

Independent auditors' report

To the members of Tomkins plc

We have audited the consolidated financial statements of Tomkins plc and its subsidiaries (together, "the Group") for the year ended 3 January 2009 ("the Group's financial statements") which comprise the consolidated income statement, the consolidated cash flow statement, the consolidated balance sheet, the consolidated statement of recognised income and expense, the reconciliation of changes in consolidated shareholders' equity and the related notes 1 to 50. The Group's financial statements have been prepared in accordance with the accounting policies set out therein. We have also audited the information in the Remuneration Committee's report that is described as having been audited.

We have reported separately on the individual financial statements of Tomkins plc for the year ended 3 January 2009.

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 Remuneration Committee report and the Group's financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRS") as adopted for use in the European Union are set out in the statement of Directors' responsibilities on page 61.

Our responsibility is to audit the Group's financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (United Kingdom and Ireland).

We report to you our opinion as to whether the Group's financial statements give a true and fair view, whether the Group's financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation and whether the part of the Remuneration Committee report described as having been audited has been properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in the Directors' report is consistent with the Group's financial statements.

In addition, we report to you if, in our opinion, 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 review whether the corporate governance statement within the Directors' report reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the Group's financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group'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 (United Kingdom 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 Group's financial statements and the part of the Remuneration Committee report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Group's financial statements, and of whether the accounting policies are appropriate to the Group'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 Group's financial statements and the part of the Remuneration Committee report to be audited 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 Group's financial statements and the part of the Remuneration Committee report to be audited.

Opinion

In our opinion:

- the Group's financial statements give a true and fair view, in accordance with IFRS as adopted for use in the European Union, of the state of the Group's affairs as at 3 January 2009 and of its loss for the year then ended;
- the Group's financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the part of the Remuneration Committee report described as having been audited has been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the Group's financial statements.

Separate opinion in relation to IFRS

As explained in note 3 to the Group's financial statements, the Group, in addition to complying with its legal obligation to comply with IFRS as adopted for use in the European Union, has also complied with IFRS as issued by the International Accounting Standards Board ("IASB").

In our opinion the Group's financial statements give a true and fair view, in accordance with IFRS as issued by the IASB, of the state of the Group's affairs as at 3 January 2009 and of its loss for the year then ended.

Deloitte LLP

Chartered Accountants and Registered Auditors
London

24 February 2009

Consolidated income statement

	Note	Year ended 3 January 2009 \$ million	Year ended 29 December 2007 \$ million	Year ended 30 December 2006 \$ million
Continuing operations				
Sales	5	5,515.9	5,886.1	5,746.1
Cost of sales		(4,023.7)	(4,284.6)	(4,165.9)
Gross profit		1,492.2	1,601.5	1,580.2
Distribution costs		(584.5)	(578.4)	(564.3)
Administrative expenses		(512.8)	(500.6)	(478.4)
Impairments	6	(342.4)	(0.8)	(2.9)
Restructuring costs	7	(26.0)	(27.6)	(23.9)
Net gain on disposals and on the exit of businesses	7	43.0	91.4	5.7
Restructuring initiatives		17.0	63.8	(18.2)
Share of (loss)/profit of associates		(2.1)	0.8	2.8
Operating profit		67.4	586.3	519.2
Interest payable	9	(137.8)	(142.1)	(142.6)
Investment income	10	87.8	86.8	73.3
Other finance expense	11	(25.0)	(5.6)	(1.3)
Net finance costs		(75.0)	(60.9)	(70.6)
(Loss)/profit before tax		(7.6)	525.4	448.6
Income tax expense	12	(38.4)	(139.9)	(65.6)
(Loss)/profit for the period from continuing operations		(46.0)	385.5	383.0
Discontinued operations				
Loss for the period from discontinued operations	13	–	(66.7)	(21.3)
(Loss)/profit for the period	14	(46.0)	318.8	361.7
Minority interests		(18.1)	(25.0)	(20.5)
(Loss)/profit for the period attributable to equity shareholders		(64.1)	293.8	341.2
(Loss)/earnings per share				
Basic				
Continuing operations		(7.29)c	41.42 c	43.21 c
Discontinued operations		– c	(7.66)c	(2.54)c
Total operations	15	(7.29)c	33.76 c	40.67 c
Diluted				
Continuing operations		(7.29)c	40.91 c	42.13 c
Discontinued operations		– c	(7.54)c	(2.41)c
Total operations	15	(7.29)c	33.37 c	39.72 c
Dividends per ordinary share	16	13.02 c	27.68 c	27.26 c

Consolidated cash flow statement

	Note	Year ended 3 January 2009 \$ million	Year ended 29 December 2007 \$ million	Year ended 30 December 2006 \$ million
Operating activities				
Cash generated from operations	18	628.7	638.7	607.8
Income taxes paid		(116.3)	(110.4)	(151.8)
Income taxes received		31.8	24.2	9.4
Net cash inflow from operating activities		544.2	552.5	465.4
Investing activities				
Purchase of property, plant and equipment		(183.2)	(231.3)	(193.8)
Purchase of computer software		(10.6)	(5.2)	(38.3)
Capitalisation of development costs		(0.6)	(0.4)	(0.6)
Disposal of property, plant and equipment		7.9	39.6	25.9
Purchase of available-for-sale investments		(0.1)	(0.2)	(0.2)
Sale of available-for-sale investments		1.6	0.6	0.6
Purchase of interests in associates		(10.4)	(3.8)	(3.5)
Purchase of subsidiaries, net of cash acquired	44	(65.0)	(17.0)	(201.0)
Sale of businesses and subsidiaries, net of cash disposed	45	124.6	216.3	12.5
Interest received		11.2	12.2	18.7
Dividends received from associates		0.6	1.4	0.6
Net cash (outflow)/inflow from investing activities		(124.0)	12.2	(379.1)
Financing activities				
Issue of ordinary shares		0.2	2.4	27.3
Redemption of convertible cumulative preference shares		–	(1.2)	–
Draw-down of bank and other loans		114.6	8.4	102.5
Repayment of bank and other loans		(15.6)	(289.9)	(51.2)
(Payments)/receipts on foreign currency derivatives		(178.6)	(16.3)	59.9
Capital element of finance lease rental payments		(2.8)	(3.2)	(3.8)
Interest element of finance lease rental payments		(0.5)	(1.4)	(1.1)
Decrease in collateralised cash		0.7	2.4	2.6
Purchase of own shares		(4.7)	(6.9)	(8.7)
Interest paid		(55.0)	(64.8)	(71.1)
Equity dividend paid		(246.2)	(247.3)	(217.3)
Preference dividend paid		–	(2.0)	(13.0)
Investment by a minority shareholder in a subsidiary		0.4	3.8	5.9
Dividend paid to a minority shareholder in a subsidiary		(13.5)	(14.4)	(14.7)
Net cash outflow from financing activities		(401.0)	(630.4)	(182.7)
Increase/(decrease) in net cash and cash equivalents		19.2	(65.7)	(96.4)
Net cash and cash equivalents at the beginning of the period		280.2	326.4	378.6
Foreign currency translation		(21.2)	19.5	44.2
Net cash and cash equivalents at the end of the period		278.2	280.2	326.4
Analysis of net cash and cash equivalents:				
		As at 3 January 2009 \$ million	As at 29 December 2007 \$ million	As at 30 December 2006 \$ million
Cash and cash equivalents		291.9	295.9	337.6
Bank overdrafts		(13.7)	(15.7)	(11.2)
		278.2	280.2	326.4

As at 3 January 2009, the Group's net debt was \$476.4 million (29 December 2007: \$591.5 million).

A reconciliation of the change in net cash and cash equivalents to the movement in net debt is presented in note 18.

Consolidated balance sheet

	Note	As at 3 January 2009 \$ million	As at 29 December 2007 \$ million
Non-current assets			
Goodwill	19	415.9	660.0
Other intangible assets	20	108.8	93.1
Property, plant and equipment	21	1,167.3	1,414.4
Investments in associates	22	20.3	17.7
Trade and other receivables	24	105.9	24.9
Deferred tax assets	36	64.8	47.4
Post-employment benefit surpluses	34	5.3	7.2
		1,888.3	2,264.7
Current assets			
Inventories	23	772.4	799.8
Trade and other receivables	24	769.7	989.1
Income tax recoverable		47.6	29.5
Available-for-sale investments	26	0.8	3.0
Cash and cash equivalents	27	291.9	295.9
		1,882.4	2,117.3
Assets held for sale	28	–	90.9
Total assets		3,770.7	4,472.9
Current liabilities			
Bank overdrafts	29	(13.7)	(15.7)
Bank and other loans	29	(29.5)	(39.8)
Obligations under finance leases	30	(1.5)	(1.8)
Trade and other payables	31	(650.1)	(738.7)
Income tax liabilities		(17.9)	(28.7)
Provisions	37	(48.8)	(50.2)
		(761.5)	(874.9)
Non-current liabilities			
Bank and other loans	29	(762.9)	(820.5)
Obligations under finance leases	30	(5.4)	(7.8)
Trade and other payables	31	(51.6)	(43.2)
Post-employment benefit obligations	34	(333.6)	(306.5)
Deferred tax liabilities	36	(29.7)	(42.2)
Income tax liabilities		(63.5)	(67.6)
Provisions	37	(23.2)	(27.3)
		(1,269.9)	(1,315.1)
Liabilities directly associated with assets held for sale	28	–	(28.1)
Total liabilities		(2,031.4)	(2,218.1)
Net assets		1,739.3	2,254.8
Capital and reserves			
Ordinary share capital	38	79.6	65.5
Share premium account	38	799.1	679.4
Deferred shares	39	0.1	–
Own shares	40	(14.9)	(18.9)
Capital redemption reserve	41	921.7	718.8
Currency translation reserve	41	(169.6)	313.7
Available-for-sale reserve	41	(1.0)	(0.2)
(Accumulated deficit)/retained profit	41	(4.2)	379.5
Shareholders' equity		1,610.8	2,137.8
Minority interests	42	128.5	117.0
Total equity		1,739.3	2,254.8

Approved by the Board on 24 February 2009 and signed on its behalf by:

J Nicol Director

J W Zimmerman Director

Consolidated statement of recognised income and expense

	Year ended 3 January 2009 \$ million	Year ended 29 December 2007 \$ million	Year ended 30 December 2006 \$ million
(Loss)/profit for the period	(46.0)	318.8	361.7
Net (expense)/income recognised directly in equity			
(Loss)/gain on available-for-sale investments	(1.0)	(0.8)	1.1
Post-employment benefits:			
– Net actuarial (loss)/gain	(98.8)	95.9	38.0
– Effect of the asset ceiling	12.3	(43.8)	(1.6)
Currency translation differences on foreign operations:			
– Subsidiaries	(211.7)	109.2	(305.1)
– Associates	(3.2)	0.6	(0.9)
Gain/(loss) on net investment hedges	57.2	(27.2)	127.6
Currency translation differences on change of presentation currency	–	36.1	227.8
Income tax benefit/(expense) on items taken directly to equity	14.3	(12.6)	(1.8)
	(230.9)	157.4	85.1
Transfers from equity to the income statement			
Gain realised on the sale of available-for-sale investments	(1.2)	(0.6)	(0.4)
Currency translation differences on foreign operations sold	6.7	28.4	–
	5.5	27.8	(0.4)
Total recognised income and expense for the period	(271.4)	504.0	446.4
Attributable to:			
– Equity shareholders	(287.8)	474.4	421.8
– Minority interests	16.4	29.6	24.6
	(271.4)	504.0	446.4

Reconciliation of changes in consolidated shareholders' equity

	Year ended 3 January 2009 \$ million	Year ended 29 December 2007 \$ million	Year ended 30 December 2006 \$ million
Shareholders' equity at the beginning of the period	2,137.8	1,769.2	1,140.8
Total recognised income and expense attributable to equity shareholders	(287.8)	474.4	421.8
Dividends on ordinary shares	(246.2)	(247.3)	(217.3)
Ordinary shares issued:			
– Conversion of convertible cumulative preference shares	–	130.0	390.7
– Exercise of employee share options	0.2	2.4	27.4
Purchase of own shares	(4.7)	(6.9)	(8.7)
Cost of share-based incentives	11.5	16.0	14.5
Net (reduction in)/addition to shareholders' equity during the period	(527.0)	368.6	628.4
Shareholders' equity at the end of the period	1,610.8	2,137.8	1,769.2

Notes to the financial statements

1. Nature of operations

Tomkins plc and its subsidiaries comprise a global engineering and manufacturing business. The Group is organised for management reporting purposes into two principal business groups: Industrial & Automotive and Building Products.

Industrial & Automotive manufactures a wide range of systems and components for car, truck and industrial equipment manufacturing markets, and industrial and automotive aftermarkets throughout the world. Industrial & Automotive is comprised of four operating segments: Power Transmission, Fluid Power, Fluid Systems and Other Industrial & Automotive.

Building Products is comprised of two operating segments: Air Systems Components and Other Building Products. Air Systems Components supplies the industrial and residential heating, ventilation and air conditioning market, mainly in North America. Other Building Products manufactures a variety of products for the building and construction industries, mainly in North America.

2. Transition to reporting in US dollars

Over recent years, the focus of the Group's acquisition activity has been overseas and there has been a reduction in the relative importance of its UK operations. The Group's principal operations are based in the US and the majority of the Group's profit is generated in US dollars. Against this background, the Directors consider that the Company's functional currency changed from sterling to the US dollar at the beginning of 2008.

Consistent with the change in the Company's functional currency, the Group changed its presentation currency from sterling to the US dollar with effect from the beginning of 2008. Comparative figures for 2007 and 2006 have been re-presented in US dollars.

The change of the Group's presentation currency and that of the Company's functional currency were accounted for in accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates".

On the change of the Group's presentation currency, comparative figures previously reported in sterling were translated into US dollars as follows:

- income and expenses were translated at the average exchange rate for the relevant period;
- assets and liabilities were translated at the closing exchange rate on the relevant balance sheet date; and
- equity items were translated at historical exchange rates.

The exchange rates used were as follows:

	2007 £1=\$	2006 £1=\$	2005 £1=\$	2004 £1=\$
Average rate	2.00	1.83	1.82	1.83
Closing rate	1.99	1.96	1.72	1.92

As a result of the change of the Group's presentation currency, a currency translation difference of \$338.8 million was recognised in equity as at 29 December 2007 which represented the difference between the Group's assets and liabilities translated from sterling into US dollars at the closing exchange rate on that date of £1=\$1.99 and the equity items recognised in the consolidated financial statements that were translated from sterling into US dollars at historical exchange rates.

The currency translation difference arose as follows:

	\$ million
Ordinary share capital	(22.6)
Share premium account	(112.4)
Own shares	3.4
Capital redemption reserve	(202.9)
Currency translation reserve	17.7
Minority interests	(22.0)
	<u>(338.8)</u>

The change of the Company's functional currency was accounted for prospectively from the beginning of 2008. Accordingly, the assets, liabilities and equity items of the Company as at 29 December 2007 were translated from sterling into US dollars at the closing exchange rate on that date of £1=\$1.99.

As a consequence of applying the closing exchange rate rather than historical exchange rates to the equity items of the Company, \$334.5 million of the currency translation difference arising on the change of the Group's presentation currency was transferred from the cumulative currency translation reserve back to the equity items of the Company that are recognised as equity items in the consolidated financial statements.

The currency translation difference transferred may be analysed as follows:

	\$ million
Ordinary share capital	22.6
Share premium account	112.4
Own shares	(3.4)
Capital redemption reserve	202.9
	<u>334.5</u>

Notes to the financial statements (continued)

3. Principal accounting policies

A. Basis of preparation

The consolidated financial statements on pages 63 to 134 have been prepared on a going concern basis in accordance with International Financial Reporting Standards adopted for use in the European Union and, except as described under the heading "Financial instruments", under the historical cost convention.

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

The Group's principal accounting policies are unchanged compared with the year ended 29 December 2007.

During the period, the Group adopted the following accounting pronouncements that are relevant to its operations, neither of which had any impact on its results or financial position:

- IFRS 8 "Operating Segments" (adopted early)
- IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"

The Group's annual financial statements are drawn up to the Saturday nearest 31 December. These financial statements cover the 53 week period from 30 December 2007 to 3 January 2009 ("2008") with comparative figures for the 52 week periods from 31 December 2006 to 29 December 2007 ("2007") and from 1 January 2006 to 30 December 2006 ("2006").

B. Basis of consolidation

The consolidated financial statements include the results, cash flows and assets and liabilities of the Company and its subsidiaries, and the Group's share of the results and net assets of its associates.

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. The results of a subsidiary acquired during the period are included in the Group's results from the effective date of acquisition. The results of a subsidiary sold during the period are included in the Group's results up to the effective date of disposal.

Where accumulated losses applicable to a minority interest in a subsidiary exceed the minority's interest in the equity of the subsidiary, the excess is allocated to the Group's interest in the subsidiary, except to the extent that the minority has a binding obligation and is able to make an additional investment to cover its share of the accumulated losses.

Intra-Group transactions and balances, and any unrealised gains and losses arising from intra-Group transactions, are eliminated on consolidation.

C. Associates

An associate is an entity over which the Company, either directly or indirectly, is in a position to exercise significant influence by participating in, but not controlling or jointly controlling, the financial and operating policies of the entity.

Associates are accounted for using the equity method. Losses of an associate in excess of the Group's interest in the entity are not recognised, except to the extent that the Group has incurred obligations on behalf of the entity. Profits and losses recognised by the Company or its subsidiaries on transactions with an associate are eliminated to the extent of the Group's interest in the associate concerned.

D. Foreign currency translation

At entity level, transactions denominated in foreign currencies are translated into the entity'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 income statement.

On consolidation, the results of foreign operations are translated into the Group's presentation currency at the average exchange rate for the period and their assets and liabilities are translated into the Group's presentation currency at the exchange rate ruling on the balance sheet date. Currency translation differences are recognised directly in equity in the currency translation reserve.

In the event that a foreign operation is sold, the gain or loss on disposal recognised in the income statement is determined after taking into account the cumulative currency translation differences that are attributable to the operation. On adoption of IFRS, the Group elected to deem cumulative currency translation differences to be \$nil. Accordingly, the gain or loss recognised on disposal of a foreign operation does not include currency translation differences that arose before 4 January 2004.

In the cash flow statement, the cash flows of foreign operations are translated into the Group's presentation currency at the average exchange rate for the period.

E. Revenue

Revenue from the sale of goods is measured at the invoiced amount net of returns, early settlement discounts, rebates and sales taxes and is recognised only where there is persuasive evidence of a sales agreement, the delivery of goods has occurred, the sale price is fixed or determinable and the collectability of revenue is reasonably assured.

Interest income is accrued on a time basis using the effective interest method.

Dividend income is recognised when payment is received.

F. Restructuring initiatives

Restructuring initiatives comprise expenses incurred in major projects undertaken to rationalise and improve the cost competitiveness of the Group and consequential gains and losses arising on the exit and disposal of businesses or on the disposal of assets.

G. Goodwill

Business combinations are accounted for using the purchase method.

Goodwill arises on the acquisition of interests in subsidiaries and associates. Goodwill represents any excess of the cost of acquisition over the interest acquired by the Group in the fair value of the entity's identifiable assets, liabilities and contingent liabilities at the date of acquisition.

Goodwill in respect of an acquired subsidiary is recognised as an intangible asset and is allocated to the CGU or group of CGUs that are expected to benefit from the synergies of the acquisition. Goodwill is not amortised but tested at least annually for impairment and carried at cost less any recognised impairment.

Goodwill in respect of an acquired interest in an associate is subsumed within investments in associates.

Where the interest acquired by the Group in the fair value of the entity's assets, liabilities and contingent liabilities exceeds the cost of acquisition, the excess is recognised immediately as a gain in the income statement.

H. Other intangible assets

Other intangible assets are stated at cost less accumulated amortisation and any recognised impairment losses. All intangible assets recognised by the Group are considered to have finite useful lives.

(i) Assets acquired in business combinations

An intangible resource acquired in a business combination is recognised as an intangible asset if it is separable from the acquired business or arises from contractual or legal rights. An acquired intangible asset is amortised on a straight-line basis so as to charge its cost, which represents its fair value at the date of acquisition, to the income statement over its expected useful life, which is in the range 2 to 15 years.

(ii) Product development costs

All research expenditure is charged to the income statement in the period in which it is incurred.

Development expenditure is charged to the income statement in the period in which it is incurred unless it relates to the development of a new or significantly improved product, it is incurred after the technical feasibility of the product has been proven, and customer orders have been received that are expected to provide income sufficient to cover the further development expenditure that will be incurred prior to the product going into full production. Capitalised development expenditure is amortised on a straight-line basis such that it is charged to the income statement over the expected life of the resulting product.

(iii) Computer software

Computer software that is not integral to an item of property, plant and equipment is recognised separately as an intangible asset. Amortisation is provided on a straight-line basis so as to charge the cost of the software to the income statement over its expected useful life, which is in the range 3 to 5 years.

I. Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any recognised impairment losses. Freehold land and assets under construction are not depreciated. Depreciation of property, plant and equipment, other than freehold land and assets under construction, is generally provided on a straight-line basis so as to charge the depreciable amount to the income statement over the expected useful life of the asset concerned, which is in the following ranges:

Freehold buildings and long-leasehold property	10 to 50 years
Short-leasehold property	Length of lease
Plant, equipment and vehicles	2 to 20 years

Borrowing costs attributable to assets under construction are charged to the income statement in the period in which they are incurred.

Notes to the financial statements (continued)

3. Principal accounting policies (continued)

J. Leases

Leases that confer rights and obligations similar to those that attach to owned assets are classified as finance leases. All other leases are classified as operating leases.

Assets held under finance leases are included within property, plant and equipment, initially measured at their fair value or, if lower, the present value of the minimum lease payments, and a corresponding liability is recognised within obligations under finance leases. Subsequently, the assets are depreciated on a basis consistent with similar owned assets or over the term of the lease, if shorter. At inception of the lease, the lease rentals are apportioned between an interest element and a capital element so as to produce a constant periodic rate of interest on the outstanding liability. Thereafter, the interest element is recognised as an expense in the income statement while the capital element is applied to reduce the outstanding liability.

Operating lease rentals, and any incentives receivable, are recognised in the income statement on a straight-line basis over the term of the lease.

