0%	6 month LIBOR
As at 30 December 2006				
Maturity date – December 2011	£150.0	8.0%	8.0%	6 month LIBOR

11. Pensions

The Company operates pension plans covering the majority of its employees.

The Company provides defined contribution pension benefits to those of its employees who are not eligible to participate in its defined benefit pension plans. The expense recognised in the profit and loss account in respect of those plans represents the contributions payable by the Company for the period at rates that are specified in the rules of the plans. At the balance sheet date, the Company had paid over all contributions due to the plans.

The Company operates a number of funded defined benefit pension plans in the UK that provide benefits based upon final pensionable salary and the period of service of the individual employees. The plan assets are held separately from the Company's assets in funds that are under the control of trustees. Day-to-day management of the plan assets is carried out by independent investment managers who, at the request of the Company, are prohibited by the trustees from investing directly in the Company.

Certain employees and former employees whose pension benefits exceed the maximum that may be provided from the Company's defined benefit pension plans are entitled to an additional unfunded pension payable directly by the Company after their retirement.

The defined benefit pension plans operated by the Company are closed to new entrants.

The principal assumptions used in the actuarial valuations of the defined benefit pension plans were as follows:

	As at 29 December 2007 % per annum	As at 30 December 2006 % per annum
Salary increases	4.25%	4.00%
Increase to pensions in payment	3.25%	3.00%
Increase to deferred pensions	3.25%	3.00%
Long-term rate of return on plan assets	5.00% – 7.00%	5.00% – 7.00%
Discount rate	5.75%	5.125%
Inflation rate	3.25%	3.00%

The current life expectancies underlying the value of accrued liabilities were as follows:

	As at 29 December 2007	As at 30 December 2006
Current pensioners (at age 65) – male	20.5 years	19.1 years
– female	23.4 years	22.0 years
Future pensioners (at age 65) – male	22.2 years	20.4 years
– female	25.0 years	23.3 years

The fair value of the plan assets and the expected rates of return were as follows:

	As at 29 December 2007		As at 30 December 2006	
	Long-term expected rate of return % per annum	Fair value £ million	Long-term expected rate of return % per annum	Fair value £ million
Equities	7.95%	80.3	7.80 – 8.00%	81.8
Bonds	5.25% – 5.75%	77.1	5.00%	71.2
Other assets	4.85%	0.6	4.20%	0.6
		158.0		153.6

The net pension liability may be analysed as follows:

	As at 29 December 2007 £ million	As at 30 December 2006 £ million
Present value of plan liabilities:		
– Funded	(145.7)	(154.4)
– Unfunded	(0.1)	(0.1)
	(145.8)	(154.5)
Fair value of plan assets	158.0	153.6
Surplus/(deficit) in the plans	12.2	(0.9)
Effect of the asset ceiling	(18.1)	(2.7)
Net pension liability	(5.9)	(3.6)

Changes in the present value of the benefit obligation were as follows:

	As at 29 December 2007 £ million	As at 30 December 2006 £ million
At the beginning of the period	(154.5)	(161.3)
Current service cost	(0.4)	(0.5)
Interest cost	(7.8)	(7.5)
Settlements and curtailments	0.7	–
Actuarial gain	10.1	6.6
	(151.9)	(162.7)
Employees' contributions	(0.1)	(0.1)
Benefits paid	7.1	8.3
Transfer of pension plan from a subsidiary	(0.9)	–
At the end of the period	(145.8)	(154.5)

Notes to the financial statements

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11. Pensions continued

Changes in the fair value of plan assets were as follows:

	As at 29 December 2007 £ million	As at 30 December 2006 £ million
At the beginning of the period	153.6	151.9
Expected return on plan assets	8.2	9.5
Settlements and curtailments	(0.7)	–
Actuarial gain/(loss)	0.3	(1.7)
	161.4	159.7
Employer's contributions	3.6	2.1
Employees' contributions	0.1	0.1
Benefits paid	(7.1)	(8.3)
At the end of the period	158.0	153.6

Plan assets do not include any of the Company's or the Group's own financial instruments, nor any property, or other assets used by the Company or the Group.

