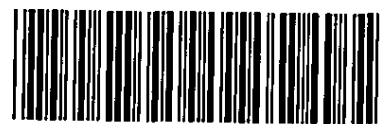


ASSOCIATED BRITISH ENGINEERING PLC
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 MARCH 2007

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ASSOCIATED BRITISH ENGINEERING PLC
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2007

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ASSOCIATED BRITISH ENGINEERING PLC

FINANCIAL HIGHLIGHTS

	2007	2006
	£'000	£'000
TURNOVER	3,861	3,278
PROFIT/(LOSS) BEFORE TAXATION	302	(78)
NET DEFICIT	(1,671)	(1,563)
BASIC PROFIT/(LOSS) PER £2 ORDINARY SHARE	23p	(6 0)p
EQUITY SHAREHOLDERS' FUNDS PER £2 ORDINARY SHARE	£(1.27)	£(1 17)

ASSOCIATED BRITISH ENGINEERING PLC

CHAIRMAN'S STATEMENT

FOR THE YEAR ENDED 31 MARCH 2007

The Group made a pre-tax profit of £302,000 from continuing operations compared with a pre-tax loss of £78,000 last year. There is an additional charge in respect of the interest on the pension fund liability, with the pension fund deficit increasing from £4,395,000 to £5,078,000.

This was in contrast to an improvement in the underlying performance from the only operating subsidiary British Polar Engines Limited ('BPE').

We have been in continual negotiations with the Trustees of the ABE Pension Fund, and the satisfactory conclusion of these, which is anticipated by the Board in the near future, would result in the division of the fund and only the obligations for the BPE section of the ABE Pension Fund would need to be accounted for by ABE going forward.

BPE has not been able to meet its statutory obligations concerning its contributions to the Pension Fund, which is in respect of the whole deficit of the fund including companies that ceased to be part of ABE as far back as 1996. This has resulted in the need to conclude a settlement with the Trustees of the Pension Fund which is likely to require the blessing of the Pension Regulator and possibly the Pension Protection Fund ('PPF'). The full financial implications of a settlement cannot be quantified at this stage.

All sections of the Pension Fund show an actuarial deficit of £5,078,000 at 31 March 2007 (£4,395,000 at 31 March 2006), and all sections of the Pension Fund, with the exception of the BPE section, are in wind up. Further details of the Pension Fund are set out in note 18 to the financial statements.

BPE again improved its performance significantly and made an operating profit of £592,000 against a profit of £337,000 last year. The Board of BPE should be congratulated on its endeavours in continuing to develop its business from a stable platform.

At long last the Board feels that a final resolution of the Pension Fund issues is in sight and will be announcing at the appropriate time any completion of contractual arrangements with the relevant parties. Thereafter the Board will be able to devote more time to the future development of the Group, with the pension matters resolved and the operating subsidiary BPE performing well.

The Board has continued to keep the central costs of the Company at as low a level as is reasonably possible and recognises that its priority will be to find a suitable corporate transaction to take the Group forward.

The Board and I are very grateful for the patience of the shareholders in what has been a long and hard road to the resolution of the Pension issues.



D A H Brown
Chairman

Date 19 July 2007

ASSOCIATED BRITISH ENGINEERING PLC

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2007

The directors submit their report and audited accounts for the year ended 31 March 2007

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

During the year the Company has acted as a parent undertaking for a subsidiary engaged in diesel and related engineering activities. Details of the trading subsidiary are set out in note 24. A review of the business and further details of the activities are discussed in the Chairman's Statement.

BUSINESS REVIEW AND PRINCIPAL RISKS FACING THE BUSINESS

By far the most pressing issue the Company has to address is the resolution of outstanding pension fund problems. There have been protracted negotiations over the last four years surrounding this problem which have not been helped by changes to pension legislation. While some progress has been made the situation is not yet resolved. The directors will naturally keep shareholders informed when a resolution has been arrived at.

As shareholders are no doubt aware the Company's only operating activity is through its subsidiary British Polar Engines Limited. This Company has had a successful trading year. It increased operating profit from £337,000 in 2006 to £592,000 this year. The sales have been particularly buoyant to the oil services business which is the result of high demand in the oil services support industry. It therefore would not be wise to assume that this trend will continue indefinitely and any decline in orders from this sector could adversely impact on overall profitability.

KEY PERFORMANCE INDICATORS

The Group uses various indicators to monitor its progress. Sales, service and production are continually monitored against set monthly budgets to compare and improve upon gross profit margin and operating profit.

The Group reviews the Pension Fund liability and the minimum funding requirement on a continual basis.

RESULTS AND DIVIDENDS

The Group profit for the year amounted to £302,000 (2006 loss of £78,000). The directors do not recommend a dividend on the ordinary shares for the year (2006 nil per ordinary share).

DIRECTORS

The names of the directors who served during any part of the period from 1 April 2006 to 31 March 2007 are

Mr D A H Brown	Chairman
Mr S J Cockburn	Non-Executive Director
Mr C Weinberg	Non-Executive Director

Biographical details of the directors are set out on page 44.