K. Impairment of long-lived assets

Goodwill, other intangible assets and property, plant and equipment are tested for impairment whenever events or circumstances indicate that their carrying amounts might be impaired. Additionally, goodwill and any capitalised development expenditure relating to a product that is not yet in full production are subject to an annual impairment test.

An asset is impaired to the extent that its carrying amount exceeds its recoverable amount, which represents the higher of the asset's value in use and its fair value less costs to sell. An asset's value in use represents the present value of the future cash flows expected to be derived from the continued use of the asset. Fair value less costs to sell is the amount obtainable from the sale of the asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Where it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount is determined for the CGU to which the asset belongs. An asset's CGU is the smallest group of assets that includes the asset and generates cash inflows that are largely independent of the cash inflows from other assets of groups of assets. Goodwill does not generate cash flows independently of other assets and is therefore tested for impairment at the level of the CGU or group of CGUs to which it is allocated.

Where appropriate, impairment of long-lived assets other than goodwill is recognised before goodwill is tested for impairment. When goodwill is tested for impairment and the carrying amount of the CGU or group of CGUs to which the goodwill has been allocated exceeds its recoverable amount, the impairment is allocated first to reduce the carrying amount of the goodwill and then to the other long-lived assets belonging to the CGU or group of CGUs pro-rata on the basis of their carrying amounts.

Impairments are recognised in the income statement. Impairments recognised in previous periods for long-lived assets other than goodwill are reversed if there has been a change in the estimates used to determine the asset's recoverable amount, but only to the extent that the carrying amount of the asset does not exceed its carrying amount had no impairment been recognised in previous periods. Impairments recognised in respect of goodwill are not reversed.

L. Inventories

Inventories are valued at the lower of cost and net realisable value, with due allowance for any excess, obsolete or slow-moving items. Cost represents the expenditure incurred in bringing inventories to their existing location and condition, which may include the cost of raw materials, direct labour costs, other direct costs and related production overheads. Cost is generally determined on a first in, first out basis. Net realisable value is the estimated selling price less costs to complete and sell.

From time to time, the Group enters into forward purchase contracts to fix the price of commodities purchased for use in its manufacturing operations. As used by the Group, such derivative contracts do not fall within the scope of IAS 39 and, therefore, are not recognised as assets or liabilities.

M. Grants

Grants received relating to property, plant and equipment are treated as deferred income and recognised as income in equal instalments over the expected useful lives of the assets concerned. Other grants received are recognised as income on a systematic basis so as to match them with the costs they are intended to compensate or, if those costs have already been recognised, the grants are recognised as income in the period in which they are received.

N. Financial instruments**(i) Investments**

Listed investments are classified as available-for-sale and are measured at fair value. Changes in their fair values are recognised in a separate component of equity except to the extent that they represent an other than temporary impairment in which case the impairment loss is recognised in the income statement. Realised gains and losses are transferred from equity to the income statement in the event of the disposal of the investments.

(ii) Trade receivables

Trade receivables represent the amount of sales of goods to customers for which payment has not been received, less an allowance for doubtful accounts that is estimated based on factors such as the credit rating of the customer, historical trends, the current economic environment and other information.

(iii) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits available on demand and other short-term, highly liquid investments with a maturity on acquisition of three months or less, and bank overdrafts. Bank overdrafts are presented as current liabilities to the extent that there is no right of offset with cash balances.

(iv) Trade payables

Trade payables represent the amount of invoices received from suppliers for purchases of goods and services for which payment has not been made.

(v) Bank and other loans

Bank and other loans are initially measured at fair value, net of directly attributable transaction costs, if any, and are subsequently measured at amortised cost using the effective interest rate method.

(vi) Derivative financial instruments

The Group uses derivative financial instruments, principally foreign currency swaps, forward foreign currency contracts and interest rate swaps, to reduce its exposure to exchange rate and interest rate movements. The Group 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 income statement 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 income statement. Provided the conditions specified by IAS 39 are met, hedge accounting may be used to mitigate this volatility.

The Group does not generally apply hedge accounting to transactional foreign currency hedging relationships, such as hedges of forecast or committed transactions. It does, however, apply hedge accounting to translational foreign currency hedging relationships and to hedges of its interest rate exposures where it is permissible to do so under IAS 39. When hedge accounting is used, the relevant hedging relationships are classified as a fair value hedge, a cash flow hedge or, in the case of a hedge of the Group's net investment in a foreign operation, a net investment 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 income statement 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 or as a net investment hedge, to the extent the hedge is effective, changes in the fair value of the hedging instrument are recognised directly in equity rather than in the income statement. When the hedged item in a cash flow hedge is recognised in the financial statements, the accumulated gain or loss recognised in equity is either recycled to the income statement or, if the hedged item results in a non-financial asset, is recognised as an adjustment to its initial carrying amount. Accumulated gains and losses recognised in equity in relation to a net investment hedge are recycled to the income statement on disposal of the foreign operation.

Derivative financial instruments are classified as current assets or liabilities unless they are in a designated hedging relationship and the hedged item is classified as a non-current asset or liability.

Derivative financial instruments that are not in a designated hedging relationship are classed as trading.

Notes to the financial statements (continued)

3. Principal accounting policies (continued)

N. Financial instruments (continued)

(vii) 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 income statement.

(viii) Preference shares

Prior to redemption in July 2007, the Company's US dollar denominated 5.56% convertible cumulative preference shares were classified as non-current liabilities and translated into sterling at the exchange rate ruling at the balance sheet date. Dividends payable on the preference shares were included in interest payable.

(ix) Own shares

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

O. Post-employment benefits

Post-employment benefits comprise pension benefits provided to employees throughout the world and other benefits, mainly healthcare, provided to certain employees in North America.

For defined contribution plans, the cost of providing the benefits represents the Group's contributions to the plans and is recognised in the income statement in the period in which the contributions fall due.

For defined benefit plans, the cost of providing the benefits is determined based on actuarial valuations of each of the plans that are carried out annually at the Group's balance sheet date by independent, qualified actuaries. Plan assets are measured at their fair value at the balance sheet date. Benefit obligations are measured using the projected unit credit method.

The cost of defined benefit plans recognised in the income statement comprises the net total of the current service cost, the past service cost, the expected return on plan assets, the interest cost and the effect of curtailments or settlements. 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 income statement on a straight-line basis over the vesting period, or immediately if the benefits have vested. The expected return on plan assets is based on market expectations at the beginning of the period of future returns over the life of the benefit obligation. The interest cost represents the increase in the benefit obligation due to the passage of time. The discount rate used is determined at the balance sheet date by reference to market yields on high-quality corporate bonds, where available, or government bonds. Gains and losses on curtailments or settlements are recognised in the income statement 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 recognised in the statement of recognised income and expense in the period in which they occur.

The defined benefit liability or asset recognised in the balance sheet comprises the net total for each plan of the present value of the benefit obligation, minus any past service costs not yet recognised, minus the fair value of the plan assets, if any, at the balance sheet date. Where a plan is in surplus, the asset recognised is limited to the amount of any unrecognised past service costs and the present value of any amounts that the Group expects to recover by way of refunds or a reduction in future contributions. The net total for all plans in surplus is classified as a non-current asset. The net total for all plans in deficit is classified as a non-current liability.

P. Share-based incentives

Share-based incentives are provided to employees under the Group's share option, bonus and other share award schemes. All existing schemes are classified as equity-settled. The Group 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 remeasured 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 reduce the compensation expense 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 income statement.

In accordance with IFRS 1 "First-time Adoption of IFRS", the Group has not applied this policy to awards that were granted on or before 7 November 2002.

Q. Provisions

A provision is a liability of uncertain timing or amount and is recognised when the Group has a present obligation as a result of a past event, it is probable that payment will be made to settle the obligation and the payment can be estimated reliably.

Provision is made for warranty claims when the relevant products are sold, based on historical experience of the nature, frequency and average cost of warranty claims.

Provision is made for the cost of product recalls if management considers it probable that it will be necessary to recall a specific product and the amount can be reasonably estimated.

Provision is made for restructuring costs when a detailed formal plan for the restructuring has been determined and the plan has been communicated to the affected parties. Gains from the expected disposal of assets are not taken into account in measuring these provisions and provision is not made for future operating losses.

Provision is made for claims for compensation for injuries sustained by the Group's employees while at work. The provision represents management's best estimate of the liability for claims made but not yet fully settled and for incidents which have occurred but have not yet been reported to the Group. The Group's liability for claims made but not yet fully settled is calculated on an actuarial basis by a third party administrator. Historical data trends are used to estimate the liability for unreported incidents.

R. Taxation

Current tax is the amount of tax payable or recoverable in respect of the taxable profit or loss for the period. Taxable profit differs from accounting profit because it excludes items of income or expense recognised for accounting purposes that are either not taxable or deductible for tax purposes or are taxable or deductible in other periods. Current tax is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

The Group recognises provisions in respect of uncertain tax positions whereby additional current tax may become payable in future periods following the audit by the tax authorities of previously filed tax returns. Provisions for uncertain tax positions are based upon management's assessment of the likely outcome of issues associated with assumed permanent differences, interest that may be applied to temporary differences, the possible disallowance of tax credits and penalties. Provisions for uncertain tax positions are reviewed regularly and are adjusted to reflect events such as the expiry of limitation periods for assessing tax, administrative guidance given by the tax authorities and court decisions.

Deferred tax is tax expected to be payable or recoverable on differences between the carrying amount of an asset or a liability and its tax base used in the computation of taxable profit. Deferred tax is accounted for using the liability method, whereby deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of other assets and liabilities in a transaction other than a business combination that affects neither accounting profit nor taxable profit.

Deferred tax is provided on temporary differences arising on investments in foreign subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated using the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised.

Tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax is recognised in the income statement unless it relates to an item recognised directly in equity, in which case it too is recognised directly in equity.

Notes to the financial statements (continued)

3. Principal accounting policies (continued)

S. Assets held for sale and discontinued operations

Assets are classified as held for sale if their carrying amount will be recovered by sale rather than by continuing use in the business. For this to be the case, the asset must be available for immediate sale in its present condition, management must be committed to, and have initiated, a plan to sell the asset which, when initiated, was expected to result in a completed sale within 12 months. An extension of the period required to complete the sale does not preclude the asset from being classified as held for sale, provided the delay was for reasons beyond the Group's control and management remains committed to its plan to sell the asset. Assets that are classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

A discontinued operation is a component of an entity that has either been disposed of, or satisfies the criteria to be classified as held for sale, and represents a separate major line of business or geographic area of operations, is part of a single co-ordinated plan to dispose of a separate major line of business or geographic area of operations, or is a subsidiary acquired exclusively with a view to disposal.

T. 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 AGM. Dividends on ordinary shares are recognised as an appropriation of shareholders' equity.

U. Accounting pronouncements not yet adopted

Recently-issued accounting pronouncements that are relevant to the Group's operations but have not yet been adopted are outlined below. With the exception of the revisions to IAS 23 and those to IFRS 3 and IAS 27, management does not expect that the adoption of these pronouncements will have a material impact on the Group's results or financial position.

IAS 23 Revised "Borrowing Costs"

In March 2007, the IASB published a revised version of IAS 23 that changes the permitted treatment of borrowing costs relating to "qualifying assets", i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale. Under the existing standard, the Group recognises all borrowing costs as an expense in the period in which they are incurred. Under the revised standard, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset must be capitalised as part of the cost of that asset.

IAS 23 Revised must be applied to borrowing costs relating to qualifying assets for which capitalisation commences in annual periods beginning on or after 1 January 2009.

Management expects that IAS 23 Revised will have an initial positive impact on the Group's results and financial position because borrowing costs that would have been expensed as incurred will be capitalised as part of the cost of qualifying assets. However, this initial positive impact will be offset over time by the higher depreciation expense that will be recognised in respect of the qualifying assets. Management is not yet able to estimate reliably the effect of IAS 23 Revised as this will depend on the level of expenditure on qualifying assets and prevailing market interest rates.

IAS 1 Revised "Presentation of Financial Statements"

In September 2007, the IASB published a revised version of IAS 1 which provides for a number of presentational changes to financial statements, including the option to present a single statement of comprehensive income (rather than an income statement and a separate statement of other comprehensive income), the requirement to disclose income tax relating to each component of other comprehensive income, and the requirement to present a balance sheet as at the beginning of the earliest comparative period when an entity applies a change of accounting policy retrospectively or makes a retrospective restatement.

IAS 1 Revised is effective for annual periods beginning on or after 1 January 2009.

IFRS 3 Revised "Business Combinations" and IAS 27 Revised "Consolidated and Separate Financial Statements"

In January 2008, the IASB issued revised versions of IFRS 3 and IAS 27 that introduce a number of changes that will affect the accounting for future business combinations and the accounting in the event of the loss of control over a subsidiary.

Where a business combination involves a minority interest, the Group will be able to choose for each business combination whether to measure the minority interest at fair value or, as at present, at the minority's share of the fair value of the net assets of the acquired entity. In step acquisitions, previously held interests will be remeasured at fair value and any gain or loss arising will be recognised in the income statement. On the loss of control of a subsidiary, any retained interest will be remeasured at fair value and any gain or loss will be reflected in the gain or loss on loss of control.

Other significant changes are that acquisition costs will be expensed and adjustments to contingent consideration will be recognised in the income statement.

IFRS 3 Revised and IAS 27 Revised are effective for annual periods commencing on or after 1 July 2009.

The financial effect of IFRS 3 Revised and IAS 27 Revised will be dependent on the circumstances surrounding the future transactions to which they will apply, that are at present unknown.

Amendment to IFRS 2 "Share-based Payment – Vesting Conditions and Cancellations"

In January 2008, the IASB published an amendment to IFRS 2 which clarifies that only service conditions and performance conditions attaching to a share-based incentive are vesting conditions and specifies that all cancellations, whether by the Group or by the participant, should receive the same accounting treatment. It is expected that the principal impact of the amendment will be in relation to the Group's savings-related share option scheme. At present, if a participant in that scheme forfeits an award by ceasing to make payments to the savings contract, the event is treated as a forfeiture. On adoption of the amendment, that event will be treated as a cancellation unless a subsequent award is identified as a replacement, in which case it will be treated as a modification.

The amendment to IFRS 2 is effective for annual periods beginning on or after 1 January 2009.

Improvements to IFRS 2008

In May 2008, the IASB published its first annual improvements standard which contains minor amendments to standards that address a number of issues, including the following: the accounting for amendments to retirement benefit plans involving a reduction of benefits and the treatment of plan administration costs; the classification of the assets and liabilities of a subsidiary as held for sale where the parent is committed to sell but will retain a non-controlling interest; the accounting for impairment of an investment in an associate that includes goodwill; and the disclosure of estimates used to determine the recoverable amount of cash-generating units.

Most of the amendments are effective for annual periods beginning on or after 1 January 2009.

IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"

IFRIC 16 provides guidance on net investment hedge accounting, including: which foreign currency risks qualify for hedge accounting, and what amount can be designated; where, within a group, the hedging instrument can be held; and what amount should be reclassified from equity to the income statement on disposal of the hedged foreign operation.

IFRIC 16 is effective for annual periods commencing on or after 1 October 2008.

4. Critical accounting estimates

A. Background

When applying the Group's accounting policies, management must make assumptions and estimates concerning the future that affect the carrying amounts of assets and liabilities at the balance sheet date, the disclosure of contingencies that existed at the balance sheet date and the amounts of revenue and expenses recognised during the accounting period. Such assumptions and estimates are based on factors such as historical experience, the observance of trends in the industries in which the Group operates and information available from the Group's customers and other outside sources.

Due to the inherent uncertainty involved in making assumptions and estimates, actual outcomes could differ from those assumptions and estimates. An analysis of the key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of the Group's assets and liabilities within the next financial year is presented below.

B. Post-employment benefits

The Group operates pension plans throughout the world, covering the majority of its employees. Pension benefits are provided by way of both defined contribution plans and defined benefit plans. The Group's defined benefit pension plans are closed to new entrants. The Group also provides other post-employment benefits, principally health and life insurance cover, to certain of its employees in North America by way of unfunded defined benefit plans.

The Group accounts for post-employment benefits in accordance with IAS 19 "Employee Benefits", whereby the cost of defined benefit plans is determined based on actuarial valuations of the plans that are carried out annually at the Group's balance sheet date. The actuarial valuations are dependent on assumptions about the future that are made by management on the advice of independent qualified actuaries. If actual experience differs from these assumptions, there could be a material change in the amounts recognised by the Group in respect of defined benefit plans in the next financial year.

Notes to the financial statements (continued)

4. Critical accounting estimates (continued)

B. Post-employment benefits (continued)

As at 3 January 2009, the present value of the benefit obligation was \$1,165.8 million. The benefit obligation is calculated using a number of assumptions including future salary increases, increases to pension benefits, mortality rates and, in the case of post-employment medical benefits, the expected rate of increase in medical costs. The present value of the benefit obligation is calculated by discounting the benefit obligation using market yields on high-quality corporate bonds at the balance sheet date. As at 3 January 2009, the fair value of the plan assets was \$862.1 million. The plan assets consist largely of listed securities and their fair values are subject to fluctuation in response to changes in market conditions.

Effects of changes in the actuarial assumptions underlying the benefit obligation, effects of changes in the discount rate applicable to the benefit obligation and effects of differences between the expected and actual return on the plan assets are classified as actuarial gains and losses and are recognised directly in equity. During 2008, the Group recognised a net actuarial gain of \$98.8 million. Further actuarial gains and losses will be recognised during the next financial year.

An analysis of the assumptions that will be used by management to determine the cost of defined benefit plans that will be recognised in the income statement in the next financial year is presented in note 34.

C. Impairment of long-lived assets

Goodwill, other intangible assets and property, plant and equipment are tested for impairment whenever events or circumstances indicate that their carrying amounts might be impaired. Additionally, goodwill and capitalised development expenditure relating to a product that is not yet in full production are subject to an annual impairment test. Due to the nature of the Group's operations, it is generally not possible to estimate the recoverable amount for individual long-lived assets and impairment tests are usually based on the value in use of the CGU or group of CGUs to which the asset belongs.

Value in use represents the net present value of the cash flows expected to arise from the relevant CGU or group of CGUs and its calculation requires management to estimate those cash flows and to apply a suitable discount rate to them.

Management bases the estimated cash flows of the CGU or group of CGUs on assumptions such as the future changes in sales volumes, future changes in selling prices, and expected changes in material prices, salaries and other costs. Management determines a discount rate for each CGU or group of CGUs using a capital asset pricing model, which is based on variables including the applicable risk-free interest rates and, for determining the cost of equity, the long-term equity risk premium and the assumed share price volatility relative to the market, and, for determining the cost of debt, the assumed credit risk spreads.

As at 3 January 2009, the carrying amount of long-lived assets was \$1,692.0 million, after taking into account impairments totalling \$342.4 million that were recognised during 2008. Further impairment losses may be recognised on these assets within the next financial year if there are adverse changes in the variables and assumptions underlying the estimated future cash flows of the CGUs or the discount rates that are applied to those cash flows.

Sensitivity analysis of the carrying amount of goodwill to the key assumptions underlying the value in use calculations is presented in note 19.

D. Inventory

Inventories are stated at the lower of cost and net realisable value, with due allowance for excess, obsolete or slow-moving items. Net realisable value is based on current assessments of future demand, market conditions and new product development initiatives. As at 3 January 2009, the carrying value of inventories was \$772.4 million, net of allowances of \$45.1 million. Should demand for the Group's products decline further during the next financial year as a result of the current economic downturn, additional allowances may be necessary in respect of excess or slow-moving items.

E. Financial instruments

Derivative financial instruments that the Group holds for the purpose of hedging its currency and interest rate exposures are recognised as assets and liabilities in the Group's balance sheet measured at their fair value at the balance date. As at 3 January 2009, the Group recognised a net asset of \$28.4 million in respect of derivatives. The fair value of derivatives continually changes in response to changes in prevailing market conditions and applicable credit risk spreads. Where permissible under IAS 39, the Group uses hedge accounting to mitigate the impact of changes in the fair value of derivatives on the income statement but the Group's results may be affected by changes in the fair values of derivatives where hedge accounting cannot be applied or due to hedge ineffectiveness.

F. Workers' compensation

Provision is made for claims for compensation for injuries sustained by the Group's employees while at work. The Group's liability for claims made but not fully settled is calculated on an actuarial basis. Historical data trends are used to estimate the liability for unreported incidents. As at 3 January 2009, the workers' compensation provision amounted to \$25.5 million. Further provision may be necessary within the next financial year if the actual cost of settling claims exceeds management's estimates.

G. Environmental liabilities

Provision is made for the estimated cost of known environmental remediation obligations in relation to the Group's current and former manufacturing facilities. Cost estimates include the expenditure expected to be incurred in the initial remediation effort and, where appropriate, in the long-term monitoring of the relevant sites. Management monitors for each remediation project the costs incurred to date against expected total costs to complete and operates procedures to identify possible remediation obligations that are presently unknown.

As at 3 January 2009, the provision for environmental remediation costs amounted to \$7.4 million. Further provision may be necessary within the next financial year if actual remediation costs exceed expected costs, new remediation obligations are identified or there are changes in the circumstances affecting the Group's legal or constructive remediation obligations.

H. Product warranties

Provision is made for the estimated cost of future warranty claims on the Group's products. Management bases the provision on historical experience of the nature, frequency and average cost of warranty claims and takes into account recent trends that might suggest that the historical claims experience may differ from future claims. As at 3 January 2009, the Group's provision for warranty claims amounted to \$11.5 million. Further provision may be necessary within the next financial year if actual claims experience differs from management's estimates.

I. Taxation

The Group is subject to income tax in each of the jurisdictions in which it operates. Management is required to exercise significant judgement in determining the Group's provision for income taxes.

Estimation is required of taxable profit in order to determine the Group's current tax liability. Management's judgement is required in relation to uncertain tax positions whereby additional current tax may become payable in the future following the audit by the tax authorities of previously filed tax returns. As at 3 January 2009, the Group holds a provision for uncertain tax positions amounting to \$63.5 million. It is possible that the final outcome of these uncertain tax positions may differ from management's estimates.

Estimation is also required of temporary differences between the carrying amount of assets and liabilities and their tax base. Deferred tax liabilities are recognised for all taxable temporary differences but, where there exist deductible temporary differences, management's judgement is required as to whether a deferred tax asset should be recognised based on the availability of future taxable profits. As at 3 January 2009, the Group recognised net deferred tax assets amounting to \$35.1 million. It is possible that the deferred tax assets actually recoverable may differ from the amounts recognised if actual taxable profits differ from management's estimates.