The return and risk expectations for each asset class incorporate assumptions about historical return relationships, current financial market conditions and the degree of global capital market integration. The assumptions used have been derived from rigorous historical performance analysis combined with forward-looking views of the financial markets as revealed through (a) the yield on long-term bonds and (b) the price earnings ratios of the major stock market indices. The actuaries review analyses of historical risk and the correlation of the return on asset classes and apply subjective judgment based on their knowledge of the Company's plans. The result of this analysis is incorporated into a risk matrix from which expected long-term risk premiums for each asset class are developed. The nominal return expectations are determined by combining the asset class risk premiums with expected inflation and real risk-free rate assumptions. As a final consideration, the nominal return assumptions are blended with current market conditions to develop long-term equilibrium expectations.

The actual return on plan assets was 5.5% (2006: 5.1%).

Actuarial gains and losses recognised in relation to the defined benefit plans were as follows:

	Year ended 29 December 2007	Year ended 30 December 2006	Year ended 31 December 2005	Year ended 1 January 2005	Year ended 3 January 2004
At the end of the period:					
Present value of the benefit obligation	(145.8)	(154.5)	(161.3)	(140.9)	(49.4)
Fair value of plan assets	158.0	153.6	151.9	133.5	44.3
Deficit in the plan	12.2	(0.9)	(9.4)	(7.4)	(5.1)
Recognised in the period:					
Actuarial gains/(losses) on plan assets	0.3	(1.7)	12.5	1.3	1.0
Actuarial gains/(losses) on benefit obligation	10.1	6.6	(18.9)	(8.9)	(0.6)
	10.4	4.9	(6.4)	(7.6)	0.4

As at 29 December 2007, the cumulative net actuarial loss recognised in the statement of total recognised gains and losses amounted to £5.3 million (2006: £15.7 million).

The Company expects to contribute approximately £1.9 million to the defined benefit pension plans in 2008.

12. Share-based incentives

A. Background

The Company operates a number of share-based compensation arrangements to provide incentives to the Company's senior executives and other eligible employees. Details of the schemes in respect of which options and awards are outstanding are set out in the Remuneration Committee report.

The information provided below relates only to options and awards that were granted to persons who are employees of the Company.

B. Share options

Following a review by the Board in 2004, it was decided that the Company's executive share option schemes would not be renewed when they lapsed for the purposes of new grants in May 2005. Options do, however, continue to be granted from time to time under the Company's savings-related share option scheme, which is restricted to employees who are resident for tax purposes in the UK.

In 2007, the compensation expense recognised in respect of share options was £0.5 million (2006: £0.9 million).

Changes in the total number of share options outstanding to employees of the Company during the period were as follows:

	Year ended 29 December 2007		Year ended 30 December 2006	
	Options Number	Weighted average exercise price Pence	Options Number	Weighted average exercise price Pence
Outstanding at the beginning of the period	10,708,870	243.30	13,463,642	235.36
Granted during the period	28,727	211.40	37,898	269.40
Forfeited during the period	(30,840)	226.57	(70,770)	224.62
Exercised during the period	(103,846)	263.46	(2,721,900)	204.88
Outstanding at the end of the period	10,602,911	243.06	10,708,870	243.30
Exercisable at the end of the period	4,787,486	241.74	8,748,598	242.75

On the dates on which options were exercised during 2007, the weighted average market price of the Company's ordinary shares was 287.47p per share (2006: 334.74p per share).

Notes to the financial statements

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12. Share-based incentives continued

The compensation expense recognised in respect of share options is based on their fair value at the grant date calculated using the Black-Scholes option-pricing formula.