All the directors served throughout the year.

In accordance with the articles of association Mr D A H Brown retires by rotation and, being eligible, offers himself for re-election.

ASSOCIATED BRITISH ENGINEERING PLC

DIRECTORS' REPORT (Continued)

FOR THE YEAR ENDED 31 MARCH 2007

SUBSTANTIAL HOLDINGS

As at 20 July 2007 the Company had been notified of the following substantial interests in the issued ordinary share capital of the Company

Pershing Keen Nominees Limited (BFCLT) non discretionary	11.1%
R A Pearce Gould	8.8%
Fiske Nominees Limited (FISKPOOL) non discretionary	6.2%
Magro Investments	5.2%
J R M Keatley	3.2%
Barclayshare Nominees Limited non discretionary	3.1%
Transimbre Limited	2.3%

(Notice received from William Hodgson, director of Transimbre that he holds a beneficial interest in 3.0% of shares in all though none registered in his name)

BENEFICIAL INTERESTS IN SIGNIFICANT CONTRACTS

None of the directors had a material interest in any contract of significance to which the Company or any of its subsidiaries was party during the year

BENEFICIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

The beneficial interests of the directors, their spouses and minor children (if any) in the share capital of the Company according to the register kept by the Company under section 325 of the Companies Act 1985 as at 1 April 2006 and 31 March 2007 were as follows

	Ordinary shares of £2 each		7 per cent cumulative preference shares of £1 each		8 per cent cumulative redeemable preference shares of £1 each	
	2007 No.	2006 No.	2007 No.	2006 No.	2007 No.	2006 No.
Mr D A H Brown	2,146	2,146	-	-	-	-
Mr S J Cockburn	1,250	1,250	55,314	55,314	2,000	2,000
Mr C Weinberg	19,991	19,991	-	-	-	-

At the relevant dates Mr S J Cockburn had a non-beneficial interest in 10,000 7 per cent cumulative preference shares. As a result of his appointment as a trustee of a pension fund in January 2006 he has since had a non-beneficial interest in 39,296 ordinary shares and 32,000 7% cumulative preference shares. No director had any interest in the shares of any subsidiary. No share options are held by any of the directors at 31 March 2007 or 31 March 2006.

Since 31 March 2007 and up to and including 20 July 2007 there have been no changes in the directors' interests in the share capital of the Company.

ASSOCIATED BRITISH ENGINEERING PLC

DIRECTORS' REPORT (continued)

FOR THE YEAR ENDED 31 MARCH 2007

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group uses various financial instruments and these include cash, equity investments, preference shares and various items, such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations.

Further details of the policies adopted by the Group in respect of the financial risk management are included within note 20 to the financial statements.

CHARITABLE AND POLITICAL DONATIONS

The Group made no political or charitable donations during the year (2006 £nil)

DISABLED PERSONS

It is the Group's policy to give sympathetic consideration to the recruitment, continuing employment, training, career development and promotion of disabled persons.

CREDITOR PAYMENT POLICY

The Company's current policy concerning the payment of the majority of its trade creditors is to follow the Better Payment Practice Code co-ordinated by the Better Payment Practice Group. For other suppliers, the Company's policy is to

- (a) Settle the terms of payment with those suppliers when agreeing the terms of each transaction,
- (b) Ensure that those suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts, and
- (c) Pay in accordance with its contractual and other legal obligations.

Wherever possible the subsidiary follows the same policy. The average number of days which the Company took to pay creditors was 30 days (2006 30 days)

NOTICE OF ANNUAL GENERAL MEETING

The notice of the Annual General Meeting of the Company is set out on pages 45 and 46.

Resolution 5 – Disapplication of pre-emption rights

In accordance with section 95 of the Companies Act 1985, it is proposed to renew at the AGM for a further year the authority of the directors to allot equity securities for cash without first being required to offer such securities to shareholders of the Company by way of rights issue and, in other cases, to any issue of equity securities representing no more than 131,342 ordinary shares, equivalent to 10 per cent of the issued ordinary share capital of the Company. The authority will terminate no later than fifteen months after the passing of this resolution.

AUDITOR

In accordance with section 385 of the Companies Act 1985 a resolution to re-appoint Grant Thornton UK LLP as auditor to the Company and authorise the directors to fix their remuneration will be put to the annual general meeting.

By order of the Board

for & on behalf of 
Haysmacintyre Company Secretaries Limited
Company Secretary

Date 19 July 2007

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF ASSOCIATED BRITISH ENGINEERING PLC

We have audited the group financial statements of Associated British Engineering plc for the year ended 31 March 2007 which comprise the group accounting policies, the group income statement, the group statement of recognised income and expense the group balance sheet, the group cash flow statement and notes 1 to 24. These group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Associated British Engineering plc for the year ended 31 March 2007 and the information in the Directors' Remuneration Report that is described as having been audited. That report is modified by the inclusion of an emphasis of matter paragraph regarding going concern.