As at 3 January 2009, deferred tax liabilities were not recognised on retained profits of foreign subsidiaries and associates amounting to \$3,180.5 million because the Group is able to control the remittance of those profits to the UK and it is probable that they will not be remitted in the foreseeable future. Income tax may be payable on these amounts if circumstances change and either their remittance can no longer be controlled by the Group or they are actually remitted to the UK.

Notes to the financial statements (continued)

5. Segment information

A. Background

The Group's operating segments are identified by grouping together businesses that manufacture similar products, as this is the basis on which information is provided to the Board for the purposes of allocating resources within the Group and assessing the performance of the Group's businesses.

The Group's business segments are described in note 1.

The Board uses adjusted operating profit to measure the profitability of each segment. Adjusted operating profit is therefore the measure of segment profit presented in the Group's segment disclosures. Adjusted operating profit represents operating profit before the amortisation of intangible assets arising on acquisitions, restructuring initiatives (comprising restructuring costs and the net gain or loss on disposals and on the exit of businesses) and impairments.

As indicated in note 3, the Group adopted IFRS 8 "Operating Segments" early with effect from the beginning of 2008. Accordingly, certain information for prior years has been restated to conform with the requirements of IFRS 8.

B. Sales and adjusted operating profit – continuing operations

	Sales			Adjusted operating profit		
	Year ended 3 January 2009 \$ million	Year ended 29 December 2007 \$ million	Year ended 30 December 2006 \$ million	Year ended 3 January 2009 \$ million	Year ended 29 December 2007 \$ million	Year ended 30 December 2006 \$ million
By operating segment						
Industrial & Automotive:						
– Power Transmission	2,106.4	2,063.2	1,851.2	229.6	266.8	258.2
– Fluid Power	832.3	769.1	709.4	46.2	71.0	64.4
– Fluid Systems	501.2	583.8	447.4	39.9	55.0	22.9
– Other Industrial & Automotive	620.9	896.6	976.0	44.0	84.6	98.8
	4,060.8	4,312.7	3,984.0	359.7	477.4	444.3
Building Products:						
– Air Systems Components	1,112.3	1,083.6	1,070.6	104.2	102.5	106.3
– Other Building Products	342.8	489.8	691.5	(24.0)	4.0	47.3
	1,455.1	1,573.4	1,762.1	80.2	106.5	153.6
Corporate	–	–	–	(36.5)	(53.4)	(52.6)
	5,515.9	5,886.1	5,746.1	403.4	530.5	545.3
By origin						
US	2,947.6	3,457.0	3,718.7	181.4	300.8	347.3
UK	399.6	408.1	256.7	(4.5)	7.4	(13.0)
Rest of Europe	787.2	733.9	641.2	55.9	66.1	59.9
Rest of the world	1,381.5	1,287.1	1,129.5	170.6	156.2	151.1
	5,515.9	5,886.1	5,746.1	403.4	530.5	545.3
By destination						
US	3,178.7	3,712.5	3,840.3			
UK	129.0	149.4	134.2			
Rest of Europe	864.9	809.7	685.2			
Rest of the world	1,343.3	1,214.5	1,086.4			
	5,515.9	5,886.1	5,746.1			

Inter-segment sales were not significant.

Group financial statements

Reconciliation of adjusted operating profit to (loss)/profit before tax:

	Year ended 3 January 2009 \$ million	Year ended 29 December 2007 \$ million	Year ended 30 December 2006 \$ million
Adjusted operating profit	403.4	530.5	545.3
Amortisation of intangible assets arising on acquisitions	(10.6)	(7.2)	(5.0)
Impairments (see note 6)	(342.4)	(0.8)	(2.9)
Restructuring initiatives (see note 7)	17.0	63.8	(18.2)
Operating profit	67.4	586.3	519.2
Net finance costs	(75.0)	(60.9)	(70.6)
(Loss)/profit before tax	(7.6)	525.4	448.6

Segmental analysis of the sales and adjusted operating profit of discontinued operations is presented in note 13.

C. Segment assets

The Board does not review, and is not regularly provided with, an analysis of the Group's total assets by operating segment. In order to comply with the requirements of IFRS 8, an analysis is provided below of the Group's operating assets, goodwill and other intangible assets by operating segment:

	As at 3 January 2009 \$ million	As at 29 December 2007 \$ million	As at 30 December 2006 \$ million
By operating segment			
Continuing operations			
Industrial & Automotive:			
– Power Transmission	1,185.0	1,706.6	1,555.9
– Fluid Power	594.5	601.6	557.3
– Fluid Systems	236.3	406.4	334.8
– Other Industrial & Automotive	375.7	422.8	417.2
	2,391.5	3,137.4	2,865.2
Building Products:			
– Air Systems Components	753.2	771.9	785.9
– Other Building Products	110.8	151.0	205.3
	864.0	922.9	991.2
Corporate	33.7	27.8	24.9
	3,289.2	4,088.1	3,881.3
Discontinued operations			
Industrial & Automotive:			
– Wiper Systems	–	–	220.3
	3,289.2	4,088.1	4,101.6

Reconciliation of assets analysed by operating segment to total assets:

	As at 3 January 2009 \$ million	As at 29 December 2007 \$ million	As at 30 December 2006 \$ million
Segment assets	3,289.2	4,088.1	4,101.6
Cash and cash equivalents	291.9	295.9	337.6
Collateralised cash	3.8	5.8	8.0
Derivatives hedging translational exposures	73.4	6.2	4.9
Deferred tax assets	64.8	47.4	71.0
Income tax recoverable	47.6	29.5	42.7
Total assets	3,770.7	4,472.9	4,565.8

Notes to the financial statements (continued)

5. Segment information (continued)

D. Non-current assets

The geographic analysis of long-lived assets (goodwill and other intangible assets, and property, plant and equipment) and investments in associates was as follows:

	As at 3 January 2009 \$ million	As at 29 December 2007 \$ million	As at 30 December 2006 \$ million
By location			
US	957.3	1,047.0	1,098.9
UK	70.1	131.0	124.2
Rest of Europe	192.6	233.3	202.7
Rest of the world	492.3	773.9	679.6
	1,712.3	2,185.2	2,105.4

Capital expenditure, depreciation and amortisation in respect of long-lived assets was as follows:

	Year ended 3 January 2009			Year ended 29 December 2007			Year ended 30 December 2006		
	Capital expenditure \$ million	Depreciation \$ million	Amortisation \$ million	Capital expenditure \$ million	Depreciation \$ million	Amortisation \$ million	Capital expenditure \$ million	Depreciation \$ million	Amortisation \$ million
By operating segment									
Continuing operations									
Industrial & Automotive:									
– Power Transmission	83.9	95.2	7.5	91.8	102.1	6.4	98.1	85.7	8.3
– Fluid Power	35.8	27.3	8.8	38.2	26.4	6.9	27.0	18.7	11.0
– Fluid Systems	22.3	26.1	1.2	41.9	29.8	0.8	34.0	27.4	0.6
– Other Industrial & Automotive	19.9	16.7	1.4	27.6	18.5	1.3	17.6	17.8	0.7
	161.9	165.3	18.9	199.5	176.8	15.4	176.7	149.6	20.6
Building Products:									
– Air Systems Components	28.4	26.3	6.6	23.5	26.0	4.7	24.5	27.2	2.7
– Other Building Products	3.3	11.4	0.2	8.8	12.7	0.1	21.5	17.2	0.2
	31.7	37.7	6.8	32.3	38.7	4.8	46.0	44.4	2.9
Corporate	0.2	0.1	0.3	0.3	0.4	0.4	1.0	0.3	0.6
	193.8	203.1	26.0	232.1	215.9	20.6	223.7	194.3	24.1
Discontinued operations									
Industrial & Automotive:									
– Wiper Systems	–	–	–	4.4	–	–	8.4	13.9	0.3
	193.8	203.1	26.0	236.5	215.9	20.6	232.1	208.2	24.4

The Board regularly reviews the Group's capital expenditure, which represents cash outflows on additions to property, plant and equipment and non-integral computer software included within other intangible assets.

6. Impairments

As explained in notes 19 and 21, during 2008, the Group recognised impairments totalling \$342.4 million which reflected the effect of deteriorating economic conditions on the Group's end markets.

	Year ended 3 January 2009			Year ended 29 December 2007			Year ended 30 December 2006		
	Goodwill \$ million	Property, plant and equipment \$ million	Total \$ million	Goodwill \$ million	Property, plant and equipment \$ million	Total \$ million	Goodwill \$ million	Property, plant and equipment \$ million	Total \$ million
By operating segment									
Industrial & Automotive:									
– Power Transmission	194.6	90.0	284.6	–	–	–	–	–	–
– Fluid Power	–	11.7	11.7	–	–	–	–	–	–
– Fluid Systems	–	1.1	1.1	0.8	–	0.8	2.9	–	2.9
	194.6	102.8	297.4	0.8	–	0.8	2.9	–	2.9
Building Products:									
– Air Systems Components	34.0	–	34.0	–	–	–	–	–	–
– Other Building Products	–	11.0	11.0	–	–	–	–	–	–
	34.0	11.0	45.0	–	–	–	–	–	–
	228.6	113.8	342.4	0.8	–	0.8	2.9	–	2.9

7. Restructuring initiatives

A. Restructuring costs

In 2008, restructuring costs principally related to the closure of Power Transmission's facility at Moncks Corner, South Carolina, further rationalisation of the Lasco Bathware business in the US and the closure of Hart & Cooley's production facility at Tucson, Arizona, and further costs associated with outsourcing of IT services that began in 2007.

In 2007, restructuring costs principally related to the rationalisation of production facilities within the Lasco Bathware and Philips Products businesses in the US, the outsourcing of IT services, and the initiatives within the Fluid Power and Air Systems Components business groups that began in 2006.

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

Notes to the financial statements (continued)

7. Restructuring initiatives (continued)**B. Disposals and exit of businesses**

In 2008, the Group recognised a gain of \$43.2 million on the disposal of Stant and Standard-Thomson.

In 2007, the Group recognised a gain of \$65.2 million on the disposal of Lasco Fittings Inc., a gain of \$13.4 million on the disposal of Dearborn Mid-West and a loss of \$2.6 million on the disposal of Tridon Electronics' indicator and side object detection businesses.

Also during the year, the Group recognised a gain of \$15.4 million on the disposal of Corporate property. In 2006, the Group recognised a gain of \$5.7 million on the sale of property, plant and equipment relating to businesses sold in previous years.

	Year ended 3 January 2009			Year ended 29 December 2007			Year ended 30 December 2006		
	Restructuring costs \$ million	Disposals and exit of businesses \$ million	Total \$ million	Restructuring costs \$ million	Disposals and exit of businesses \$ million	Total \$ million	Restructuring costs \$ million	Disposals and exit of businesses \$ million	Total \$ million
By operating segment									
Industrial & Automotive:									
– Power Transmission	(13.8)	–	(13.8)	(6.0)	0.2	(5.8)	(11.7)	5.9	(5.8)
– Fluid Power	(1.9)	–	(1.9)	(8.6)	–	(8.6)	(5.7)	–	(5.7)
– Fluid Systems	(0.2)	43.2	43.0	0.2	(2.8)	(2.6)	–	–	–
– Other Industrial & Automotive	(3.2)	–	(3.2)	–	13.4	13.4	(0.6)	(0.2)	(0.8)
	(19.1)	43.2	24.1	(14.4)	10.8	(3.6)	(18.0)	5.7	(12.3)
Building Products:									
– Air Systems Components	(3.6)	–	(3.6)	(7.4)	–	(7.4)	(5.9)	(0.2)	(6.1)
– Other Building Products	(3.0)	(0.2)	(3.2)	(4.8)	65.2	60.4	–	0.2	0.2
	(6.6)	(0.2)	(6.8)	(12.2)	65.2	53.0	(5.9)	–	(5.9)
Corporate	(0.3)	–	(0.3)	(1.0)	15.4	14.4	–	–	–
	(26.0)	43.0	17.0	(27.6)	91.4	63.8	(23.9)	5.7	(18.2)

8. Staff costs

The average number of persons employed by the Group, excluding the Company's Non-Executive Directors, was as follows:

	Year ended 3 January 2009 Number	Year ended 29 December 2007 Number	Year ended 30 December 2006 Number
By operating segment			
Continuing operations			
Industrial & Automotive:			
– Power Transmission	9,347	9,298	9,102
– Fluid Power	5,252	4,914	4,677
– Fluid Systems	2,789	3,133	3,105
– Other Industrial & Automotive	3,606	3,951	4,004
	20,994	21,296	20,888
Building Products:			
– Air Systems Components	8,624	8,836	8,692
– Other Building Products	2,648	3,608	4,555
	11,272	12,444	13,247
Corporate	158	145	145
	32,424	33,885	34,280
Discontinued operations			
Industrial & Automotive:			
– Wiper Systems	–	2,009	4,019
	32,424	35,894	38,299
By location			
US	16,581	19,429	21,433
UK	1,933	1,892	1,874
Rest of Europe	3,035	2,913	2,714
Rest of the world	10,875	11,660	12,278
	32,424	35,894	38,299

Staff costs recognised in the period were as follows:

	Year ended 3 January 2009 \$ million	Year ended 29 December 2007 \$ million	Year ended 30 December 2006 \$ million
Wages and salaries	1,164.3	1,283.5	1,256.0
Social security costs	144.4	147.7	145.8
Pensions (note 34)	44.2	53.4	67.8
Other post-employment benefits (note 34)	1.1	0.4	(0.7)
Share-based incentives (note 35)	11.5	16.0	14.5
Termination benefits	13.8	6.8	9.5
	1,379.3	1,507.8	1,492.9
Continuing operations	1,379.3	1,473.6	1,405.1
Discontinued operations	–	34.2	87.8
	1,379.3	1,507.8	1,492.9

Notes to the financial statements (continued)

9. Interest payable

	Year ended 3 January 2009 \$ million	Year ended 29 December 2007 \$ million	Year ended 30 December 2006 \$ million
Borrowings:			
– Interest on bank overdrafts	2.3	1.6	3.9
– Interest on loans	42.6	57.3	62.9
– Interest on interest rate swaps in designated hedging relationships:			
Payable	55.6	61.8	51.2
Receivable	(47.2)	(54.6)	(50.1)
– Interest on interest rate swaps classed as held for trading:			
Payable	2.8	8.6	8.6
Receivable	(2.2)	(10.4)	(11.2)
	53.9	64.3	65.3
Interest element of finance lease rentals	0.5	1.4	1.1
Other interest payable	5.0	0.1	0.5
	59.4	65.8	66.9
Dividends payable on convertible cumulative preference shares	–	1.2	9.9
	59.4	67.0	76.8
Post-employment benefits:			
– Interest cost on benefit obligation (note 34)	78.4	77.3	72.8
	137.8	144.3	149.6
Continuing operations	137.8	142.1	142.6
Discontinued operations	–	2.2	7.0
	137.8	144.3	149.6

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

10. Investment income

	Year ended 3 January 2009 \$ million	Year ended 29 December 2007 \$ million	Year ended 30 December 2006 \$ million
Interest on bank deposits	9.6	8.4	8.8
Other interest receivable	2.7	3.4	3.8
	12.3	11.8	12.6
Post-employment benefits:			
– Expected return on plan assets (note 34)	75.5	76.2	66.2
	87.8	88.0	78.8
Continuing operations	87.8	86.8	73.3
Discontinued operations	–	1.2	5.5
	87.8	88.0	78.8

11. Other finance expense

	Year ended 3 January 2009 \$ million	Year ended 29 December 2007 \$ million	Year ended 30 December 2006 \$ million
Hedging activities:			
– Gain on derivatives in designated hedging relationships	(0.1)	(1.6)	(1.7)
– Loss on derivatives classed as held for trading	2.1	3.8	1.7
– Loss on other instruments not qualifying for hedge accounting	17.9	3.0	1.3
	19.9	5.2	1.3
Other items:			
– Loss on embedded derivatives	5.1	0.4	–
	25.0	5.6	1.3

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

Other finance expense is wholly attributable to continuing operations.

12. Income tax expense

	Year ended 3 January 2009 \$ million	Year ended 29 December 2007 \$ million	Year ended 30 December 2006 \$ million
Current tax			
UK corporation tax on profits for the period	(13.7)	2.2	(2.0)
Decrease in provision for uncertain tax positions	–	–	(35.4)
Adjustments in respect of prior periods	0.3	–	0.7
Total UK tax	(13.4)	2.2	(36.7)
Overseas tax on profits for the period	51.2	109.5	101.9
Decrease in provision for uncertain tax positions	(3.2)	(4.0)	(57.4)
Adjustments in respect of prior periods	2.6	(8.2)	(0.6)
Total overseas tax	50.6	97.3	43.9
Total current tax	37.2	99.5	7.2
Deferred tax			
Origination or reversal of temporary differences	(108.2)	(128.1)	28.8
Utilisation of previously unrecognised tax losses	(4.7)	(9.8)	(51.7)
Tax losses in the period not recognised	111.4	187.5	36.9
Other changes in unrecognised deferred tax assets	3.2	5.6	8.3
Adjustments in respect of prior periods	(0.5)	(4.2)	3.8
Total deferred tax	1.2	51.0	26.1
Income tax expense for the period	38.4	150.5	33.3
Continuing operations	38.4	139.9	65.6
Discontinued operations (note 13)	–	10.6	(32.3)
	38.4	150.5	33.3

During 2006, there was a release of provisions for uncertain tax positions of \$92.8 million as a result of tax planning, the clarification of tax legislation, the performance of certain studies and the change of views on the likely outcome of challenges by various tax authorities.

Notes to the financial statements (continued)

12. Income tax expense (continued)

The income tax expense for the period recognised in the income statement differs from the product of the (loss)/profit before tax for the period and the rate of UK corporation tax as follows:

	Year ended 3 January 2009 \$ million	Year ended 29 December 2007 \$ million	Year ended 30 December 2006 \$ million
(Loss)/profit before tax:			
– Continuing operations	(7.6)	525.4	448.6
– Discontinued operations	–	(56.1)	(53.6)
	(7.6)	469.3	395.0
UK corporation tax at 28.5% (2007: 30%; 2006: 30%) on (loss)/profit before tax	(2.2)	140.9	118.5
Permanent differences	(48.7)	(3.4)	25.1
Adjustment in respect of prior periods	2.4	(12.4)	4.0
Decrease in provisions for uncertain tax positions	(3.2)	(4.0)	(92.8)
Effect of different tax rates on overseas profits	(7.1)	20.6	24.0
Foreign tax credits	(13.3)	(13.8)	2.6
Temporary differences on investment in subsidiaries	0.5	(160.7)	(41.6)
Tax losses in the period not recognised	111.4	187.5	36.9
Utilisation of previously unrecognised tax losses	(4.7)	(9.8)	(51.7)
Other changes in unrecognised deferred tax assets	3.3	5.6	8.3
Income tax expense for the period	38.4	150.5	33.3

In addition to the income tax expense recognised in the income statement, an income tax benefit of \$14.3 million (2007: expense of \$12.6 million; 2006: expense of \$1.8 million) was recognised directly in equity.

13. Discontinued operations**A. Background**

Discontinued operations principally comprise the results and loss on disposal of Trico, the Group's former Wiper Systems business, that was sold on 29 June 2007.

In 2007, the Group recognised a loss of \$59.6 million before tax on the disposal of Trico. Also during 2007, the Group recognised a gain of \$2.4 million before tax on the receipt of additional proceeds in relation to businesses sold in previous years. After the attributable tax expense of \$8.0 million, the loss on disposal of discontinued operations was \$65.2 million.

In 2006, the Group recognised an impairment of \$45.9 million when Trico was classified as held for sale and additional consideration of \$4.6 million in relation to businesses sold in previous years. After the attributable tax credit of \$37.4 million, the loss on disposal of discontinued operations was \$3.9 million.

B. Results and cash flows

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

	Year ended 3 January 2009 \$ million	Year ended 29 December 2007 \$ million	Year ended 30 December 2006 \$ million
Loss for the period of discontinued operations			
Sales	–	157.6	343.8
Cost of sales	–	(131.2)	(297.0)
Gross profit	–	26.4	46.8
Distribution costs	–	(12.8)	(24.6)
Administrative expenses	–	(9.9)	(21.1)
Restructuring costs	–	(1.6)	(11.9)
Operating profit/(loss)	–	2.1	(10.8)
Net finance costs	–	(1.0)	(1.5)
Profit/(loss) before tax	–	1.1	(12.3)
Income tax expense	–	(2.6)	(5.1)
Loss after tax	–	(1.5)	(17.4)
Loss on disposal of discontinued operations			
Loss before tax	–	(57.2)	(41.3)
Income tax (expense)/benefit	–	(8.0)	37.4
Loss after tax	–	(65.2)	(3.9)
Loss for the period from discontinued operations	–	(66.7)	(21.3)

Restructuring costs in each period relate to the transfer of manufacturing activities from the Wiper Systems facility at Pontypool, UK to more cost-competitive locations.