Assumptions made in calculating the fair values of options granted to the Company's employees during the period were as follows:

	Year ended 29 December 2007	Year ended 30 December 2006
Weighted average fair value	69.34p	106.52p
Weighted average assumptions:		
– Share price	264.25p	336.75p
– Exercise price	211.40p	269.40p
– Expected volatility	24.08%	28.94%
– Expected life	3.96 years	4.52 years
– Risk-free interest rate	5.29%	4.50%
– Expected dividends	13.89p	13.00p

Expected volatility was determined based on the historical volatility of the market price of the Company's ordinary shares over the shorter of the expected life of the options and the period since the beginning of the Company's financial year ended 30 April 2002 when, following a period of significant demerger activity, the Group was re-focused on its remaining core businesses. Adjustments have been made to the expected life used in the model to reflect the effects of non-transferability, exercise restrictions and behavioural considerations.

The weighted average contractual life of share options outstanding to the Company's employees at the end of the period was as follows:

	As at 29 December 2007		As at 30 December 2006	
	Outstanding Number	Weighted average remaining contractual life Years	Outstanding Number	Weighted average remaining contractual life Years
Range of exercise prices				
150p to 200p	3,088,072	4.12	3,088,072	5.12
201p to 250p	3,424,635	5.88	3,419,950	6.86
251p to 300p	3,074,976	4.85	3,185,620	6.04
301p and higher	1,015,228	4.12	1,015,228	5.12
	10,602,911		10,708,870	

C. Other awards

The Company's principal ongoing share-based compensation arrangements are the Annual Bonus Incentive Plan ("ABIP") and the Performance Share Plan ("PSP"). Both are restricted to the Company's senior executives.

ABIP provides an award of bonus shares and deferred shares based on the profit of the business for which the participants have responsibility. Bonus shares are restricted and vest after a period of three years. Dividends are paid on the bonus shares. Deferred shares vest after a period of three years conditional on the participant's continued employment with the Group. Dividends are not paid on the deferred shares until they have vested. During 2007, awards were granted over 399,854 ordinary shares (2006: 373,092 ordinary shares) under the ABIP.

PSP provides awards of shares which vest after a period of three years conditional on the Group's total shareholder return relative to its cost of equity over the vesting period and the participant's continued employment with the Group. During 2007, awards were granted over 2,295,249 ordinary shares under the PSP (2006: 3,056,804 ordinary shares).

The fair value of awards made under the ABIP is measured based on the market price of the Company's ordinary shares on the date of the award. Where the awards do not attract dividends during the vesting period, the market price is reduced by the present value of the dividends expected to be paid during the expected life of the awards. The weighted average fair value of awards made under these schemes during the period was 215.68p (2006: 271.97p).

The fair value of awards made under the PSP is measured using the Monte-Carlo valuation model.

Assumptions made in calculating the fair values of awards granted under the PSP were as follows:

	Year ended 29 December 2007	Year ended 30 December 2006
Weighted average fair value	42.87p	91.79p
Weighted average assumptions:		
– Expected volatility	28.73%	23.05%
– Expected life	3.00 years	2.73 years
– Risk-free interest rate	4.44%	4.77%
– Dividend yield	5.00%	4.80%

Expected volatility was determined based on the historical volatility of the market price of the Company's ordinary shares over the expected life of the awards.

In 2007, the compensation expense recognised in respect of other awards was £2.1 million (2006: £1.5 million).

13. Deferred tax

At present, the Company does not recognise deferred tax assets because their future economic benefit is uncertain due to the extent of forecast tax losses available for surrender within the UK tax group to which the Company belongs. Deferred tax assets will be recognised when it is considered more likely than not that they will be recovered.

Deferred tax assets not recognised were as follows:

	As at 29 December 2007 £ million	As at 30 December 2006 £ million
Depreciation in excess of tax allowances	0.9	0.4
Share-based incentives	0.3	1.1
Pensions	1.6	0.9
Other timing differences	0.1	0.1
	2.9	2.5

14. Ordinary shares

	Number of shares	Nominal value £ million		
Ordinary shares of 5p each				
Authorised				
As at 30 December 2006 and 29 December 2007	1,585,164,220			79.2
Allotted and fully paid				
As at 30 December 2006	858,209,522	42.9	332.1	375.0
Shares issued during the period:				
– Conversion of preference shares (note 17)	25,411,499	1.3	64.0	65.3
– Exercise of employee share options	485,751	–	1.2	1.2
	25,897,250	1.3	65.2	66.5
As at 29 December 2007	884,106,772	44.2	397.3	441.5