Cash flows arising from discontinued operations during the period were as follows:

	Year ended 3 January 2009 \$ million	Year ended 29 December 2007 \$ million	Year ended 30 December 2006 \$ million
Cash inflow/(outflow) from operating activities	–	7.3	(0.7)
Cash (outflow)/inflow from investing activities	–	(2.6)	3.1
Cash outflow from financing activities	–	(1.2)	(2.6)
Net increase/(decrease) in cash and cash equivalents from discontinued operations	–	3.5	(0.2)

Notes to the financial statements (continued)

13. Discontinued operations (continued)

C. Segment sales and adjusted operating profit

The segment sales and adjusted operating profit of discontinued operations may be analysed as follows:

	Sales			Adjusted operating profit		
	Year ended 3 January 2009 \$ million	Year ended 29 December 2007 \$ million	Year ended 30 December 2006 \$ million	Year ended 3 January 2009 \$ million	Year ended 29 December 2007 \$ million	Year ended 30 December 2006 \$ million
By operating segment						
Industrial & Automotive:						
– Wiper Systems	–	157.6	343.8	–	3.7	1.1
By origin						
US	–	123.1	261.1	–	5.1	10.0
UK	–	13.6	41.8	–	(2.6)	(10.9)
Rest of Europe	–	–	0.2	–	–	–
Rest of the world	–	20.9	40.7	–	1.2	2.0
	–	157.6	343.8	–	3.7	1.1
By destination						
US	–	113.6	232.8			
UK	–	7.5	14.5			
Rest of Europe	–	9.3	29.0			
Rest of the world	–	27.2	67.5			
	–	157.6	343.8			

Reconciliation of the adjusted operating profit to the profit/(loss) before tax of discontinued operations:

	Year ended 3 January 2009 \$ million	Year ended 29 December 2007 \$ million	Year ended 30 December 2006 \$ million
Adjusted operating profit	–	3.7	1.1
Restructuring costs	–	(1.6)	(11.9)
Net finance costs	–	(1.0)	(1.5)
Profit/(loss) before tax	–	1.1	(12.3)

14. (Loss)/profit for the period

(Loss)/profit for the period is stated after charging/(crediting):

	Continuing operations \$ million	Discontinued operations \$ million	Total \$ million
Year ended 3 January 2009			
Inventories:			
– Cost of inventories	3,659.1	–	3,659.1
– Write-down of inventories	6.2	–	6.2
Staff costs (note 8)	1,379.3	–	1,379.3
Goodwill (note 19):			
– Impairments (recognised in operating profit)	228.6	–	228.6
Other intangible assets (note 20):			
– Amortisation	26.0	–	26.0
Property, plant and equipment (note 21):			
– Depreciation	203.1	–	203.1
– Impairments (recognised in operating profit)	113.8	–	113.8
Research and development costs	92.1	–	92.1
Government grants:			
– Revenue	(3.0)	–	(3.0)
– Capital	(0.4)	–	(0.4)
Net foreign exchange losses	9.8	–	9.8
Year ended 29 December 2007			
Inventories:			
– Cost of inventories	3,976.4	129.1	4,105.5
– Write-down of inventories	7.4	0.6	8.0
Staff costs (note 8)	1,473.6	34.2	1,507.8
Goodwill (note 19):			
– Impairments (recognised in operating profit)	0.8	–	0.8
Other intangible assets (note 20):			
– Amortisation	20.6	–	20.6
Property, plant and equipment (note 21):			
– Depreciation	215.9	–	215.9
Research and development costs	98.8	4.6	103.4
Government grants:			
– Revenue	(2.0)	(0.2)	(2.2)
– Capital	(0.4)	–	(0.4)
Net foreign exchange gains	(1.0)	(0.6)	(1.6)
Year ended 30 December 2006			
Inventories:			
– Cost of inventories	3,731.4	287.3	4,018.7
– Write-down of inventories	10.4	2.4	12.8
Staff costs (note 8)	1,405.1	87.8	1,492.9
Goodwill (note 19):			
– Impairments (recognised in operating profit)	2.9	–	2.9
– Impairments (recognised in loss on disposal of discontinued operations)	–	7.5	7.5
Other intangible assets (note 20):			
– Amortisation	24.2	0.2	24.4
– Impairments (recognised in loss on disposal of discontinued operations)	–	0.4	0.4
Property, plant and equipment (note 21):			
– Depreciation	194.3	13.9	208.2
– Impairments (recognised in loss on disposal of discontinued operations)	–	38.0	38.0
Research and development costs	85.8	10.5	96.3
Government grants:			
– Revenue	(4.0)	(0.6)	(4.6)
– Capital	(0.4)	–	(0.4)
Net foreign exchange gains	(2.2)	(1.3)	(3.5)

Notes to the financial statements (continued)

15. (Loss)/earnings per share

A. Basic and diluted (loss)/earnings per share

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit for the period attributable to equity shareholders by the weighted average number of the Company's ordinary shares in issue during the period. The weighted average number of ordinary shares in issue during the period excludes 4,002,675 shares (2007: 4,331,018 shares; 2006: 3,759,701 shares), being the weighted average number of own shares held during the period.

Diluted (loss)/earnings per share takes into account the dilutive effect of options and awards outstanding under the Group's employee share schemes and, in prior years, the dilutive effect of the potential conversion of the Company's preference shares into the Company's ordinary shares. The weighted average number of the Company's ordinary shares used in the calculation of diluted (loss)/earnings per share excludes the effect of options and awards over 21,476,725 shares (2007: 9,318,429 shares; 2006: 1,229,593 shares) that were anti-dilutive for the periods presented but could dilute earnings per share in the future.

	Year ended 3 January 2009 \$ million	Year ended 29 December 2007 \$ million	Year ended 30 December 2006 \$ million
Continuing operations			
(Loss)/profit for the period	(46.0)	385.5	383.0
Minority interests	(18.1)	(25.0)	(20.5)
(Loss)/earnings for calculating basic (loss)/earnings per share	(64.1)	360.5	362.5
Effect of dilutive potential ordinary shares:			
– Dividends payable on preference shares	–	1.2	9.9
(Loss)/earnings for calculating diluted (loss)/earnings per share	(64.1)	361.7	372.4
Discontinued operations			
Loss for the period for calculating basic and diluted loss per share	–	(66.7)	(21.3)
Continuing and discontinued operations			
(Loss)/profit for the period	(46.0)	318.8	361.7
Minority interests	(18.1)	(25.0)	(20.5)
(Loss)/earnings for calculating basic (loss)/earnings per share	(64.1)	293.8	341.2
Effect of dilutive potential ordinary shares:			
– Dividends payable on preference shares	–	1.2	9.9
(Loss)/earnings for calculating diluted (loss)/earnings per share	(64.1)	295.0	351.1
Weighted average number of ordinary shares			
For calculating basic (loss)/earnings per share	879,727,725	870,297,953	838,893,502
Effect of dilutive potential ordinary shares:			
– Share options and awards	–	4,018,619	5,173,658
– Preference shares	–	9,714,541	39,759,222
For calculating diluted (loss)/earnings per share	879,727,725	884,031,113	883,826,382

16. Dividends on ordinary shares

	Year ended 3 January 2009 per share	Year ended 29 December 2007 per share	Year ended 30 December 2006 per share
Paid or proposed in respect of the period			
Interim dividend	11.02c	11.02c	10.13c
Final dividend	2.00c	16.66c	17.13c
	13.02c	27.68c	27.26c

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	Year ended 3 January 2009 \$ million	Year ended 29 December 2007 \$ million	Year ended 30 December 2006 \$ million
Recognised in the period			
Interim dividend for the period of 11.02c (2007: 11.02c; 2006: 10.13c) per share	97.1	97.0	86.6
Final dividend for the prior period of 16.66c (2007: 17.13c; 2006: 15.28c) per share	149.1	150.3	130.7
	246.2	247.3	217.3

Following the redenomination of the Company's share capital from sterling to US dollars, which became effective on 22 May 2008, the Company's dividends are declared in US dollars. Dividends in respect of 2007 and prior years were declared and paid in sterling and have been translated into US dollars at the exchange rate on their respective payment dates.

The Directors propose a final dividend for 2008 of 2.00c per share that, subject to approval by shareholders, will be paid on 10 June 2009 to shareholders on the register on 8 May 2009.

Based on the number of ordinary shares currently in issue, the final dividend for 2008 is expected to absorb \$17.6 million.

17. Auditors' remuneration

Fees payable by the Group to the Company's auditors, Deloitte LLP, and its associates were as follows:

	Year ended 3 January 2009 \$ million	Year ended 29 December 2007 \$ million	Year ended 30 December 2006 \$ million
Audit fees:			
– Audit of the Company's accounts	0.8	0.8	0.7
– Audit of the accounts of the Company's subsidiaries	4.9	5.0	4.0
– Other statutory services	0.2	0.2	2.4
	5.9	6.0	7.1
Tax fees:			
– Compliance services	0.7	0.5	0.4
– Advisory services	2.1	1.2	0.7
	2.8	1.7	1.1
All other fees	0.2	0.4	0.9
Total fees	8.9	8.1	9.1

Fees for the audit of the Company's accounts represent fees payable to Deloitte LLP in respect of the audit of the Company's individual financial statements and the Group's consolidated financial statements prepared in accordance with IFRS.

Other statutory services include the review of the Group's interim financial statements and, in 2006, the audit of the Group's consolidated financial statements prepared in accordance with US GAAP and fees associated with section 404 of Sarbanes-Oxley. In 2008 and 2007, fees associated with section 404 of Sarbanes-Oxley are included in audit fees.

Other services include advice on accounting matters and non-statutory reporting.

The Audit Committee or, between meetings, the Chairman of the Audit Committee, pre-approves the engagement terms and fees of Deloitte LLP for all services. This policy was applied for all services included in the table above.

Fees payable by associated pension schemes to Deloitte LLP and its associates were as follows:

	Year ended 3 January 2009 \$ million	Year ended 29 December 2007 \$ million	Year ended 30 December 2006 \$ million
Statutory services:			
– Audit of the pension schemes of the Company's subsidiaries	0.1	0.1	0.4

Notes to the financial statements (continued)

18. Cash flow

A. Reconciliation of (loss)/profit for the period to cash generated from operations

	Year ended 3 January 2009 \$ million	Year ended 29 December 2007 \$ million	Year ended 30 December 2006 \$ million
(Loss)/profit for the period	(46.0)	318.8	361.7
Interest payable	137.8	144.3	149.6
Investment income	(87.8)	(88.0)	(78.8)
Other finance expense	25.0	5.6	1.3
Income tax expense	38.4	150.5	33.3
Profit from continuing and discontinued operations	67.4	531.2	467.1
Share of loss/(profit) of associates	2.1	(0.8)	(2.8)
Amortisation of intangible assets	26.0	20.6	24.4
Depreciation of property, plant and equipment	203.1	215.9	208.2
Impairments:			
– Goodwill	228.6	0.8	2.9
– Property, plant and equipment	113.8	–	–
(Gain)/loss on disposal of businesses:			
– Continuing operations	(43.0)	(76.0)	(5.7)
– Discontinued operations	–	57.2	41.3
Loss/(gain) on sale of property, plant and equipment	3.8	(11.2)	5.3
Gain on available-for-sale-investments	(1.2)	(0.6)	(0.4)
Cost of share-based incentives	11.5	16.0	14.5
Decrease in post-employment benefit obligations	(49.5)	(74.2)	(63.8)
Decrease in provisions	(3.7)	(2.4)	(17.7)
Operating cash flows before movements in working capital	558.9	676.5	673.3
Increase in inventories	(12.8)	(20.0)	(37.4)
Decrease/(increase) in receivables	143.8	(74.0)	(18.4)
(Decrease)/increase in payables	(61.2)	56.2	(9.7)
Cash generated from operations	628.7	638.7	607.8

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

	Year ended 3 January 2009 \$ million	Year ended 29 December 2007 \$ million	Year ended 30 December 2006 \$ million
Net debt at the beginning of the period	(591.5)	(920.8)	(1,101.0)
Decrease/(increase) in net debt resulting from cash flows:			
– Increase/(decrease) in cash and cash equivalents	19.2	(65.7)	(96.4)
– (Increase)/decrease in debt and lease financing	(96.2)	284.7	(47.5)
– Redemption of preference shares	–	1.2	–
– Decrease in collateralised cash	(0.7)	(2.4)	(2.6)
	(77.7)	217.8	(146.5)
Conversion of preference shares	–	130.0	390.7
Leases disposed of on sale of businesses	–	6.1	–
Debt acquired on acquisition of subsidiaries	(0.8)	–	–
Other non-cash movements	(1.1)	(1.6)	2.0
Foreign currency translation	194.7	(23.0)	(66.0)
Decrease in net debt during the period	115.1	329.3	180.2
Net debt at the end of the period	(476.4)	(591.5)	(920.8)

19. Goodwill**A. Analysis of movements**

	\$ million
Cost	
As at 30 December 2006	637.3
Acquisition of subsidiaries	(8.0)
Foreign currency translation	31.5
As at 29 December 2007	660.8
Acquisition of subsidiaries (note 44)	8.4
Foreign currency translation	(40.0)
As at 3 January 2009	629.2
Accumulated impairment	
As at 30 December 2006	–
Impairments	0.8
As at 29 December 2007	0.8
Impairments	228.6
Foreign currency translation	(16.1)
As at 3 January 2009	213.3
Carrying amount	
As at 29 December 2007	660.0
As at 3 January 2009	415.9

Notes to the financial statements (continued)

19. Goodwill (continued)**B. Allocation of goodwill**

Goodwill is allocated to the following CGUs or groups of CGUs:

	As at 3 January 2009 \$ million	As at 29 December 2007 \$ million
Industrial & Automotive		
Power Transmission:		
– Stackpole	–	176.4
– Mectrol	–	37.4
	–	213.8
Fluid Power		
– Engineering & Services	24.7	16.9
– Others	18.2	19.1
	42.9	36.0
Fluid Systems	1.8	5.4
Other Industrial & Automotive:		
– Ideal	20.9	20.9
– Dexter Group	50.8	50.8
– Winhere	2.2	2.2
	73.9	73.9
	118.6	329.1
Building Products		
Air Systems Components:		
– Air Systems Components	67.7	64.7
– Hart & Cooley	146.0	146.0
– Ruskin	36.2	38.8
– Selkirk	38.3	72.3
	288.2	321.8
Other Building Products:		
– Bathware	9.1	9.1
	297.3	330.9
	415.9	660.0

C. Impairment tests

Goodwill is tested for impairment annually and whenever there are indications that it may have suffered an impairment. Goodwill is considered impaired to the extent that its carrying amount exceeds its recoverable amount, which is the higher of the value in use and the fair value less costs to sell of the CGU or group of CGUs to which it is allocated. In all impairment tests of goodwill performed during 2008, the recoverable amount was determined based on value in use calculations.

Management based the value in use calculations on cash flow forecasts derived from the most recent three-year financial plans approved by the Board, in which the principal assumptions were those regarding sales growth rates, selling prices and changes in direct costs.

Cash flows for the years beyond the three-year financial plans for the CGUs to which individually significant amounts of goodwill were allocated were calculated as follows: cash flows in the fourth and fifth years were estimated by management based on relevant industry and economic forecasts; thereafter, the cash flows were projected to grow at 2% per annum, which does not exceed expected long-term growth rates in their principal end markets in North America and Europe.

Management applied discount rates to the resulting cash flow projections that reflect current market assessments of the time value of money and the risks specific to the CGU or group of CGUs. In each case, the discount rate was determined using a capital asset pricing model. Pre-tax discount rates used in the annual impairment tests of goodwill during 2008 were in the following ranges: Industrial & Automotive businesses 9.0% to 12.9%; and Building Products businesses 11.2% to 13.0%.

D. Impairments recognised during the year

During 2008, impairments totalling \$228.6 million were recognised in relation to the goodwill allocated to Stackpole, Gates Mectrol and Selkirk.

Stackpole manufactures power transmission components, systems and assemblies, principally for automotive OEMs, at its facilities in Canada, Germany and South Korea. At the time of the last annual impairment test of goodwill, the recoverable amount of Stackpole only marginally exceeded its carrying amount. During the first half of 2008, there was a deterioration in Stackpole's end markets and an impairment of \$90.5 million was recognised in relation to the goodwill allocated to the business. During the second half of 2008, the further deterioration on Stackpole's end markets caused the impairment of the remaining goodwill allocated to the business, which amounted to \$66.7 million. Management used a pre-tax discount rate of 11.7% (2007: 9.7%).

Gates Mectrol manufactures power transmission and motion control belts, principally for industrial and automotive OEMs, at its facilities in the US and Germany. During the second half of 2008, the deterioration in Gates Mectrol's end markets caused the impairment of the entire goodwill allocated to the business, which amounted to \$37.4 million. Management used a pre-tax discount rate of 11.7% (2007: 10.6%).

Selkirk manufactures chimney, venting and air distribution products, principally for the residential construction market in North America. During 2008, there was a further deterioration in Selkirk's end markets and an impairment of \$34.0 million was recognised in relation to the goodwill allocated to the business. Management used a pre-tax discount rate of 12.5% (2007: 10.8%).

Impairments recognised during the year are analysed by operating segment in note 6.

E. Sensitivity to changes in key assumptions

Individually significant CGUs

At the end of 2008, the recoverable amount of Selkirk equalled its carrying amount. Management has assessed the sensitivity of the recoverable amount of Selkirk to key assumptions to be as follows: a one percentage point increase in the applicable pre-tax discount rate of 12.5% would reduce the recoverable amount by \$15 million; a one percentage point fall in Selkirk's operating margin would reduce the recoverable amount by \$13 million; and a one percentage point fall in the assumed long-term growth rate of 2% would reduce the recoverable amount by \$10 million.

Management considers that, of the other CGUs or groups of CGUs to which significant amounts of goodwill are allocated, only the recoverable amount of Hart & Cooley may fall below its carrying amount due to reasonably possible changes during the next year in one or more key assumptions. At the end of 2008, the recoverable amount of Hart & Cooley exceeded its carrying amount by \$38 million. Management has assessed the sensitivity of the recoverable amount of Hart & Cooley to key assumptions to be as follows: a one percentage point increase in the applicable pre-tax discount rate of 12.4% would reduce the recoverable amount by \$32 million; a one percentage point fall in Hart & Cooley's operating margin would reduce the recoverable amount by \$23 million; and a one percentage point fall in the assumed long-term growth rate of 2% would reduce the recoverable amount by \$23 million.

Other CGUs

Management does not consider that a reasonably possible change in one or more key assumptions during the next year could cause the aggregate recoverable amount of other CGUs to fall below their aggregate carrying amount.

Notes to the financial statements (continued)

20. Other intangible assets

	Development costs \$ million	Assets arising on acquisitions \$ million	Computer software \$ million	Total \$ million
Cost				
As at 30 December 2006	1.4	47.4	123.7	172.5
Additions	0.4	–	5.2	5.6
Acquisition of subsidiaries	–	10.8	0.2	11.0
Transfer to assets held for sale	–	–	(2.8)	(2.8)
Disposals	–	–	(5.0)	(5.0)
Foreign currency translation	–	3.2	1.7	4.9
As at 29 December 2007	1.8	61.4	123.0	186.2
Additions	0.6	–	10.4	11.0
Acquisition of subsidiaries	–	37.4	–	37.4
Disposals	–	–	(1.1)	(1.1)
Foreign currency translation	(0.6)	(7.4)	(1.9)	(9.9)
As at 3 January 2009	1.8	91.4	130.4	223.6
Accumulated amortisation				
As at 30 December 2006	–	5.5	72.8	78.3
Amortisation charge for the period	0.2	7.2	13.2	20.6
Transfer to assets held for sale	–	–	(2.4)	(2.4)
Disposals	–	–	(5.0)	(5.0)
Foreign currency translation	–	0.7	0.9	1.6
As at 29 December 2007	0.2	13.4	79.5	93.1
Amortisation charge for the period	0.2	10.6	15.2	26.0
Disposals	–	–	(1.1)	(1.1)
Foreign currency translation	(0.2)	(1.3)	(1.7)	(3.2)
As at 3 January 2009	0.2	22.7	91.9	114.8
Carrying amount				
As at 29 December 2007	1.6	48.0	43.5	93.1
As at 3 January 2009	1.6	68.7	38.5	108.8

Intangible assets arising on acquisitions principally represent acquired customer relationships.

All intangible assets included above have finite useful lives.

21. Property, plant and equipment

	Land and buildings \$ million	Plant, equipment and vehicles \$ million	Assets under construction \$ million	Total \$ million
Cost				
As at 30 December 2006	689.9	2,381.1	82.8	3,153.8
Additions	5.8	55.4	161.7	222.9
Acquisition of subsidiaries	1.2	5.8	–	7.0
Disposal of subsidiaries	–	(6.0)	–	(6.0)
Transfer from assets under construction	14.0	130.7	(144.7)	–
Transfer to assets held for sale	(13.4)	(74.2)	–	(87.6)
Disposals	(27.8)	(87.8)	(1.2)	(116.8)
Foreign currency translation	29.8	158.7	6.0	194.5
As at 29 December 2007	699.5	2,563.7	104.6	3,367.8
Additions	11.2	42.6	126.8	180.6
Acquisition of subsidiaries	5.8	3.4	–	9.2
Disposal of subsidiaries	–	(0.2)	–	(0.2)
Transfer from assets under construction	16.1	132.5	(148.6)	–
Transfer from assets held for sale	6.2	–	–	6.2
Disposals	(6.1)	(90.4)	(1.4)	(97.9)
Foreign currency translation	(41.3)	(237.8)	(6.0)	(285.1)
As at 3 January 2009	691.4	2,413.8	75.4	3,180.6
Accumulated depreciation and impairment				
As at 30 December 2006	241.5	1,552.1	–	1,793.6
Depreciation charge for the period	22.2	193.7	–	215.9
Disposal of subsidiaries	–	(3.8)	–	(3.8)
Transfer to assets held for sale	(6.8)	(57.0)	–	(63.8)
Disposals	(13.0)	(78.2)	–	(91.2)
Foreign currency translation	9.0	93.7	–	102.7
As at 29 December 2007	252.9	1,700.5	–	1,953.4
Depreciation charge for the period	22.9	180.2	–	203.1
Disposal of subsidiaries	–	(0.1)	–	(0.1)
Transfer from assets held for sale	3.5	–	–	3.5
Disposals	(3.6)	(83.9)	–	(87.5)
Impairments	10.1	103.7	–	113.8
Foreign currency translation	(10.7)	(162.2)	–	(172.9)
As at 3 January 2009	275.1	1,738.2	–	2,013.3
Carrying amount				
As at 29 December 2007	446.6	863.2	104.6	1,414.4
As at 3 January 2009	416.3	675.6	75.4	1,167.3

During 2008, against the background of the weakness of the Group's end markets, particularly the automotive original equipment markets in North America and Europe and the residential construction market in North America, management reviewed the recoverability of the assets of the Group's businesses that are exposed to those markets. As a result of that review, the following impairments, totalling \$113.8 million, were recognised in relation to property, plant and equipment:

- (i) \$65.9 million on the assets of Stackpole, that was based on the value in use of the business determined by applying a pre-tax discount rate of 11.7%;
- (ii) \$16.8 million on the assets of Gates' pulley and tensioners manufacturing facility at London, Ontario in Canada, that was based on fair value less costs to sell (subsequent to the year end, management announced its intention to close the facility);
- (iii) \$11.0 million on the assets of Philips Products Inc., which manufactures doors, windows and ventilating devices in the US, that was based on fair value less costs to sell; and
- (iv) \$20.1 million, principally on the assets of businesses in Europe (none of these impairments was individually significant).

Impairments recognised during the year are analysed by operating segment in note 6.

Where the impairment was based on fair value less costs to sell, fair value was based either on indicative offers made by potential acquirers of the business concerned or on the estimated current market values of the individual assets.

Notes to the financial statements (continued)

21. Property, plant and equipment (continued)

Land and buildings include freehold land with a carrying value of \$63.5 million (29 December 2007: \$68.0 million) that is not depreciated.

As at 3 January 2009, the carrying amount of property, plant and equipment included \$9.9 million (29 December 2007: \$12.6 million) in respect of assets held under finance leases. The Group's obligations under finance leases, which are analysed in note 30, are secured by a lessor's charge over the leased assets.

22. Investments in associates

	Year ended 3 January 2009 \$ million	Year ended 29 December 2007 \$ million	Year ended 30 December 2006 \$ million
Carrying amount			
At the beginning of the period	17.7	13.7	7.6
Share of (loss)/profit of associates	(2.1)	0.8	2.8
Dividends received from associates	(0.6)	(1.4)	(0.6)
	15.0	13.1	9.8
Additions	10.4	3.8	3.5
Disposals	(1.9)	–	–
Foreign currency translation	(3.2)	0.8	0.4
At the end of the period	20.3	17.7	13.7

Details of the Group's principal associates are set out on page 152.

Segment analysis of the Group's investments in associates and of its share of associates' (loss)/profit for the period:

	Investments in associates		Share of (loss)/profit of associates		
	As at 3 January 2009 \$ million	As at 29 December 2007 \$ million	Year ended 3 January 2009 \$ million	Year ended 29 December 2007 \$ million	Year ended 30 December 2006 \$ million
By operating segment					
Industrial & Automotive:					
– Power Transmission	13.0	7.0	(2.9)	–	(0.2)
– Fluid Systems	3.8	6.3	0.7	0.6	2.6
– Other Industrial & Automotive	0.5	0.6	0.2	0.2	0.4
	17.3	13.9	(2.0)	0.8	2.8
Building Products:					
– Air Systems Components	3.0	3.8	(0.1)	–	–
	20.3	17.7	(2.1)	0.8	2.8
By location					
US	3.4	3.4			
Rest of the world	16.9	14.3			
	20.3	17.7			

In 2008, the aggregate sales of the Group's associates were \$232.3 million (2007: \$174.2 million) and their aggregate loss for the period was \$11.5 million (2007: profit of \$2.6 million).

As at 3 January 2009, the aggregate total assets of the Group's associates was \$117.0 million (29 December 2007: \$78.9 million) and the aggregate total of their liabilities was \$51.7 million (29 December 2007: \$41.3 million).

Schrader Duncan Limited, an associate in which the Group owns a 50% interest, is listed on the Mumbai Stock Exchange.

As at 3 January 2009, the fair value of the Group's investment based on the quoted market price of the associate's shares was \$3.1 million (29 December 2007: \$12.8 million).

23. Inventories

	As at 3 January 2009 \$ million	As at 29 December 2007 \$ million
Raw materials and supplies	265.4	264.3
Work in progress	83.9	94.5
Finished goods and goods held for resale	423.1	441.0
	772.4	799.8

As at 3 January 2009, inventories are stated net of an allowance for excess, obsolete or slow-moving items of \$45.1 million (29 December 2007: \$43.4 million).

24. Trade and other receivables

	As at 3 January 2009 \$ million	As at 29 December 2007 \$ million
Current assets		
Financial assets:		
– Trade receivables (note 25)	684.4	858.5
– Derivative financial instruments (note 32)	1.1	5.6
– Collateralised cash	3.8	5.8
– Other receivables	37.0	74.0
	726.3	943.9
Non-financial assets:		
– Prepayments	43.4	45.2
	769.7	989.1
Non-current assets		
Financial assets:		
– Derivative financial instruments (note 32)	73.4	6.2
– Other receivables	32.5	18.7
	105.9	24.9

Collateralised cash represents cash given as collateral under letters of credit for insurance and regulatory purposes.

The Group is the beneficiary of a number of corporate-owned life assurance policies against which it borrows from the relevant life assurance company. As at 3 January 2009, the surrender value of the policies was \$518.6 million (29 December 2007: \$468.9 million) and the amount outstanding on the related loans was \$516.5 million (29 December 2007: \$466.9 million). For accounting purposes, these amounts are offset and the net receivable of \$2.1 million (29 December 2007: \$2.0 million) is included in other receivables.

Notes to the financial statements (continued)

25. Trade receivables

Trade receivables amounted to \$684.4 million (29 December 2007: \$858.5 million), net of an allowance of \$11.4 million (29 December 2007: \$11.0 million) for doubtful debts.

The Group has a significant concentration of customers in the US, who accounted for 57.6% (2007: 63.1%; 2006: 66.8%) of the Group's sales during the period, and in the automotive industry, which accounted for 41.9% (2007: 40.9%; 2006: 36.3%) of the Group's sales during the period. However, no single customer accounted for more than 10% of the Group's sales and there were no significant amounts due from any one customer.

Before accepting a new customer, the Group assesses the potential customer's credit quality and establishes a credit limit. Credit quality is assessed by using data maintained by reputable credit rating agencies, by checking of references included in credit applications and, where they are available, by reviewing the customer's recent financial statements. Credit limits are subject to multiple levels of authorisation and are reviewed on a regular basis.

Trade receivables are regularly reviewed for bad and doubtful debts. Bad debts are written-off and an allowance is established for specific doubtful debts.

Trade receivables may be analysed as follows:

	As at 3 January 2009 \$ million	As at 29 December 2007 \$ million
Amounts neither past due nor impaired	554.1	738.0
Amounts past due but not impaired:		
– Less than 30 days old	7.0	9.2
– Between 30 and 60 days old	64.6	53.8
– Between 61 and 90 days old	30.0	22.3
– More than 90 days old	24.2	29.1
	125.8	114.4
Amounts impaired:		
– Total amounts that have been impaired	15.9	17.1
– Allowance for doubtful debts	(11.4)	(11.0)
	4.5	6.1
	684.4	858.5

Movements in the allowance for doubtful debts were as follows:

	Year ended 3 January 2009 \$ million	Year ended 29 December 2007 \$ million	Year ended 30 December 2006 \$ million
At the beginning of the period	11.0	10.2	13.6
Charge for the period	6.0	1.8	1.7
Acquisition of subsidiaries	0.3	–	–
Transfer to assets held for sale	–	–	(2.8)
Utilised during the period	(4.4)	(1.4)	(3.1)
Foreign currency translation	(1.5)	0.4	0.8
At the end of the period	11.4	11.0	10.2

Trade receivables are not generally interest-bearing although interest may be charged to customers on overdue accounts.

26. Available-for-sale investments

\$ million

Carrying amount	
As at 30 December 2006	4.1
Additions	0.2
Fair value loss recognised directly in equity	(0.8)
Disposals	(0.6)
Foreign currency translation	0.1
As at 29 December 2007	3.0
Additions	0.1
Fair value loss recognised directly in equity	(1.0)
Disposals	(1.6)
Foreign currency translation	0.3
As at 3 January 2009	0.8

Available-for-sale investments comprise listed equities.

27. Cash and cash equivalents

	As at 3 January 2009 \$ million	As at 29 December 2007 \$ million
Cash on hand and demand deposits	213.2	230.8
Term deposits	78.7	65.1
	291.9	295.9

As at 3 January 2009, the carrying amount of cash and cash equivalents included accrued interest receivable of \$nil (29 December 2007: \$0.4 million).

The currency and interest rate profile of cash and cash equivalents was as follows:

	Floating interest rate		Non-interest bearing \$ million	Total \$ million
	\$ million	Weighted average interest rate %		
As at 3 January 2009				
Currency:				
– US dollar	91.2	0.3%	22.1	113.3
– Sterling	4.3	2.7%	0.6	4.9
– Euro	25.4	2.1%	1.2	26.6
– Canadian dollar	15.0	1.6%	–	15.0
– Other	116.1	3.5%	16.0	132.1
	252.0		39.9	291.9
As at 29 December 2007				
Currency:				
– US dollar	79.7	3.6%	6.2	85.9
– Sterling	17.9	4.9%	2.2	20.1
– Euro	22.5	3.0%	1.2	23.7
– Canadian dollar	15.6	3.6%	–	15.6
– Other	134.3	3.4%	16.3	150.6
	270.0		25.9	295.9

Notes to the financial statements (continued)

28. Assets held for sale

As at 29 December 2007, Stant Manufacturing, Inc., a manufacturer of automotive closure caps, and Standard-Thomson Corporation, a manufacturer of automotive thermostats, were classified as held for sale. Both businesses, which were included in the Fluid Systems business segment, were sold on 19 June 2008.

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

	As at 3 January 2009 \$ million	As at 29 December 2007 \$ million
Assets held for sale		
Intangible assets	–	0.6
Property, plant and equipment	–	35.7
Inventories	–	15.5
Trade and other receivables	–	39.1
	–	90.9
Liabilities directly associated with assets held for sale		
Trade and other payables	–	(22.1)
Post-employment benefit obligations	–	(2.4)
Deferred tax liabilities	–	(2.2)
Provisions	–	(1.4)
	–	(28.1)
	–	62.8

As at 29 December 2007, a cumulative currency translation loss of \$7.1 million was recognised in equity in relation to foreign operations classified as held for sale.

29. Borrowings

	As at 3 January 2009			As at 29 December 2007		
	Current liabilities \$ million	Non-current liabilities \$ million	Total \$ million	Current liabilities \$ million	Non-current liabilities \$ million	Total \$ million
Carrying amount						
Bank overdrafts	13.7	–	13.7	15.7	–	15.7
Bank and other loans:						
– Bank loans – secured	–	–	–	0.2	–	0.2
– unsecured	20.9	129.5	150.4	28.7	35.9	64.6
– Other loans – unsecured	8.3	633.4	641.7	10.5	784.6	795.1
– Unsecured loan notes	0.3	–	0.3	0.4	–	0.4
	29.5	762.9	792.4	39.8	820.5	860.3
	43.2	762.9	806.1	55.5	820.5	876.0

The carrying amount of borrowings may be reconciled to the principal amount outstanding as follows:

	As at 3 January 2009 \$ million	As at 29 December 2007 \$ million
Carrying amount	806.1	876.0
Accrued interest payable	(7.8)	(9.7)
Unamortised transaction costs	2.6	4.4
Fair value hedge adjustment (note 32)	(51.9)	7.4
Principal amount	749.0	878.1

The maturity analysis of the principal amount outstanding is presented in note 33.

Bank loans

Bank loans include amounts drawn down under the Group's £400 million multi-currency revolving credit facility amounting to \$129.3 million (29 December 2007: \$35.9 million). Borrowings under the facility attract interest at floating rates determined by reference to LIBOR and the facility expires on 8 August 2010.

Other loans

The Group has issued two bonds under the EMTN Programme: £150 million repayable at par on 20 December 2011 that bears interest at a fixed rate of 8%; and £250 million repayable at par on 16 September 2015 that bears interest at a fixed rate of 6.125%.

Unsecured loan notes

The unsecured loan notes must be repaid, at par, on 30 June 2012. Until that time, in certain circumstances, the noteholders 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.

Currency and interest rate profile

The currency and interest rate profile of outstanding borrowings, after taking into account the effect of the Group's currency and interest rate hedging activities, was as follows:

	Floating interest rate		Fixed interest rate			Interest-free		Total \$ million
	\$ million	Weighted average interest rate %	\$ million	Weighted average interest rate %	Weighted average period for which rate is fixed Years	\$ million		
As at 3 January 2009								
Currency:								
– US dollar	360.6	3.7%	65.0	4.6%	1.5 years	0.3	425.9	
– Sterling	52.0	5.5%	–	–	–	1.0	53.0	
– Euro	116.2	4.5%	–	–	–	–	116.2	
– Canadian dollar	119.4	4.6%	–	–	–	–	119.4	
– Other	91.2	6.9%	0.3	3.5%	8.0 years	0.1	91.6	
	739.4		65.3			1.4	806.1	
As at 29 December 2007								
Currency:								
– US dollar	440.8	7.7%	64.9	7.7%	4.8 years	0.4	506.1	
– Sterling	35.7	5.6%	–	–	–	1.2	36.9	
– Euro	95.3	7.7%	6.6	2.5%	3.0 years	–	101.9	
– Canadian dollar	168.2	7.7%	–	–	–	–	168.2	
– Other	60.5	8.1%	2.4	13.1%	2.6 years	–	62.9	
	800.5		73.9			1.6	876.0	

Notes to the financial statements (continued)

30. Obligations under finance leases

	Minimum lease payments		Carrying amount	
	As at 3 January 2009 \$ million	As at 29 December 2007 \$ million	As at 3 January 2009 \$ million	As at 29 December 2007 \$ million
Amounts payable under finance leases				
Within one year	1.9	2.4	1.5	1.8
In the second to fifth years, inclusive	4.0	5.8	2.8	4.6
After more than five years	3.6	4.6	2.6	3.2
	9.5	12.8	6.9	9.6
Less: Future finance charges	(2.6)	(3.2)	–	–
	6.9	9.6	6.9	9.6

The Group leases certain of its plant, equipment and vehicles under finance leases. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. As at 3 January 2009, the average effective interest rate was 6.6% (29 December 2007: 6.4%).

The Group's obligations under finance leases are secured by the lessors' title to the leased assets.

31. Trade and other payables

	As at 3 January 2009 \$ million	As at 29 December 2007 \$ million
Current liabilities		
Financial liabilities:		
– Trade payables	384.9	432.9
– Other taxes and social security	23.7	35.9
– Derivative financial instruments (note 32)	15.7	3.4
– Other payables	26.1	41.9
	450.4	514.1
Non-financial liabilities:		
– Accruals and deferred income	199.7	224.6
	650.1	738.7
Non-current liabilities		
Financial liabilities:		
– Derivative financial instruments (note 32)	30.4	13.2
– Other payables	17.7	18.5
	48.1	31.7
Non-financial liabilities:		
– Accruals and deferred income	3.5	11.5
	51.6	43.2

Trade payables are generally not interest-bearing but interest may be charged by suppliers on overdue accounts.

32. Derivative financial instruments**A. Summary**

Derivative financial instruments are held in relation to the Group's financial risk management policy which is described in note 33. The Group does not hold or issue derivatives for speculative or trading purposes.

The carrying amount of derivative financial instruments held by the Group was as follows:

	As at 3 January 2009			As at 29 December 2007		
	Assets \$ million	Liabilities \$ million	Net \$ million	Assets \$ million	Liabilities \$ million	Net \$ million
Hedging activities						
Translational hedges:						
– Currency forwards	10.7	(30.4)	(19.7)	–	(13.2)	(13.2)
– Interest rate swaps	62.7	(2.1)	60.6	6.2	(0.6)	5.6
	73.4	(32.5)	40.9	6.2	(13.8)	(7.6)
Transactional hedges:						
– Currency forwards and swaps	1.1	(13.6)	(12.5)	0.6	(2.8)	(2.2)
	74.5	(46.1)	28.4	6.8	(16.6)	(9.8)
Other items						
Embedded derivatives	–	–	–	5.0	–	5.0
	74.5	(46.1)	28.4	11.8	(16.6)	(4.8)
Classified as:						
– Current	1.1	(15.7)	(14.6)	5.6	(3.4)	2.2
– Non-current	73.4	(30.4)	43.0	6.2	(13.2)	(7.0)
	74.5	(46.1)	28.4	11.8	(16.6)	(4.8)

B. Currency derivatives

As at 3 January 2009, the notional principal amount of outstanding foreign exchange contracts that are used to manage the currency profile of the Group's net assets was \$888.7 million (29 December 2007: \$1,167.4 million). The Group has designated these contracts as net investment hedges. During 2008, the net fair value gain of \$57.2 million (2007: net loss of \$31.0 million; 2006: net gain of \$79.8 million) in relation to these contracts was recognised directly in equity.

Prior to the change in its presentation currency at the beginning of 2008, the Group also designated as net investment hedges the US dollar borrowings under the multi-currency revolving credit facility and, before their redemption in July 2007, the Company's US dollar denominated preference shares. During 2007, the net currency translation gain of \$3.8 million (2006: net gain of \$47.8 million) arising on these instruments was recognised directly in equity.

The currency profile of the Group's net assets after taking into account translation hedges is presented in note 33.

During 2008, a net loss of \$17.9 million (2007: net loss of \$3.0 million; 2006: net loss of \$1.3 million) was recognised within other finance expense in respect of currency translation hedges that did not qualify for hedge accounting under IAS 39.

Also during 2008, a net fair value loss of \$9.4 million (2007: net loss of \$4.0 million; 2006: net loss of \$1.3 million) was recognised within operating profit in respect of currency derivatives that were held to provide an economic hedge of transactional currency exposures but were not designated as hedges for accounting purposes.

Notes to the financial statements (continued)

32. Derivative financial instruments (continued)**C. Interest rate swaps**

Interest rate swaps are used to swap borrowings under the Group's EMTN Programme from fixed interest rates to floating interest rates. As at 3 January 2009, the nominal value of the contracts outstanding was £400 million (29 December 2007: £400 million). The Group has designated these contracts as fair value hedges in relation to the borrowings. During 2008, the Group recognised a net fair value gain of \$75.7 million (2007: net gain of \$7.0 million; 2006: net loss of \$36.3 million) in relation to these contracts and the carrying amount of the hedged borrowings was increased by \$75.6 million (2007: increased by \$5.4 million; 2006: reduced by \$38.0 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 adoption of IAS 39. During 2008, a net gain of \$0.1 million (2007: net gain of \$1.6 million; 2006: net gain of \$1.7 million) was therefore recognised within other finance expense in relation to these hedges.

Interest rate swaps are also used to restrict the amount of floating rate US dollar debt. As at 3 January 2009, the nominal value of these contracts held was \$65.0 million (29 December 2007: \$130.0 million). During 2008, a net fair value loss of \$2.1 million (2007: net loss of \$3.8 million; 2006: net loss of \$1.7 million) was recognised within other finance expense in relation to these contracts that did not qualify for hedge accounting under IAS 39.

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

	Notional principal amount million	Interest rate				Variable rate index
		Payable		Receivable		
		Variable	Fixed	Variable	Fixed	
As at 3 January 2009						
Maturity date:						
– December 2011	£150.0	5.7%	–	–	8.0%	6 month LIBOR
– September 2015	£250.0	4.0%	–	–	6.1%	3 month LIBOR
– December 2009	\$65.0	–	4.6%	1.5%	–	3 month LIBOR
As at 29 December 2007						
Maturity date:						
– December 2011	£150.0	8.6%	–	–	8.0%	6 month LIBOR
– September 2015	£250.0	7.2%	–	–	6.1%	3 month LIBOR
– June 2008	\$65.0	–	3.8%	4.9%	–	3 month LIBOR
– December 2009 (commencing June 2008)	\$65.0	–	4.6%	–	–	3 month LIBOR

33. Financial risk management**A. Risk management policies**

The Group's central treasury function is responsible for procuring the Group's capital resources and maintaining an efficient capital structure, together with managing the Group's liquidity, foreign exchange and interest rate exposures.

All treasury operations are conducted within strict policies and guidelines that are approved by the Board. Compliance with those policies and guidelines is monitored by the regular reporting of treasury activities to the Board.

A key element of the Group's treasury philosophy is that funding, interest rate and currency decisions and the location of cash and debt balances are determined independently of each other. The Group's borrowing requirements are met by raising funds in the most favourable markets. Management aims to retain net debt in proportion to the currencies in which the net assets of the Group's operations are denominated. The desired currency profile of net debt is achieved by entering into currency derivative contracts. The proportion of investments in foreign operations effectively funded by shareholders' equity is not hedged. The net income of foreign operations is not hedged but the effect of currency fluctuations on the Group's reported net income is partly offset by interest payable on net debt denominated in foreign currencies.

From time to time, the Group also enters into currency derivative contracts to manage currency transaction exposures.

The Group's interest rate profile is managed within the policy established by the Board. The desired interest rate profile of net debt in each currency is achieved by entering into interest rate derivative contracts.

The Group's portfolio of cash and cash equivalents is managed such that there is no significant concentration of credit risk in any one bank or other financial institution. Management monitors closely the credit quality of the institutions with which it holds deposits. Similar considerations are given to the Group's portfolio of derivative financial instruments.

The Group's borrowing facilities are monitored against forecast requirements and timely action is taken to put in place, renew or replace credit lines. Management's policy is to reduce liquidity risk by diversifying the Group's funding sources and by staggering the maturity of its borrowings.

The Group has established long-term credit ratings of Baa3 Stable with Moody's and BBB Stable with Standard & Poor's and short-term credit ratings of P-3 with Moody's and A-2 with Standard & Poor's. Management aims to achieve an appropriate mix of debt and equity to ensure an efficient capital structure and to preserve these ratings.

Disclosures about the Group's capital are set out in note 43.

B. Financial assets and liabilities

Financial assets and liabilities analysed by the categories defined in IAS 39 were as follows:

	Loans and receivables \$ million	Available- for-sale \$ million	Liabilities at amortised cost \$ million	Fair value through profit or loss		Total carrying value \$ million	Fair value \$ million
				Designated hedging relationships \$ million	Trading \$ million		
As at 3 January 2009							
Financial assets							
Trade and other receivables:							
– Non-derivative assets	757.7	–	–	–	–	757.7	757.7
– Derivative assets	–	–	–	73.4	1.1	74.5	74.5
	757.7	–	–	73.4	1.1	832.2	832.2
Available-for-sale investments	–	0.8	–	–	–	0.8	0.8
Cash and cash equivalents	291.9	–	–	–	–	291.9	291.9
	1,049.6	0.8	–	73.4	1.1	1,124.9	1,124.9
Financial liabilities							
Trade and other payables:							
– Non-derivative liabilities	–	–	(452.4)	–	–	(452.4)	(452.4)
– Derivative liabilities	–	–	–	(32.5)	(13.6)	(46.1)	(46.1)
	–	–	(452.4)	(32.5)	(13.6)	(498.5)	(498.5)
Bank overdrafts	–	–	(13.7)	–	–	(13.7)	(13.7)
Bank and other loans:							
– Current	–	–	(29.5)	–	–	(29.5)	(29.0)
– Non-current	–	–	(711.0)	(51.9)	–	(762.9)	(583.4)
Obligations under finance leases	–	–	(6.9)	–	–	(6.9)	(6.9)
	–	–	(1,213.5)	(84.4)	(13.6)	(1,311.5)	(1,131.5)
	1,049.6	0.8	(1,213.5)	(11.0)	(12.5)	(186.6)	(6.6)

Notes to the financial statements (continued)

33. Financial risk management (continued)

B. Financial assets and liabilities (continued)

	Loans and receivables \$ million	Available- for-sale \$ million	Liabilities at amortised cost \$ million	Fair value through profit or loss		Total carrying value \$ million	Fair value \$ million
				Designated hedging relationships \$ million	Trading \$ million		
As at 29 December 2007							
Financial assets							
Trade and other receivables:							
– Non-derivative assets	957.0	–	–	–	–	957.0	957.0
– Derivative assets	–	–	–	6.2	5.6	11.8	11.8
	957.0	–	–	6.2	5.6	968.8	968.8
Available-for-sale investments	–	3.0	–	–	–	3.0	3.0
Cash and cash equivalents	295.9	–	–	–	–	295.9	295.9
	1,252.9	3.0	–	6.2	5.6	1,267.7	1,267.7
Financial liabilities							
Trade and other payables:							
– Non-derivative liabilities	–	–	(529.2)	–	–	(529.2)	(529.2)
– Derivative liabilities	–	–	–	(13.2)	(3.4)	(16.6)	(16.6)
	–	–	(529.2)	(13.2)	(3.4)	(545.8)	(545.8)
Bank overdrafts	–	–	(15.7)	–	–	(15.7)	(15.7)
Bank and other loans:							
– Current	–	–	(39.8)	–	–	(39.8)	(39.8)
– Non-current	–	–	(827.9)	7.4	–	(820.5)	(827.4)
Obligations under finance leases	–	–	(9.6)	–	–	(9.6)	(9.6)
	–	–	(1,422.2)	(5.8)	(3.4)	(1,431.4)	(1,438.3)
	1,252.9	3.0	(1,422.2)	0.4	2.2	(163.7)	(170.6)

Available-for-sale investments are listed and are valued by reference to quoted market prices.