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15. Own shares

	Year ended 29 December 2007		Year ended 30 December 2006	
	Number of shares	£ million	Number of shares	£ million
At the beginning of the period	4,202,997	11.7	3,226,161	8.5
Own shares purchased	1,597,500	3.8	1,647,013	4.8
Transfer of own shares	(1,594,656)	(4.3)	(670,177)	(1.6)
At the end of the period	4,205,841	11.2	4,202,997	11.7

Own shares comprise the Company's ordinary shares acquired to meet the expected obligations under employee share schemes. Dividends relating to own shares held have been waived with the exception of those that are payable to participants in the relevant schemes.

As at 29 December 2007, 1,376,975 ordinary shares (30 December 2006: 1,830,900 ordinary shares) were held in trust and 2,828,866 ordinary shares (30 December 2006: 2,372,097 ordinary shares) were held by the Company as treasury shares.

As at 29 December 2007, the market value of own shares held was £7.6 million (30 December 2006: £10.3 million).

16. Other reserves

	Capital redemption reserve £ million	Merger reserve £ million	Capital reserve £ million	Profit and loss account reserve £ million	Total £ million
As at 30 December 2006	461.9	115.4	56.5	288.0	921.8
Profit for the period attributable to equity shareholders	–	–	–	212.7	212.7
Other recognised gains and losses:					
– Retirement benefits					
Actuarial gain	–	–	–	10.4	10.4
Adjustment for unrecoverable surplus	–	–	–	(15.4)	(15.4)
	–	–	–	(5.0)	(5.0)
Total recognised gains and losses	–	–	–	207.7	207.7
Other changes in shareholders' funds:					
– Transfer of own shares	–	–	–	(1.3)	(1.3)
– Redemption of preference shares	0.6	–	–	(0.6)	–
– Cost of share-based incentives	–	–	–	2.6	2.6
– Dividends paid on ordinary shares	–	–	–	(122.0)	(122.0)
	0.6	–	–	(121.3)	(120.7)
As at 29 December 2007	462.5	115.4	56.5	374.4	1,008.8

The Company's distributable reserves as at 29 December 2007 amounted to £430.9 million.

17. Convertible cumulative preference shares

	Number of shares	Nominal value US\$ million		
Convertible cumulative preference shares of US\$50 each				
Authorised				
As at 30 December 2006 and 29 December 2007	13,920,000	696.0		
		Carrying value		
	Number of shares	Nominal value £ million	Accrued dividend payable £ million	Total £ million
Allotted and fully paid				
As at 30 December 2006	2,625,138	67.1	0.4	67.5
Shares converted	(2,600,973)	(65.3)	–	(65.3)
Shares redeemed	(24,165)	(0.6)	–	(0.6)
Dividend accrued for the period	–	–	0.6	0.6
Dividend paid	–	–	(1.0)	(1.0)
Foreign currency translation	–	(1.2)	–	(1.2)
As at 29 December 2007	–	–	–	–

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

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

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

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

18. Guarantees

The Company has guaranteed the borrowing facilities of certain subsidiaries. The maximum borrowings permitted under these facilities, as at 29 December 2007, was £840.2 million (30 December 2006: £834.0 million). Drawings against these facilities as at 29 December 2007 amounted to £327.7 million (30 December 2006: £454.9 million). The Company has also guaranteed certain property leases and performance bonds entered into in the ordinary course of business by certain of its subsidiaries.

Subsidiaries and associates

Details of the Company's principal trading subsidiaries and associates as at 29 December 2007 are set out below. Each entity is wholly owned by the Group, and is registered in England and Wales, unless otherwise stated. A complete list of the Company's subsidiaries and associates will be filed with the Company's annual return.