Cash and cash equivalents and current bank and other loans largely attract floating interest rates. Accordingly, their carrying amounts are considered to approximate to fair value.

Non-current bank and other loans principally comprise borrowings under the Group's multi-currency revolving credit facility that attract floating interest rates, the carrying amount of which is considered to approximate to fair value, and the listed bonds issued under the EMTN Programme, the fair value of which is based on their quoted market prices.

Finance lease obligations attract fixed interest rates that are implicit in the lease rentals and their fair value has been assessed by reference to prevailing market interest rates.

Derivative assets and liabilities represent the fair value of foreign currency derivatives and interest rate derivatives held by the Group at the balance sheet date. Foreign currency derivatives are valued by reference to prevailing forward exchange rates. Interest rate derivatives are valued by discounting the related cash flows using prevailing market interest rates.

C. Credit risk

Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

Management considers the Group's maximum exposure to credit risk to be as follows:

	As at 3 January 2009 \$ million	As at 29 December 2007 \$ million
Trade and other receivables:		
– Derivative assets	74.5	11.8
– Non-derivative assets	757.7	957.0
	832.2	968.8
Cash and cash equivalents	291.9	295.9
	1,124.1	1,264.7

As at 3 January 2009, 92% (29 December 2007: 86%) of the Group's cash and cash equivalents were held with institutions rated at least A-1 by Standard & Poor's and P-1 by Moody's. Credit risk disclosures with respect to trade receivables are set out in note 25.

D. Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

As at 3 January 2009, the Group had undrawn committed borrowing facilities of \$455.1 million (29 December 2007: \$761.3 million) available under the multi-currency revolving credit facility that expires on 8 August 2010. Borrowings under this facility are at prevailing LIBOR rates, plus an agreed margin, dependent on the period of drawdown. In addition, the Group had uncommitted borrowing facilities of \$495.4 million (29 December 2007: \$507.6 million), of which \$34.7 million (29 December 2007: \$44.8 million) had been drawn down for cash. Consequently, the Group's committed borrowing headroom was \$420.4 million (29 December 2007: \$532.4 million) in addition to cash and cash equivalents of \$291.9 million (29 December 2007: \$295.9 million). The Group also had outstanding performance bonds, letters of credit and bank guarantees amounting to \$164.5 million (29 December 2007: \$184.1 million).

The Group is subject to covenants, representations and warranties commonly associated with investment grade borrowings in respect of its committed borrowing facilities and bonds issued under the EMTN Programme.

The Group is subject to two financial covenants in respect of its committed borrowing facilities that are calculated by applying UK GAAP extant as at 31 December 2002. The ratio of net debt to consolidated earnings before interest, tax, depreciation and amortisation must not exceed 2.5 times (at the end of 2008, the ratio was 0.8 times). The ratio of consolidated operating profit to the consolidated net interest charge must not be less than 3.0 times (for 2008, the ratio was 7.5 times).

The Group complied with the borrowing covenants throughout each of the periods presented in the financial statements. Any future non-compliance with the borrowing covenants could, if not waived, constitute an event of default and may, in certain circumstances, lead to an acceleration of the maturity of borrowings drawn down and the inability to access committed facilities.

Notes to the financial statements (continued)

33. Financial risk management (continued)

D. Liquidity risk (continued)

Contractual cash flows related to the Group's financial liabilities are as follows:

	Within 1 year \$ million	Between 1 and 2 years \$ million	Between 2 and 3 years \$ million	Between 3 and 4 years \$ million	Between 4 and 5 years \$ million	After 5 years \$ million	Total \$ million
As at 3 January 2009							
Bank overdrafts	(13.6)	–	–	–	–	–	(13.6)
Bank and other loans:							
– Principal	(20.9)	(129.3)	(219.2)	(0.3)	(0.3)	(365.4)	(735.4)
– Interest payments	(41.6)	(39.9)	(39.9)	(22.4)	(22.4)	(38.2)	(204.4)
Finance lease obligations	(1.9)	(1.5)	(1.1)	(0.8)	(0.6)	(3.6)	(9.5)
Trade and other payables:							
– Non-derivative liabilities	(434.7)	(17.7)	–	–	–	–	(452.4)
– Derivative liabilities							
Payments	(677.0)	(5.9)	–	–	–	–	(682.9)
Receipts	655.9	7.9	–	–	–	–	663.8
Cash flows on financial liabilities	(533.8)	(186.4)	(260.2)	(23.5)	(23.3)	(407.2)	(1,434.4)
Related financial assets:							
– Derivative assets							
Payments	(328.8)	(27.2)	(29.2)	(17.3)	(18.2)	(31.7)	(452.4)
Receipts	353.9	39.8	39.9	22.4	22.4	44.5	522.9
Cash flows on related financial assets	25.1	12.6	10.7	5.1	4.2	12.8	70.5
	(508.7)	(173.8)	(249.5)	(18.4)	(19.1)	(394.4)	(1,363.9)
	Within 1 year \$ million	Between 1 and 2 years \$ million	Between 2 and 3 years \$ million	Between 3 and 4 years \$ million	Between 4 and 5 years \$ million	After 5 years \$ million	Total \$ million
As at 29 December 2007							
Bank overdrafts	(15.7)	–	–	–	–	–	(15.7)
Bank and other loans:							
– Principal	(45.1)	–	(35.9)	(298.9)	–	(498.2)	(878.1)
– Interest payments	(59.2)	(56.6)	(56.6)	(55.8)	(30.5)	(91.5)	(350.2)
Finance lease obligations	(2.4)	(2.0)	(1.8)	(1.2)	(0.8)	(4.6)	(12.8)
Trade and other payables:							
– Non-derivative liabilities	(510.7)	(18.5)	–	–	–	–	(529.2)
– Derivative liabilities							
Payments	(1,238.2)	(13.6)	(8.4)	–	–	–	(1,260.2)
Receipts	1,223.2	12.6	8.0	–	–	–	1,243.8
Cash flows on financial liabilities	(648.1)	(78.1)	(94.7)	(355.9)	(31.3)	(594.3)	(1,802.4)
Related financial assets:							
– Derivative assets							
Payments	(91.9)	(53.6)	(53.6)	(53.6)	(30.3)	(91.3)	(374.3)
Receipts	90.9	56.2	56.2	56.2	30.5	91.5	381.5
Cash flows on related financial assets	(1.0)	2.6	2.6	2.6	0.2	0.2	7.2
	(649.1)	(75.5)	(92.1)	(353.3)	(31.1)	(594.1)	(1,795.2)

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Information on the Group's exposure to liquidity risk analysed by currency is presented below.

	Within 1 year \$ million	Between 1 and 2 years \$ million	Between 2 and 3 years \$ million	Between 3 and 4 years \$ million	Between 4 and 5 years \$ million	After 5 years \$ million	Total \$ million
As at 3 January 2009							
Cash flows on financial liabilities:							
– US dollar	(771.2)	(114.6)	(0.4)	(0.4)	(0.2)	–	(886.8)
– Sterling	480.0	(75.8)	(259.1)	(22.7)	(22.4)	(403.5)	(303.5)
– Euro	(39.6)	6.4	(0.7)	(0.4)	(0.4)	(3.7)	(38.4)
– Canadian dollar	(37.8)	–	–	–	–	–	(37.8)
– Other	(165.2)	(2.4)	–	–	(0.3)	–	(167.9)
	(533.8)	(186.4)	(260.2)	(23.5)	(23.3)	(407.2)	(1,434.4)
Cash flows on related financial assets:							
– US dollar	289.6	–	–	–	–	–	289.6
– Sterling	2.0	12.6	10.7	5.1	4.2	12.8	47.4
– Euro	(97.8)	–	–	–	–	–	(97.8)
– Canadian dollar	(105.6)	–	–	–	–	–	(105.6)
– Other	(63.1)	–	–	–	–	–	(63.1)
	25.1	12.6	10.7	5.1	4.2	12.8	70.5
As at 29 December 2007							
Cash flows on financial liabilities:							
– US dollar	(773.3)	(14.9)	(0.6)	(0.4)	(0.4)	(0.4)	(790.0)
– Sterling	749.1	(46.8)	(84.5)	(354.7)	(30.5)	(589.7)	(357.1)
– Euro	(222.4)	(12.2)	(9.6)	(0.8)	(0.4)	(4.2)	(249.6)
– Canadian dollar	(220.9)	–	–	–	–	–	(220.9)
– Other	(180.6)	(4.2)	–	–	–	–	(184.8)
	(648.1)	(78.1)	(94.7)	(355.9)	(31.3)	(594.3)	(1,802.4)
Cash flows on related financial assets:							
– US dollar	(16.1)	–	–	–	–	–	(16.1)
– Sterling	(0.6)	2.6	2.6	2.6	0.2	0.2	7.6
– Euro	(4.0)	–	–	–	–	–	(4.0)
– Canadian dollar	0.4	–	–	–	–	–	0.4
– Other	19.3	–	–	–	–	–	19.3
	(1.0)	2.6	2.6	2.6	0.2	0.2	7.2

Maturities in all of the liquidity tables above are based on the earliest date on which the Group could be required to settle the liabilities.

Floating interest payments and payments and receipts on interest rate derivatives are estimated based on market interest rates prevailing at the balance sheet date.

Notes to the financial statements (continued)

33. Financial risk management (continued)

E. Interest rate risk

Interest rate risk is the risk that the fair value of or future cash flows associated with a financial instrument will fluctuate because of changes in market interest rates.

The interest rate profile of the Group's financial assets and liabilities, after taking into account the effect of the Group's interest rate hedging activities, was as follows:

	As at 3 January 2009				As at 29 December 2007			
	Interest-bearing			Total \$ million	Interest-bearing			Total \$ million
	Floating rate \$ million	Fixed rate \$ million	Non-interest bearing \$ million		Floating rate \$ million	Fixed rate \$ million	Non-interest bearing \$ million	
Financial assets								
Trade and other receivables	3.8	–	828.4	832.2	5.8	–	963.0	968.8
Available-for-sale investments	–	–	0.8	0.8	–	–	3.0	3.0
Cash and cash equivalents (note 27)	252.0	–	39.9	291.9	270.0	–	25.9	295.9
	255.8	–	869.1	1,124.9	275.8	–	991.9	1,267.7
Financial liabilities								
Trade and other payables	–	–	(498.5)	(498.5)	–	–	(545.8)	(545.8)
Borrowings (note 29)	(739.4)	(65.3)	(1.4)	(806.1)	(800.5)	(73.9)	(1.6)	(876.0)
Obligations under finance leases	–	(6.9)	–	(6.9)	–	(9.6)	–	(9.6)
	(739.4)	(72.2)	(499.9)	(1,311.5)	(800.5)	(83.5)	(547.4)	(1,431.4)
	(483.6)	(72.2)	369.2	(186.6)	(524.7)	(83.5)	444.5	(163.7)

On the assumption that the change in interest rates is applied to the risk exposures in existence at the balance sheet date and that designated fair value hedges are highly effective, an increase/decrease of 100 basis points in the interest rates applying to financial assets and liabilities would increase/decrease the Group's profit before tax by \$4.0 million. No amounts would be taken directly to equity.

F. Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk arises on financial assets and liabilities that are denominated in a currency other than the functional currency of the entity by which they are held.

The Group's exposure to currency risk was as follows:

	Net foreign currency financial assets/(liabilities)					
	US dollar \$ million	Sterling \$ million	Euro \$ million	Canadian dollar \$ million	Other \$ million	Total \$ million
As at 3 January 2009						
Functional currency of entity:						
– US dollar	–	(7.0)	(1.4)	–	6.4	(2.0)
– Sterling	3.7	–	0.5	–	12.3	16.5
– Euro	(2.3)	(0.1)	–	(0.6)	–	(3.0)
– Canadian dollar	(1.4)	–	–	–	(0.1)	(1.5)
– Other	(11.2)	(0.7)	19.7	31.7	–	39.5
	(11.2)	(7.8)	18.8	31.1	18.6	49.5
As at 29 December 2007						
Functional currency of entity:						
– US dollar	–	(0.2)	(3.2)	0.2	6.4	3.2
– Sterling	24.3	–	10.4	–	0.2	34.9
– Euro	(4.4)	(0.2)	–	–	–	(4.6)
– Canadian dollar	3.0	(0.4)	(0.2)	–	(0.4)	2.0
– Other	(24.3)	(7.4)	2.8	(2.2)	–	(31.1)
	(1.4)	(8.2)	9.8	(2.0)	6.2	4.4

Currency exposures shown above take into account the effect of the Group's transaction hedging activities.

On the assumption that the change in exchange rates is applied to the risk exposures in existence at the balance sheet date and that designated net investment hedges are highly effective, an increase/decrease of 10% in the value of the functional currencies of the entities concerned against the currencies in which the financial assets and liabilities are denominated would increase/decrease the Group's profit before tax by \$5.0 million. No amounts would be taken directly to equity.

Currency exposures on the Group's net assets, after taking into account the translation hedges applied to the Group's borrowings, were as follows:

	As at 3 January 2009			As at 29 December 2007		
	Net assets excluding net (debt)/funds \$ million	Net (debt)/funds \$ million	Net assets \$ million	Net assets excluding net (debt)/funds \$ million	Net (debt)/funds \$ million	Net assets \$ million
Currency:						
– US dollar	1,164.2	(305.8)	858.4	1,390.1	(428.3)	961.8
– Sterling	101.9	(12.7)	89.2	169.8	(12.4)	157.4
– Euro	229.9	(94.6)	135.3	241.5	(85.7)	155.8
– Canadian dollar	171.6	(104.4)	67.2	519.6	(157.0)	362.6
– Other	548.1	41.1	589.2	525.3	91.9	617.2
	2,215.7	(476.4)	1,739.3	2,846.3	(591.5)	2,254.8

34. Post-employment benefit obligations

A. Background

The Group operates pension plans throughout the world, covering the majority of its employees. The plans are structured to accord with local conditions and practices in each country and include defined contribution plans and defined benefit plans.

The Group provides defined contribution pension benefits in most of the countries in which it operates; in particular, the majority of the Group's employees in the US are entitled to such benefits. The expense recognised in the income statement in respect of these plans represents the contributions payable by the Group for the period at rates that are specified in the rules of the plans. At the balance sheet date, the Group had not paid over to the plans contributions due amounting to \$15.1 million (29 December 2007: \$14.9 million). All amounts due for the period were paid over subsequent to the balance sheet date.

The Group operates defined benefit pension plans in several countries; in particular, in the US and the UK. Generally, the pension benefits provided under these plans are based upon pensionable salary and the period of service of the individual employees. The assets of the plans are held separately from those of the Group in funds that are under the control of trustees. The majority of the defined benefit pension plans operated by the Group are closed to new entrants. In addition to the funded defined benefit pension plans, the Group has unfunded defined benefit obligations to certain employees.

The Group also provides other post-employment benefits, principally health and life insurance cover, to certain of its employees in North America. These plans, which are unfunded, are defined benefit plans.

Notes to the financial statements (continued)

34. Post-employment benefit obligations (continued)**B. Summary of financial effect**

An analysis of the effect of providing post-employment benefits on the Group's results is set out below.

Year ended 3 January 2009

	Pensions			Other post-employment benefits		
	Operating profit \$ million	Finance charges \$ million	Total \$ million	Operating profit \$ million	Finance charges \$ million	Total \$ million
Defined contribution plans	37.9	–	37.9	–	–	–
Defined benefit plans						
Recognised in the income statement:						
– Current service cost	8.7	–	8.7	0.5	–	0.5
– Past service cost	–	–	–	0.6	–	0.6
– Settlement and curtailments	(2.4)	–	(2.4)	–	–	–
– Interest cost	–	67.9	67.9	–	10.5	10.5
– Expected return on plan assets	–	(75.5)	(75.5)	–	–	–
	6.3	(7.6)	(1.3)	1.1	10.5	11.6
Recognised in equity:						
– Net actuarial gain			122.4			(23.6)
– Effect of the asset ceiling			(12.3)			–
			110.1			(23.6)
			108.8			(12.0)

Year ended 29 December 2007

	Pensions			Other post-employment benefits			
	Operating profit \$ million	Finance charges \$ million	Loss from discontinued operations \$ million	Total \$ million	Operating profit \$ million	Finance charges \$ million	Total \$ million
Defined contribution plans	46.8	–	0.8	47.6	–	–	–
Defined benefit plans							
Recognised in the income statement:							
– Current service cost	11.6	–	0.2	11.8	0.4	–	0.4
– Past service cost	0.2	–	–	0.2	–	–	–
– Settlement and curtailments	(3.8)	–	(2.4)	(6.2)	–	–	–
– Interest cost	–	66.1	1.0	67.1	–	10.2	10.2
– Expected return on plan assets	–	(75.0)	(1.2)	(76.2)	–	–	–
	8.0	(8.9)	(2.4)	(3.3)	0.4	10.2	10.6
Recognised in equity:							
– Net actuarial gain				(89.9)			(6.0)
– Effect of the asset ceiling				43.8			–
				(46.1)			(6.0)
				(49.4)			4.6

Year ended 30 December 2006

	Pensions				Other post-employment benefits			
	Operating profit \$ million	Finance charges \$ million	Loss from discontinued operations \$ million	Total \$ million	Operating profit \$ million	Finance charges \$ million	Loss from discontinued operations \$ million	Total \$ million
Defined contribution plans	51.0	–	2.6	53.6	–	–	–	–
Defined benefit plans								
Recognised in the income statement:								
– Current service cost	12.6	–	0.7	13.3	0.4	–	–	0.4
– Past service cost	0.7	–	–	0.7	–	–	–	–
– Settlement and curtailments	0.2	–	–	0.2	(1.1)	–	–	(1.1)
– Interest cost	–	57.8	4.9	62.7	–	9.9	0.2	10.1
– Expected return on plan assets	–	(61.1)	(5.1)	(66.2)	–	–	–	–
	13.5	(3.3)	0.5	10.7	(0.7)	9.9	0.2	9.4
Recognised in equity:								
– Net actuarial gain				(40.7)				2.7
– Effect of the asset ceiling				1.6				–
				(39.1)				2.7
				(28.4)				12.1

The net liability recognised in the Group's balance sheet in respect of defined benefit plans was as follows:

	As at 3 January 2009			As at 29 December 2007		
	Pensions \$ million	Other benefits \$ million	Total \$ million	Pensions \$ million	Other benefits \$ million	Total \$ million
Present value of the benefit obligation:						
– Funded	978.9	–	978.9	1,154.9	–	1,154.9
– Unfunded	39.2	147.7	186.9	41.6	180.8	222.4
Fair value of plan assets	1,018.1 (862.1)	147.7 –	1,165.8 (862.1)	1,196.5 (1,125.0)	180.8 –	1,377.3 (1,125.0)
Effect of the asset ceiling	156.0 24.6	147.7 –	303.7 24.6	71.5 49.4	180.8 –	252.3 49.4
Net liability	180.6	147.7	328.3	120.9	180.8	301.7

The net liability is presented in the Group's balance sheet as follows:

	As at 3 January 2009			As at 29 December 2007		
	Pensions \$ million	Other benefits \$ million	Total \$ million	Pensions \$ million	Other benefits \$ million	Total \$ million
Ongoing businesses:						
– Surpluses	(5.3)	–	(5.3)	(7.2)	–	(7.2)
– Deficits	185.9	147.7	333.6	128.1	178.4	306.5
	180.6	147.7	328.3	120.9	178.4	299.3
Businesses to be sold (note 28):						
– Deficits	–	–	–	–	2.4	2.4
Net liability	180.6	147.7	328.3	120.9	180.8	301.7

Notes to the financial statements (continued)

34. Post-employment benefit obligations (continued)

C. Pensions

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

	UK % per annum	US % per annum	Other countries % per annum
Valuation as at 3 January 2009			
Salary increases	4.00%	5.65%	3.28%
Increase to pensions in payment	3.00%	n/a	n/a
Increase to deferred pensions	3.00%	n/a	n/a
Long-term rate of return on plan assets	6.64%	8.00%	5.97%
Discount rate	6.50%	5.88%	5.95%
Inflation rate	3.00%	0.00%	1.34%
Valuation as at 29 December 2007			
Salary increases	4.25%	3.00% – 5.92%	1.00% – 3.50%
Increase to pensions in payment	3.25%	n/a	n/a
Increase to deferred pensions	3.25%	n/a	n/a
Long-term rate of return on plan assets	5.25% – 7.00%	8.00%	1.00% – 7.00%
Discount rate	5.75%	6.375%	2.00% – 6.00%
Inflation rate	3.25%	0.00%	0.50% – 3.50%

The current life expectancies underlying the benefit obligations of the Group's principal pension plans were as follows:

	UK	US	Other countries
As at 3 January 2009			
Current pensioners (at age 65) – male	21.2 years	17.7 years	19.1 years
– female	24.2 years	20.3 years	21.6 years
Future pensioners (at age 65) – male	22.2 years	17.7 years	19.1 years
– female	25.2 years	20.3 years	21.6 years
As at 29 December 2007			
Current pensioners (at age 65) – male	20.5 years	17.7 years	19.1 years
– female	23.4 years	20.2 years	21.6 years
Future pensioners (at age 65) – male	22.2 years	17.7 years	19.1 years
– female	25.0 years	20.2 years	21.6 years

The net liability recognised in the Group's balance sheet in respect of defined benefit pension plans was as follows:

	As at 3 January 2009				As at 29 December 2007			
	UK \$ million	US \$ million	Other countries \$ million	Total \$ million	UK \$ million	US \$ million	Other countries \$ million	Total \$ million
Present value of benefit obligation:								
– Funded	280.5	586.5	111.9	978.9	425.5	586.1	143.3	1,154.9
– Unfunded	5.1	32.4	1.7	39.2	7.7	31.7	2.2	41.6
Fair value of plan assets	285.6 (294.0)	618.9 (479.5)	113.6 (88.6)	1,018.1 (862.1)	433.2 (449.8)	617.8 (558.8)	145.5 (116.4)	1,196.5 (1,125.0)
Effect of the asset ceiling	(8.4) 24.6	139.4 –	25.0 –	156.0 24.6	(16.6) 45.6	59.0 3.8	29.1 –	71.5 49.4
Net liability	16.2	139.4	25.0	180.6	29.0	62.8	29.1	120.9

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

	Year ended 3 January 2009				Year ended 29 December 2007			
	UK \$ million	US \$ million	Other countries \$ million	Total \$ million	UK \$ million	US \$ million	Other countries \$ million	Total \$ million
At the beginning of the period	433.2	617.8	145.5	1,196.5	458.4	673.3	138.4	1,270.1
Current service cost	1.1	2.9	4.7	8.7	1.2	5.2	5.4	11.8
Past service cost	–	–	–	–	0.2	–	–	0.2
Curtailments	(0.6)	(2.0)	–	(2.6)	(2.4)	(4.0)	–	(6.4)
Settlements	–	(0.4)	(3.4)	(3.8)	(1.4)	(0.4)	–	(1.8)
Interest cost	23.4	37.3	7.2	67.9	23.4	37.3	6.4	67.1
Special termination benefits	–	0.2	–	0.2	–	0.2	–	0.2
Net actuarial (gain)/loss	(35.2)	28.5	(16.4)	(23.1)	(33.5)	(42.7)	(16.7)	(92.9)
	421.9	684.3	137.6	1,243.8	445.9	668.9	133.5	1,248.3
Disposal of subsidiaries	–	(15.9)	–	(15.9)	–	(1.0)	–	(1.0)
Employees' contributions	0.2	–	0.2	0.4	0.4	–	0.2	0.6
Benefits paid	(19.8)	(49.5)	(6.4)	(75.7)	(21.4)	(50.0)	(9.8)	(81.2)
Foreign currency translation	(116.7)	–	(17.8)	(134.5)	8.3	(0.1)	21.6	29.8
At the end of the period	285.6	618.9	113.6	1,018.1	433.2	617.8	145.5	1,196.5

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

	Year ended 3 January 2009				Year ended 29 December 2007			
	UK \$ million	US \$ million	Other countries \$ million	Total \$ million	UK \$ million	US \$ million	Other countries \$ million	Total \$ million
At the beginning of the period	449.8	558.8	116.4	1,125.0	427.6	518.9	95.3	1,041.8
Expected return on plan assets	29.3	39.4	6.8	75.5	29.4	40.4	6.4	76.2
Settlements	–	(0.4)	(3.4)	(3.8)	(1.4)	(0.4)	–	(1.8)
Net actuarial (loss)/gain	(49.6)	(79.1)	(16.8)	(145.5)	(3.0)	3.4	(3.4)	(3.0)
	429.5	518.7	103.0	1,051.2	452.6	562.3	98.3	1,113.2
Disposal of subsidiaries	–	(16.2)	–	(16.2)	–	–	–	–
Employer's contributions	8.5	26.5	10.4	45.4	10.4	46.6	11.0	68.0
Employees' contributions	0.2	–	0.2	0.4	0.4	–	0.2	0.6
Benefits paid	(19.8)	(49.5)	(6.4)	(75.7)	(21.4)	(50.0)	(9.8)	(81.2)
Foreign currency translation	(124.4)	–	(18.6)	(143.0)	7.8	(0.1)	16.7	24.4
At the end of the period	294.0	479.5	88.6	862.1	449.8	558.8	116.4	1,125.0

The fair value of plan assets by asset category was as follows:

	As at 3 January 2009				As at 29 December 2007			
	UK \$ million	US \$ million	Other countries \$ million	Total \$ million	UK \$ million	US \$ million	Other countries \$ million	Total \$ million
Equity instruments	151.5	268.9	32.8	453.2	237.2	339.6	50.2	627.0
Debt instruments	141.4	184.7	36.9	363.0	210.8	186.3	48.0	445.1
Other assets	1.1	25.9	18.9	45.9	1.8	32.9	18.2	52.9
	294.0	479.5	88.6	862.1	449.8	558.8	116.4	1,125.0

Plan assets do not include any of the Group's own financial instruments, nor any property occupied by, or other assets used by, 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 the yield on long-term bonds and 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 Group'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.

Notes to the financial statements (continued)

34. Post-employment benefit obligations (continued)**C. Pensions (continued)**

The Group's investment strategy for pension plan assets includes diversification to minimise interest and market risks. Accordingly, the interest rate risk inherent in the benefit obligation of the Group's US funded pension plans is hedged using a combination of bonds and interest rate swaps with a combined average duration of 10.5 years. In general, the investment strategy for the Group's pension plans outside the US does not involve the use of derivative financial instruments.

Plan assets are rebalanced periodically to maintain target asset allocations. Maturities of investments are not necessarily related to the timing of expected future benefit payments, but adequate liquidity to make immediate and medium-term benefit payments is ensured.

The weighted averages of the expected returns on plan assets were as follows:

	As at 3 January 2009			As at 29 December 2007			As at 30 December 2006		
	UK	US	Other countries	UK	US	Other countries	UK	US	Other countries
Equity instruments	8.00%	9.51%	9.13%	7.95%	9.31%	9.39%	7.90%	9.61%	8.20%
Debt instruments	4.83%	6.40%	4.87%	5.65%	6.30%	5.11%	5.00%	5.70%	5.04%
Other assets	4.30%	3.90%	1.00%	4.85%	4.80%	1.00%	4.20%	3.80%	–

The actual return on plan assets was as follows:

	Year ended 3 January 2009	Year ended 29 December 2007	Year ended 30 December 2006
UK	(4.5)%	6.0%	6.0%
US	(7.1)%	8.3%	9.6%
Other countries	(8.6)%	3.1%	11.3%

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

	Year ended 3 January 2009 \$ million	Year ended 29 December 2007 \$ million	Year ended 30 December 2006 \$ million	Year ended 31 December 2005 \$ million	Year ended 1 January 2005 \$ million
At the end of the period:					
Present value of benefit obligation	1,018.1	1,196.5	1,270.0	1,216.9	1,162.3
Fair value of plan assets	(862.1)	(1,125.0)	(1,041.8)	(904.9)	(848.0)
Deficit in the plans	156.0	71.5	228.2	312.0	314.3
Recognised in the period:					
– Net actuarial (loss)/gain on plan assets	(145.5)	(3.0)	15.1	25.9	9.0
– Net actuarial (loss)/gain on benefit obligation	23.1	92.9	25.6	(104.7)	(32.4)

As at 3 January 2009, the cumulative net actuarial loss recognised in the statement of recognised income and expense amounted to \$94.0 million.

The Group expects to contribute approximately \$43 million to defined benefit pension plans in 2009.

D. Other post-employment benefits

The weighted averages of the principal assumptions used in the actuarial valuations of the other post-employment benefit plans were as follows:

	As at 3 January 2009 % per annum	As at 29 December 2007 % per annum	As at 30 December 2006 % per annum
Discount rate	6.08%	6.28%	5.65%
Medical cost inflation rate	8.20%	7.13%	7.94%

The Group's other post-employment benefit plans are unfunded. Accordingly, the liability recognised in the Group's balance sheet in respect of these plans represents the present value of the benefit obligation.

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

	Year ended 3 January 2009 \$ million	Year ended 29 December 2007 \$ million	Year ended 30 December 2006 \$ million
At the beginning of the period	180.8	189.7	193.5
Current service cost	0.5	0.4	0.4
Past service cost	0.6	–	–
Settlements	–	–	1.1
Interest cost	10.5	10.2	10.1
Net actuarial (gain)/loss	(23.6)	(6.0)	2.7
	168.8	194.3	207.8
Acquisition of subsidiaries	–	–	0.4
Disposal of subsidiaries	(2.2)	(2.8)	–
Benefits paid	(13.0)	(15.6)	(18.5)
Foreign currency translation	(5.9)	4.9	–
At the end of the period	147.7	180.8	189.7

Actuarial gains and losses recognised in relation to other post-employment benefit plans since the adoption of IFRS are as follows:

	Year ended 3 January 2009 \$ million	Year ended 29 December 2007 \$ million	Year ended 30 December 2006 \$ million	Year ended 31 December 2005 \$ million	Year ended 1 January 2005 \$ million
At the end of the period: Present value of benefit obligation	147.7	180.8	189.7	193.5	213.5
Recognised in the period: – Actuarial gain/(loss) on benefit obligation	23.6	6.0	(2.7)	3.1	45.7

As at 3 January 2009, the cumulative net actuarial gain recognised in the statement of recognised income and expense amounted to \$75.7 million.

Sensitivity to change in the assumed medical cost inflation rate used in the actuarial valuations as at 3 January 2009 is as follows:

	Increase of one percentage point \$ million	Decrease of one percentage point \$ million
Effect on the aggregate of the current service cost and the interest cost	0.8	(0.4)
Effect on the accumulated benefit obligation	16.4	(9.3)

Notes to the financial statements (continued)

35. Share-based incentives

A. Background

The Company operates a number of share-based compensation arrangements to provide incentives to the Group'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.

Although the Company's ordinary shares are now denominated in US dollars, they continue to be quoted in sterling on the London Stock Exchange.

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 awards in May 2005. Awards granted under these schemes were subject to a performance condition that the rate of increase in the Group's earnings per share must exceed the growth in the UK Retail Prices Index by an average of 2% per annum over any three-year period after the options were granted. The final unvested options under these schemes vested during 2007.

Options were granted to James Nicol in 2002 as part of the incentive package to attract him to the Company. The Ongoing Option, which was subject to the performance condition that the rate of increase of the Company's earnings per share must be equal to or greater than the rate of increase of the UK Retail Prices Index plus 9% over any three-year period after the option was granted, vested in 2006.

Options continue to be granted from time to time under the Company's Sharesave scheme, which is restricted to employees who are resident for tax purposes in the UK. It offers eligible employees the option to buy ordinary shares in Tomkins plc after a period of three, five or seven years funded from the proceeds of a savings contract to which employees may contribute up to £250 per month.

In 2008, the compensation expense recognised in respect of share options was \$0.3 million (2007: \$2.8 million; 2006: \$5.0 million).

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

	Year ended 3 January 2009		Year ended 29 December 2007	
	Options Number	Weighted average exercise price Pence	Options Number	Weighted average exercise price Pence
Outstanding at the beginning of the period	19,602,926	242.71	20,495,555	243.10
Granted during the period	803,274	140.20	272,695	211.40
Forfeited during the period	(533,617)	205.95	(368,573)	233.12
Exercised during the period	(45,000)	170.50	(485,751)	241.19
Lapsed during the period	(1,696,000)	251.56	(311,000)	254.93
Outstanding at the end of the period	18,131,583	238.60	19,602,926	242.71
Exercisable at the end of the period	16,341,128	244.64	18,082,128	245.11

On the dates on which options were exercised during 2008, the weighted average market price of the Company's ordinary shares was 184.00p per share (2007: 277.83p per share).

The fair value of options granted under the Sharesave scheme was measured at their respective grant dates using the Black-Scholes option pricing formula based on the following assumptions:

	Year ended 3 January 2009 \$ million	Year ended 29 December 2007 \$ million	Year ended 30 December 2006 \$ million
Weighted average fair value	37.99p	73.81p	106.61p
Weighted average assumptions:			
– Share price	176.75p	264.25p	336.75p
– Exercise price	140.20p	211.40p	269.40p
– Expected volatility	24.59%	25.40%	28.94%
– Expected life	4.57 years	4.66 years	4.55 years
– Risk-free interest rate	4.55%	5.23%	4.50%
– Expected dividends	13.89p	13.89p	13.00p

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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 Group's financial year ended 30 April 2002 when, following a period of significant demerger activity, the Group was refocused 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 at the end of the period was as follows:

	As at 3 January 2009		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	Outstanding Number	Weighted average remaining contractual life Years
Range of exercise prices:						
– 100p to 150p	723,947	4.23	–	–	–	–
– 151p to 200p	3,454,072	2.99	3,519,072	3.94	3,563,072	4.98
– 201p to 250p	7,773,617	4.61	9,244,600	5.39	9,641,668	6.59
– 251p to 300p	5,164,719	4.35	5,821,026	5.01	6,272,587	6.41
– 301p and higher	1,015,228	3.10	1,018,228	4.11	1,018,228	5.11
	18,131,583		19,602,926		20,495,555	

C. Other awards

The Group's principal ongoing share-based compensation arrangements are the Annual Bonus Incentive Plan and the Performance Share Plan. Both are restricted to the Group'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 2008, awards were granted over 1,789,628 ordinary shares (2007: 1,727,352 ordinary shares; 2006: 1,643,031 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 2008, awards were granted over 7,115,194 ordinary shares under the PSP (2007: 5,852,671 ordinary shares; 2006: 7,866,573 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 125.66p (2007: 211.93p; 2006: 266.60p).

The fair value of awards made under the PSP was measured at their respective grant dates using a Monte-Carlo valuation model based on the following assumptions:

	Year ended 3 January 2009	Year ended 29 December 2007	Year ended 30 December 2006
Weighted average fair value	43.92p	66.45p	87.19p
Weighted average assumptions:			
– Expected volatility	36.41%	27.67%	23.01%
– Expected life	3.00 years	3.00 years	2.78 years
– Risk-free interest rate	4.71%	4.88%	4.75%
– Dividend yield	8.84%	5.00%	4.73%

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 2008, the compensation expense recognised in respect of other awards was \$11.2 million (2007: \$13.2 million; 2006: \$9.5 million).

Notes to the financial statements (continued)

36. Deferred tax

Movements in the net deferred tax assets and (liabilities) recognised by the Group were as follows:

	Post-employment benefits \$ million	Tax losses \$ million	Net investment in subsidiaries \$ million	Accrued expenses \$ million	Long-lived assets \$ million	Inventories \$ million	Other items \$ million	Total \$ million
As at 30 December 2006	116.3	21.3	30.9	42.9	(125.5)	(51.4)	31.1	65.6
Acquisition of subsidiaries	–	–	–	–	–	–	0.2	0.2
Disposal of subsidiaries	(0.6)	(0.6)	–	(0.4)	(3.0)	6.8	(1.0)	1.2
(Charge)/credit to the income statement	(12.8)	(13.0)	(33.6)	1.2	9.8	3.8	(6.4)	(51.0)
(Charge)/credit directly to equity	(14.8)	–	–	–	–	–	0.2	(14.6)
Currency translation differences	2.6	1.9	(0.1)	1.7	(3.7)	–	(0.8)	1.6
As at 29 December 2007	90.7	9.6	(2.8)	45.4	(122.4)	(40.8)	23.3	3.0
Disposal of subsidiaries	(0.8)	–	–	(1.7)	5.2	0.8	(1.2)	2.3
(Charge)/credit to the income statement	(16.9)	(4.2)	(0.5)	(0.4)	19.9	(4.3)	5.2	(1.2)
Credit directly to equity	25.3	–	–	–	–	–	5.8	31.1
Currency translation differences	(0.6)	(0.8)	–	(1.3)	1.4	0.2	1.0	(0.1)
As at 3 January 2009	97.7	4.6	(3.3)	42.0	(95.9)	(44.1)	34.1	35.1

Deferred tax assets and liabilities presented in the Group's balance sheet are as follows:

	As at 3 January 2009 \$ million	As at 29 December 2007 \$ million
Deferred tax assets	64.8	47.4
Deferred tax liabilities:		
– Ongoing businesses	(29.7)	(42.2)
– Businesses to be sold (note 28)	–	(2.2)
	35.1	3.0

As at 3 January 2009, the Group had operating tax losses amounting to \$2,049.3 million, of which \$1,948.5 million can be carried forward indefinitely and \$100.8 million have expiry dates between 2009 and 2027. As at 3 January 2009, the Group recognised a deferred tax asset of \$4.3 million in respect of these losses.

As at 3 January 2009, the Group had capital tax losses amounting to \$789.9 million, of which \$415.5 million can be carried forward indefinitely and \$374.4 million expire in 2013. As at 3 January 2009, the Group recognised a deferred tax asset of \$0.3 million in respect of these losses.

As at 3 January 2009, the Group had foreign and other tax credits amounting to \$34.8 million, of which \$18.2 million can be carried forward indefinitely and \$16.6 million expire between 2014 and 2028. As at 3 January 2009, the Group recognised a deferred tax asset in respect of these tax credits of \$1.1 million.

Deferred tax is not provided on the undistributed earnings of foreign subsidiaries where management has the ability, and intends, to reinvest such amounts indefinitely. As at 3 January 2009, the Group's share of the undistributed earnings of foreign subsidiaries on which deferred tax was not provided was \$3,180.5 million (29 December 2007: \$3,928.0 million). A determination of the amount of the unrecognised deferred tax liability has not been made because it is not practical to do so. A portion of these earnings can be distributed without incurring additional taxes.

37. Provisions

	Restructuring costs \$ million	Environmental remediation \$ million	Workers' compensation \$ million	Warranty provisions \$ million	Product liability provisions \$ million	Insurance provisions \$ million	Total \$ million
As at 31 December 2005	18.4	10.6	37.6	10.7	12.4	12.4	102.1
Charge/(credit) for the period	15.6	0.4	19.3	6.2	1.7	(0.9)	42.3
Acquisition of subsidiaries	–	–	–	0.2	–	–	0.2
Utilised during the period	(26.0)	(3.7)	(19.8)	(6.2)	(5.7)	(1.3)	(62.7)
Foreign currency translation	1.0	0.3	0.1	0.4	0.1	1.5	3.4
As at 30 December 2006	9.0	7.6	37.2	11.3	8.5	11.7	85.3
Charge/(credit) for the period	15.4	4.0	12.6	10.6	5.8	(3.8)	44.6
Utilised during the period	(14.8)	(2.8)	(17.6)	(6.2)	(6.4)	–	(47.8)
Disposal of subsidiaries	(0.2)	–	(3.4)	(0.6)	(0.4)	–	(4.6)
Foreign currency translation	0.6	0.3	0.1	0.1	–	0.3	1.4
As at 29 December 2007	10.0	9.1	28.9	15.2	7.5	8.2	78.9
Charge/(credit) for the period	15.6	2.6	13.6	4.8	8.3	(2.2)	42.7
Acquisition of subsidiaries	–	–	–	0.3	–	–	0.3
Utilised during the period	(9.5)	(4.1)	(16.5)	(8.0)	(8.3)	–	(46.4)
Disposal of subsidiaries	–	–	(0.4)	–	(0.1)	–	(0.5)
Foreign currency translation	(0.2)	(0.2)	(0.1)	(0.8)	–	(1.7)	(3.0)
As at 3 January 2009	15.9	7.4	25.5	11.5	7.4	4.3	72.0

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

	As at 3 January 2009 \$ million	As at 29 December 2007 \$ million
Ongoing businesses:		
– Current liabilities	48.8	50.2
– Non-current liabilities	23.2	27.3
	72.0	77.5
Businesses to be sold (note 28)	–	1.4
	72.0	78.9

38. Ordinary shares**A. Authorised shares**

	Ordinary shares of 9c each		Ordinary shares of 5p each	
	Number of shares	Nominal value \$ million	Number of shares	Nominal value £ million
As at 30 December 2006 and 29 December 2007	–	–	1,585,164,220	79.2
Redenomination on 22 May 2008:				
– Cancellation of ordinary shares of 5p each	–	–	(1,585,164,220)	(79.2)
– Authorisation of ordinary shares of 9c each	1,585,164,220	142.7	–	–
As at 3 January 2009	1,585,164,220	142.7	–	–

On 22 May 2008, the Company's ordinary shares were redenominated from sterling to US dollars by way of a reduction of capital under section 135 of the Companies Act 1985. Following approval by the Company's shareholders and pursuant to an Order of the High Court of Justice in England and Wales, the share capital of the Company was reduced by cancelling and extinguishing all of the issued and unissued ordinary shares of 5 pence each. The amount standing to the credit of share capital was transferred to a specially created cancellation reserve where it was retranslated into US dollars at the exchange rate ruling at the close of business in London on 21 May 2008 of £1=\$1.96 giving rise to a currency translation loss of \$1.3 million. The cancellation reserve was then applied by issuing new ordinary shares of 9 cents each to holders of the cancelled ordinary shares of 5 pence each on a one-for-one basis.

The redenomination did not affect the rights of the holders of ordinary shares.

Notes to the financial statements (continued)

38. Ordinary shares (continued)**B. Allotted, issued and fully paid shares**

	Number of shares	Ordinary share capital \$ million	Cancellation reserve \$ million	Share premium account \$ million	Total \$ million
As at 31 December 2005	774,495,124	55.6	–	138.8	194.4
Year ended 30 December 2006					
Shares issued during the period:					
– Conversion of preference shares	76,573,697	6.6	–	384.1	390.7
– Exercise of employee share options	7,140,701	0.7	–	26.7	27.4
	83,714,398	7.3	–	410.8	418.1
As at 30 December 2006	858,209,522	62.9	–	549.6	612.5
Year ended 29 December 2007					
Shares issued during the period:					
– Conversion of preference shares	25,411,499	2.5	–	127.5	130.0
– Exercise of employee share options	485,751	0.1	–	2.3	2.4
	25,897,250	2.6	–	129.8	132.4
As at 29 December 2007	884,106,772	65.5	–	679.4	744.9
Year ended 3 January 2009					
Transfer of currency translation difference on change of functional currency (note 2)	–	22.6	–	112.4	135.0
	884,106,772	88.1	–	791.8	879.9
Shares issued before redenomination:					
– Exercise of employee share options	45,000	–	–	0.2	0.2
As at 22 May 2008	884,151,772	88.1	–	792.0	880.1
Redenomination:					
– Cancellation of ordinary shares of 5p each	(884,151,772)	(88.1)	88.1	–	–
– Currency translation difference on redenomination	–	–	(1.3)	–	(1.3)
– Issue of deferred shares of £1 each	–	–	–	(0.1)	(0.1)
– Issue of ordinary shares of 9c each	884,151,772	79.6	(79.6)	–	–
– Transfer to share premium account	–	–	(7.2)	7.2	–
	–	(8.5)	–	7.1	(1.4)
As at 3 January 2009	884,151,772	79.6	–	799.1	878.7

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

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

Ordinary share capital represents the nominal value of ordinary shares issued.