Industrial & Automotive

Dexter Axle Company Inc

Manufactured housing, mobile home and trailer products
US

Dexter Chassis Group Inc

Recreational vehicle frames
US

Dongfeng-Fuji-Thomson

Thermostat Co Ltd*
(ordinary shares – 32% owned)
Automotive thermostats
China

Eifeler Maschinenbau GmbH

Hydraulic tube fittings
Germany

Epicor Industries Inc

Hose clamps
US

Formflo Limited

Powertrain components, systems and assemblies

Gates GmbH

Belts
Germany

Gates SAS

Belts, hose and couplings
France

Gates Argentina SA

Belt and hose distributor
Argentina

Gates Australia Pty Ltd

Belt and hose distributor
Australia

Gates do Brasil Industria e Comercio Ltda

Belts and hose
Brazil

Gates Canada Inc

Belts and hose
Canada

Gates Europe NV

Belts and hose
Belgium

Gates Fleximak Ltd

Flexible fluid transfer products
British Virgin Islands

Gates (India) Private Ltd

Hose
India

Gates Korea Company Ltd

(ordinary shares – 51% owned)
Belts
Korea

Gates Mectrol Inc

Belts
US

Gates Polska S.p.z.o.o.

Belts
Poland

Gates PT Spain SA

Belts and hose
Spain

The Gates Corporation

Belts and hose
US

Gates Rubber Company (NSW) Pty Ltd

Hose
Australia

Gates Rubber Company (Singapore) Pte Ltd

Hose distributor
Singapore

Gates de Mexico SA de CV

Belts and hose
Mexico

Gates Rubber (Shanghai) Co Ltd

Hose distributor
China

Gates (U.K.) Ltd

Belts and couplings
Scotland

Gates Unitta Asia

Kabushikikaishu
(ordinary shares – 51% owned)
Belts
Japan

Gates Unitta Asia Trading

Company Pte Ltd
(ordinary shares – 51% owned)
Belts
Singapore

Gates Unitta India Company

Private Ltd
(ordinary shares – 51% owned)
Belts
India

Gates Unitta Korea Company

Ltd
(ordinary shares – 51% owned)
Belts
Korea

Gates Unitta Power

Transmission (Shanghai) Ltd
(ordinary shares – 51% owned)
Belts
China

Gates Unitta Power

Transmission (Suzhou) Ltd
(ordinary shares – 51% owned)
Belts
China

Gates Unitta (Thailand)

Company Ltd
(ordinary shares – 51% owned)
Belts
Thailand

Gates Winhere Automotive

Pump Products (Yantai) Co Ltd
(ordinary shares – 60% owned)
Automotive pumps
China

Philips Products Inc

Aluminium, wood and vinyl windows, vinyl clad steel doors and ventilating devices
US

Ruskin Company

Air, fire and smoke dampers, louvres and fibreglass products
US

Ideal International SA*

(ordinary shares – 40% owned)
Hose clamps
Mexico

Plews Inc

Lubrication tools
US

Pyung Hwa CMB Co Ltd*

(ordinary shares – 21% owned)
Belts
Korea

Schrader SAS

Valves and fittings
France

Schrader Bridgeport Brasil Ltda

Valves and fittings
Brazil

Schrader-Bridgeport

International Inc
Valves and fittings
US

Schrader Duncan Ltd*

(ordinary shares – 50% owned)
Valves and fittings
India

Schrader Electronics Ltd

Automotive electronics
Northern Ireland

Schrader Engineered Products

(Kunshan) Co Ltd
Valves and fittings
China

Stackpole Limited

Powertrain components, systems and assemblies
Canada

Standard-Thomson Corporation

Automotive thermostats
US

Stant Manufacturing Inc

Automotive closure caps
US

Ruskin Air Management Ltd

Air handling products and louvred windows

Ruskin (Thailand) Co Ltd

Commercial and industrial air, fire/smoke, and control dampers
Thailand

Selkirk Americas LP

Chimney, venting and air distribution products
US

Building Products

Air System Components Inc

Heating, ventilating and air conditioning components
US

Aquatic Industries Inc

Whirlpools
US

Hart & Cooley Inc

Heating, ventilating and air conditioning components
US

Lasco Bathware Inc

Fibreglass and acrylic baths and whirlpools
US

NRG Industries Inc

Commercial air conditioning components
US

* Associate