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

39. Deferred shares

	Authorised		Allotted, issued and fully paid	
	Number of shares	Nominal value £	Number of shares	Share capital \$ million
Deferred shares of £1 each				
As at 30 December 2006 and 29 December 2007	–	–	–	–
Authorised and issued on redenomination of ordinary shares	50,000	50,000	50,000	0.1
As at 3 January 2009	50,000	50,000	50,000	0.1

Under section 118 of the Companies Act 1985, the Company must have a minimum share capital of £50,000 denominated in sterling. Accordingly, immediately upon the reduction of capital and before the issue and allotment of the new ordinary shares, the Company increased its capital by £50,000 by the creation of 50,000 deferred shares of £1 each which were paid up in full at par by capitalisation of the equivalent amount standing to the credit of the Company's share premium account. The deferred shares are not listed on any investment exchange and have extremely limited rights such that they effectively have no value. It is intended that the deferred shares will be held by either the Company Secretary or by a Director of the Company (they are currently held by the Company Secretary).

Following the implementation of section 542 of the Companies Act 2006 on 1 October 2009, the Company will no longer be required to have any share capital denominated in sterling. Accordingly, the Company intends to buy back and cancel the deferred shares as soon as practicable after 1 October 2009.

40. Own shares

	Year ended 3 January 2009		Year ended 29 December 2007		Year ended 30 December 2006	
	Number of shares	\$ million	Number of shares	\$ million	Number of shares	\$ million
At the beginning of the period	4,205,841	18.9	4,205,248	19.8	3,230,402	14.6
Transfer of currency translation difference on change of functional currency (note 2)	–	3.4	–	–	–	–
Own shares purchased	1,506,518	4.7	1,597,500	6.9	1,647,013	8.7
Sale or transfer of own shares	(2,053,809)	(12.1)	(1,596,907)	(7.8)	(672,167)	(3.5)
At the end of the period	3,658,550	14.9	4,205,841	18.9	4,205,248	19.8

Own shares represent the cost of the Company's ordinary shares acquired to meet the Group's expected obligations under the 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 3 January 2009, 1,143,076 ordinary shares (29 December 2007: 1,376,975 ordinary shares) were held in trust and 2,515,474 ordinary shares (29 December 2007: 2,828,866 ordinary shares) were held as treasury shares.

As at 3 January 2009, the market value of own shares held was \$7.1 million (29 December 2007: \$15.1 million).

Notes to the financial statements (continued)

41. Other reserves

	Capital redemption reserve \$ million	Currency translation reserve \$ million	Available-for-sale reserve \$ million	Retained profit/ (accumulated deficit) \$ million	Total \$ million
As at 31 December 2005	717.6	123.4	–	120.0	961.0
Year ended 30 December 2006					
Total recognised income and expense attributable to equity shareholders	–	48.0	0.2	373.6	421.8
Other changes in shareholders' equity:					
– Loss on transfer of own shares	–	–	–	(3.5)	(3.5)
– Cost of share-based incentives	–	–	–	14.5	14.5
– Dividends paid on ordinary shares	–	–	–	(217.3)	(217.3)
	–	–	–	(206.3)	(206.3)
As at 30 December 2006	717.6	171.4	0.2	287.3	1,176.5
Year ended 29 December 2007					
Total recognised income and expense attributable to equity shareholders	–	142.3	(0.4)	332.5	474.4
Other changes in shareholders' equity:					
– Loss on transfer of own shares	–	–	–	(7.8)	(7.8)
– Redemption of preference shares	1.2	–	–	(1.2)	–
– Cost of share-based incentives	–	–	–	16.0	16.0
– Dividends paid on ordinary shares	–	–	–	(247.3)	(247.3)
	1.2	–	–	(240.3)	(239.1)
As at 29 December 2007	718.8	313.7	(0.2)	379.5	1,411.8
Year ended 3 January 2009					
Transfer of currency translation difference on change of functional currency (note 2)	202.9	(334.5)	–	–	(131.6)
	921.7	(20.8)	(0.2)	379.5	1,280.2
Total recognised income and expense attributable to equity shareholders	–	(150.1)	(0.8)	(136.9)	(287.8)
Other changes in shareholders' equity:					
– Currency translation difference on redenomination of ordinary shares (note 38)	–	1.3	–	–	1.3
– Loss on transfer of own shares	–	–	–	(12.1)	(12.1)
– Cost of share-based incentives	–	–	–	11.5	11.5
– Dividends paid on ordinary shares	–	–	–	(246.2)	(246.2)
	–	1.3	–	(246.8)	(245.5)
As at 3 January 2009	921.7	(169.6)	(1.0)	(4.2)	746.9

The capital redemption reserve records the cost of shares purchased by the Company for cancellation or redeemed in excess of the proceeds of any fresh issue of shares made specifically to fund the purchase or redemption. The capital redemption reserve is not distributable but may be reduced by special resolution of the Company's shareholders and with the approval of the court.

42. Minority interests

	Year ended 3 January 2009 \$ million	Year ended 29 December 2007 \$ million	Year ended 30 December 2006 \$ million
At the beginning of the period	117.0	99.0	83.2
Total recognised income and expense attributable to minority interests	16.4	29.6	24.6
Other changes in equity attributable to minority interests:			
– Shares issued by a subsidiary to minority shareholders	0.4	3.8	5.9
– Purchase of a minority shareholding	–	(1.0)	–
– Acquisition of subsidiaries	8.2	–	–
– Dividends paid to minority shareholders	(13.5)	(14.4)	(14.7)
	(4.9)	(11.6)	(8.8)
At the end of the period	128.5	117.0	99.0

Included in the total recognised income and expense attributable to minority interests are currency translation losses of \$0.9 million (2007: gains of \$4.8 million; 2006: gains of \$1.4 million).

43. Capital

Management considers that the Group's capital comprises shareholders' equity plus net debt.

The Group's capital was as follows:

	As at 3 January 2009 \$ million	As at 29 December 2007 \$ million	As at 30 December 2006 \$ million
Shareholders' equity	1,610.8	2,137.8	1,769.2
Net debt:			
– Cash and cash equivalents	(291.9)	(295.9)	(337.6)
– Collateralised cash	(3.8)	(5.8)	(8.0)
– Bank overdrafts	13.7	15.7	11.2
– Bank and other loans	792.4	860.3	1,111.8
– Obligations under finance leases	6.9	9.6	18.2
– Derivatives hedging translational exposures	(40.9)	7.6	(6.8)
– Preference shares	–	–	132.0
	476.4	591.5	920.8
	2,087.2	2,729.3	2,690.0

We manage the Group's capital structure to maximise shareholder value whilst retaining flexibility to take advantage of opportunities that arise to grow the Group's business.

Notes to the financial statements (continued)

44. Acquisitions

A. Current year acquisitions

Industrial & Automotive

Fluid Power

On 3 March 2008, the Group acquired a 100% interest in A.E. Hydraulic (Pte) Ltd., a Singapore-based provider of hydraulic and industrial hose solutions and services for the oil exploration industry in Asia. Goodwill of \$8.1 million was recognised on the acquisition which represents the expected benefits to the Group from the acceleration of its expansion into the high-growth oil and gas exploration market made possible by the acquisition.

Building Products

Air Systems Components

On 22 February 2008, the Group acquired a 60% interest in Rolastar Pvt Ltd, a duct manufacturer based in India. Goodwill of \$0.9 million was recognised on the acquisition.

On 20 June 2008, the Group acquired a 100% interest in Trion Inc., a manufacturer of commercial, industrial and residential indoor air quality products. Trion is headquartered in Sanford, North Carolina, with manufacturing facilities there and also in Suzhou, China. Goodwill of \$2.4 million was recognised on the acquisition which represents the expected synergies from the integration of the business within Air Systems Components.

B. Prior year acquisitions

2007

Industrial & Automotive

Fluid Systems

On 8 March 2007, the Group increased its interest in Schrader Engineered Products (Kunshan) Co Ltd, a manufacturer of valves and fittings, from 60% to 100%.

On 26 September 2007, the Group acquired 100% of Swindon Silicon Systems Ltd, a UK company that designs, develops and supplies integrated circuits.

2006

Industrial & Automotive

Other Industrial & Automotive

On 19 July 2006, the Group acquired a 60% interest in Gates Winhere LLC, which, through a wholly-owned subsidiary, acquired the business and assets of a water pump manufacturer in China.

On 4 August 2006, the Group completed the acquisition of 100% of ENZED Fleximak Ltd, a supplier of engineering, fabrication, testing and service operations for flexible fluid transfer products in the Arabian Gulf region.

During 2006, the Group also acquired a 20% interest in e-business and logistics services provider, CoLinX LLC.

Building Products

Air Systems Components

On 1 March 2006, the Group completed the acquisition of 100% of Selkirk Americas LP, a US manufacturer of chimney, venting and air distribution products for commercial and residential applications.

On 11 October 2006, the Group acquired 100% of Eastern Sheet Metal, Inc., a US manufacturer of commercial heating, ventilation and air conditioning systems with plants in the US.

Also in October 2006, the Group purchased 100% of Heat-Fab Inc, a US manufacturer of high efficiency residential and commercial venting systems.

C. Adjustment in respect of prior year acquisition

During 2008, the initial accounting for Swindon Silicon Systems Limited was completed and the attributable goodwill was reduced by \$3.0 million, principally due to the allocation of additional amounts to identifiable intangible assets.

Comparative information has not been restated to reflect this adjustment because the effect is not material to the Group's results or financial position.

D. Financial effect of acquisitions

	Year ended 3 January 2009			Year ended	Year ended
	Acquiree's carrying amount in accordance with IFRS \$ million	Fair value adjustments \$ million	Provisional fair value \$ million	29 December 2007 \$ million	30 December 2006 \$ million
Net assets acquired					
Intangible assets	–	37.4	37.4	11.0	41.4
Property, plant and equipment	9.2	–	9.2	7.0	29.9
Deferred tax assets	–	–	–	0.2	–
Pension surplus	–	–	–	–	0.4
Inventories	12.3	0.1	12.4	2.6	30.8
Trade and other receivables	11.5	–	11.5	7.6	27.3
Income tax recoverable	1.2	–	1.2	–	1.1
Cash and cash equivalents	0.1	–	0.1	–	5.1
Bank and other loans	(0.4)	–	(0.4)	–	–
Obligations under finance leases	(0.4)	–	(0.4)	–	–
Trade and other payables	(8.9)	–	(8.9)	(4.4)	(24.8)
Income tax liabilities	(0.9)	–	(0.9)	(0.8)	–
Deferred tax liabilities	–	–	–	–	(3.9)
Provisions	(0.3)	–	(0.3)	–	(0.2)
Minority interest	(1.3)	(6.9)	(8.2)	1.0	–
	22.1	30.6	52.7	24.2	107.1
Goodwill on current year acquisitions			11.4	6.2	112.9
Adjustments to goodwill on prior year acquisitions			(3.0)	(14.2)	(14.1)
Consideration (including transaction costs)			61.1	16.2	205.9

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

	Year ended 3 January 2009 \$ million	Year ended 29 December 2007 \$ million	Year ended 30 December 2006 \$ million
Consideration paid on current period acquisitions	65.5	15.2	205.7
Cash and cash equivalents acquired	(0.1)	–	(5.1)
Adjustment to consideration on prior period acquisitions	(0.4)	1.8	0.4
	65.0	17.0	201.0

Businesses acquired during 2008 contributed \$59.0 million to the Group's sales and \$1.9 million to the Group's profit for the year ended 3 January 2009. If these businesses had been acquired at the beginning of 2008, it is estimated that the Group's sales would have been \$5,598.0 million in 2008, but it is not practicable to estimate what the Group's profit for the year would have been because they did not prepare balance sheets in accordance with IFRS as at 29 December 2007.

Notes to the financial statements (continued)

45. Disposals

A. Current year disposals

Industrial & Automotive

Fluid Systems

On 19 June 2008, the Group sold Stant Manufacturing, Inc., a manufacturer of automotive closure caps and its subsidiary, Standard-Thomson Corporation, a manufacturer of automotive thermostats. A gain of \$43.2 million was recognised on the disposal.

B. Prior year disposals

2007

Industrial & Automotive

Other Industrial & Automotive

On 19 November 2007, the Group sold Tridon Electronics' indicator and side object detection businesses. On 23 November 2007, the Group sold Dearborn Mid-West, a manufacturer of automotive assembly lines and materials handling equipment.

Building Products

Other Building Products

On 23 February 2007, the Group sold the business and assets of Lasco Fittings Inc., a manufacturer of injection-moulded fittings.

Discontinued operations

Wiper Systems

On 29 June 2007, the Group completed the sale of Trico, which constituted the Group's former Wiper Systems business segment.

2006

During 2006, the Group recognised a net gain of \$5.7 million on the sale of property, plant and equipment relating to businesses sold in prior years.

C. Financial effect of disposals

	Year ended 3 January 2009 \$ million	Year ended 29 December 2007 \$ million	Year ended 30 December 2006 \$ million
Proceeds			
Cash	108.1	233.9	12.5
Deferred	–	17.6	–
Loan notes	11.8	16.8	–
	119.9	268.3	12.5
Net assets disposed of			
Intangible assets	(1.0)	(0.6)	–
Property, plant and equipment	(35.7)	(63.5)	(6.8)
Investments in associates	(1.9)	–	–
Inventories	(16.7)	(94.2)	–
Trade and other receivables	(43.3)	(181.1)	–
Income tax recoverable	–	(1.0)	–
Cash and cash equivalents	(0.3)	(9.2)	–
Trade and other payables	25.5	120.4	–
Finance lease obligations	–	6.1	–
Deferred tax liabilities	2.3	1.2	–
Post-employment benefit obligations	1.9	3.8	–
Provisions	0.5	4.6	–
	(68.7)	(213.5)	(6.8)
Disposal costs	(3.3)	(7.2)	–
Curtailment gain on retained pension plan	2.0	–	–
Currency translation differences transferred from equity	(6.7)	(28.8)	–
Gain on disposal	43.2	18.8	5.7
Attributable to:			
– Continuing operations	43.2	76.0	5.7
– Discontinued operations	–	(57.2)	–
	43.2	18.8	5.7

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

	Year ended 3 January 2009 \$ million	Year ended 29 December 2007 \$ million	Year ended 30 December 2006 \$ million
Proceeds received on current period disposals	108.1	233.9	–
Disposal costs paid	(4.3)	(9.0)	–
Cash and cash equivalents disposed of	(0.3)	(9.2)	–
Proceeds received on prior period disposals	21.1	0.6	12.5
	124.6	216.3	12.5

Notes to the financial statements (continued)

46. Contingencies

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

47. Operating leases

The Group rents certain office premises and plant, equipment and vehicles under operating lease arrangements. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. During the period, the Group recognised as an expense operating lease rentals of \$55.1 million (2007: \$53.8 million; 2006: \$50.1 million).

As at 3 January 2009, the Group had outstanding commitments under non-cancellable operating leases of \$229.5 million (29 December 2007: \$232.8 million), falling due as follows:

	As at 3 January 2009 \$ million	As at 29 December 2007 \$ million
Payments to be made:		
– Within one year	41.3	37.7
– In the second to fifth years, inclusive	111.1	105.2
– After more than five years	77.1	89.9
	229.5	232.8

48. Capital commitments

As at 3 January 2009, the Group had entered into contractual commitments for the purchase of property, plant and equipment amounting to \$18.7 million (29 December 2007: \$73.3 million), and for the purchase of non-integral computer software amounting to \$4.1 million (29 December 2007: \$11.4 million).

49. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and therefore are not required to be disclosed in these financial statements. Details of transactions between the Group and other related parties are disclosed below.

Post-employment benefit plans

During the period, the Group paid employer's contributions amounting to \$84.9 million (2007: \$113.4 million; 2006: \$113.5 million) in total to defined benefit and defined contribution pension plans established for the benefit of its employees. As at 3 January 2009, an amount of \$15.1 million (29 December 2007: \$14.9 million) in respect of employer's contributions due was included in trade payables. In addition, during the period, the Group paid benefits of \$13.0 million (2007: \$15.6 million; 2006: \$17.4 million) to other post-employment benefit plans.

Group financial statements

Compensation and interests of key management personnel

For the purposes of these disclosures, the Group regards its key management personnel as the Directors of the Company together with those persons who, in accordance with the Listing Rules of the UKLA, are regarded as discharging management responsibility.

Compensation paid or payable to key management personnel in respect of their services to the Group was as follows:

	Year ended 3 January 2009 \$ million	Year ended 29 December 2007 \$ million	Year ended 30 December 2006 \$ million
Short-term employee benefits:			
– Salaries and fees	6,064	6,667	6,759
– Bonus cash	1,504	4,080	4,932
– Benefits-in-kind	308	308	235
– Social security contributions	509	1,110	994
– Termination benefits	37	2,253	–
	8,422	14,418	12,920
Share-based incentives:			
– Bonus shares	324	930	1,210
– Deferred shares	647	1,775	2,420
– Notional gains on the exercise of share options	–	–	7,246
	971	2,705	10,876
Pension contributions	2,603	1,979	1,630
	11,996	19,102	25,426

As at 19 February 2009, the interests of key management personnel in the Company's ordinary shares were as follows:

	Ordinary shares	Ordinary shares held as ADSs	Total
Directors	2,849,536	108,364	2,957,900
Other executive officers	1,017,378	170,600	1,187,978
	3,866,914	278,964	4,145,878

All of the above interests are beneficially owned and in aggregate comprise less than 1% of the Company's issued ordinary shares.

As at 19 February 2009, key management personnel held the following options over the Company's ordinary shares:

Scheme	Grant date	Expiry date	Exercise price	Number of options held		
				Directors	Other executive officers	Total
Premium Priced Option	11 February 2002	10 February 2012	197.00p	2,538,072	–	2,538,072
Premium Priced Option	11 February 2002	10 February 2012	276.00p	1,522,842	–	1,522,842
Premium Priced Option	11 February 2002	10 February 2012	345.00p	1,015,228	–	1,015,228
Ongoing Option	11 February 2002	10 February 2012	197.00p	550,000	–	550,000
ESOS 4	17 January 2003	16 January 2013	208.25p	1,440,576	–	1,440,576
ESOS 4	18 July 2003	17 July 2013	246.50p	–	200,000	200,000
ESOS 4	1 September 2003	31 August 2013	262.75p	–	150,000	150,000
ESOS 4	12 December 2003	11 December 2013	265.75p	1,228,880	335,000	1,563,880
SAYE 2	19 April 2004	30 November 2009	204.00p	8,014	8,014	16,028
ESOS 4	29 November 2004	28 November 2014	248.75p	1,331,030	440,000	1,771,030
				9,634,642	1,133,014	10,767,656

With the exception of options held under SAYE 2, all options shown above have vested.

An analysis of the compensation, interests in ordinary shares and options over ordinary shares of each of the Directors is presented in the Remuneration Committee report. For the purposes of Form 20-F, the sections of the Remuneration Committee report that are marked as "audited" are not required to be audited in accordance with PCAOB standards and are not considered audited in the Form 20-F.

Notes to the financial statements (continued)

49. Related party transactions (continued)

Associates

Sales to and purchases from associates were as follows:

	Year ended 3 January 2009 \$ million	Year ended 29 December 2007 \$ million	Year ended 30 December 2006 \$ million
Sales	1.0	0.6	0.6
Purchases	(20.0)	(12.0)	(10.1)

Amounts outstanding in respect of these transactions were as follows:

	As at 3 January 2009 \$ million	As at 29 December 2007 \$ million
Receivables	0.1	0.2
Payables	(1.0)	(3.0)

Entities controlled by minority shareholders

Sales to and purchases from entities controlled by minority shareholders were as follows:

	Year ended 3 January 2009 \$ million	Year ended 29 December 2007 \$ million	Year ended 30 December 2006 \$ million
Sales	45.2	46.4	48.2
Purchases	(58.7)	(61.4)	(58.1)

Amounts outstanding in respect of these transactions were as follows:

	As at 3 January 2009 \$ million	As at 29 December 2007 \$ million
Receivables	2.9	0.8
Payables	(4.7)	(2.0)

Other related parties

Dexon Investments Limited

Dexon Investments Limited ("Dexon") is the minority shareholder in the Group's 60% owned subsidiary, Winhere LLC, that was incorporated during 2006. On 19 July 2006, Winhere LLC, through its wholly-owned subsidiary, Gates Winhere Automotive Pump Products (Yantai) Co Ltd ("Gates Winhere"), acquired the business and assets of the water pump manufacturing operations of Winhere Auto Part Manufacturing Co Ltd ("Winhere"), a fellow subsidiary of Dexon, for \$8.6 million in cash. During 2008, Gates Winhere purchased land and buildings for \$1.8 million from Winhere. At 3 January 2009, there was a nil balance outstanding in respect of this transaction.

50. Exchange rates

The principal exchange rates used for translation purposes were as follows:

	Average rate			Closing rate		
	Year ended 3 January 2009 \$1=	Year ended 29 December 2007 \$1=	Year ended 30 December 2006 \$1=	As at 3 January 2009 \$1=	As at 29 December 2007 \$1=	As at 30 December 2006 \$1=
Sterling	0.52	0.50	0.55	0.68	0.50	0.51
Canadian dollar	1.05	1.06	1.13	1.22	0.98	1.16
Euro	0.67	0.73	0.80	0.72	0.68	0.76
Mexican peso	11.13	10.92	11.01	13.75	10.90	10.83
Chinese yuan renminbi	6.95	7.62	8.06	6.85	7.30	7.81
Indian rupee	39.87	41.35	45.45	50.10	39.43	44.26