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 auditor's 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 auditor

The directors' responsibilities for preparing the Annual Report and the group financial statements in accordance with United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the group financial statements give a true and fair view, whether the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation and whether the information given in the Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2006 FRC 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 other information contained in the Annual Report and consider whether it is consistent with the audited group financial statements. The other information comprises only the Chairman's Statement, the Directors' Report, the Corporate Governance Statement and the Directors' Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

**REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF ASSOCIATED BRITISH
ENGINEERING PLC (CONTINUED)**

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 financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the group financial statements.

Opinion

In our opinion

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 March 2007 and of its profit for the year then ended,
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation, and
- the information given in the Directors' Report is consistent with the financial statements for the year ended 31 March 2007.

Emphasis of matter - going concern

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosure made in the Corporate Governance Report and Group Accounting Policies concerning the group's ability to continue as a going concern. The group recorded a profit of £302,000 for the year ended 31 March 2007 and at that date the group's balance sheet showed an overall deficit of £1.67m.

The directors are currently in negotiation with the Trustees of the ABE Pension Fund, the Pension Regulator and the PPF regarding the deficit within the ABE Pension Fund and have commenced proceedings to wind up a number of the sections of the ABE Pension Fund. However, these conditions, as explained in the Group Accounting Policies, indicate the existence of a material uncertainty which may cast doubt over the group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the group were unable to continue as a going concern.

Grant Thornton UK LLP

GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
OXFORD

19 July 2007

ASSOCIATED BRITISH ENGINEERING PLC

GROUP ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 MARCH 2007

BASIS OF PREPARATION

These Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The policies set out below have been consistently applied to all the years presented.

NEWLY ISSUED ACCOUNTING STANDARDS

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 March 2007, and have not been applied in preparing these financial statements.

In August 2005, the IASB issued the new standard IFRS 7 (Financial Instruments Disclosures), which is to be applied for annual periods beginning on or after 1 January 2007. IFRS 7 provides for financial instruments to be grouped into certain categories and specific disclosures made for each category including nature and extent of risks associated.

GOING CONCERN

BPE has not been able to meet its statutory obligations concerning the Pension Fund, which has resulted in the need to conclude a settlement with the Trustees of the ABE Pension Fund, the Pension Regulator and the PPF. All sections of the ABE Pension Fund show an actuarial deficit of £5,078,000 at 31 March 2007 (£4,395,000 at 31 March 2006), and all sections of the Pension Fund, with the exception of the BPE section, are in wind up. Further details of the Pension Fund are set out in note 18 to the financial statements. The financial statements have been prepared on the going concern basis as the Board expects a successful outcome to negotiations with the Trustees of the ABE Pension Fund, the Pension Regulator and the PPF, as explained in the Chairman's Statement. It therefore considers that the Group has sufficient resources to continue in operational existence for the foreseeable future.

BASIS OF CONSOLIDATION

The Group financial statements incorporate the financial statements of Associated British Engineering plc and its subsidiary undertakings to 31 March each year. All inter-company balances and transactions have been eliminated in full. The Group financial statements include the results of subsidiaries acquired or disposed of during the year from or to the effective date of acquisition or disposal.

REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration receivable by the Group for goods supplied and services provided, excluding value added tax and trade discounts.

Revenue from the sale of spare parts is recognised when the goods are dispatched or, if under a bill and hold arrangement, when they are available for despatch to a specific customer.

Revenue from the sale of engines is recognised in accordance with the performance of contractual terms and specifically when the engines have been satisfactorily tested in accordance with contractual terms.

INVENTORIES AND IMPAIRMENT OF INVENTORIES

Inventories of raw materials, work in progress and finished goods are valued at the lower of cost and net realisable value. Work in progress and finished goods include an appropriate allocation of overheads.

Cost is on a first in, first out basis. Net realisable value is the estimated selling price in the normal course of business less estimated costs of completion and provision is made for obsolete, slow moving and defective inventories.

ASSOCIATED BRITISH ENGINEERING PLC
GROUP ACCOUNTING POLICIES (continued)
FOR THE YEAR ENDED 31 MARCH 2007

LEASED ASSETS

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership, are classified as finance leases. Assets held under finance leases are capitalised at lease inception at the lower of the asset's fair value and the present value of the minimum lease payments. Obligations related to finance leases, net of finance charges in respect of future periods, are included as appropriate within borrowings. The interest element of the finance cost is charged to the income statement over the life of the lease so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant or equipment is depreciated on the same basis as owned plant and equipment or over the life of the lease, if shorter.

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Operating lease rentals (net of any related lease incentives) are charged against profit on a straight line basis over the period of the lease.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less depreciation and any impairment in value. Freehold land is not depreciated. Depreciation is calculated to write down the cost of all property, plant and equipment less its residual value by annual instalments over their expected useful lives on the following bases:

Freehold buildings	5 per cent
Plant and machinery	7½- 33⅓ per cent

These useful lives and residual values are reviewed in each financial period.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or where shorter, over the term of the relevant lease. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised as income.

The carrying values of plant and machinery are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash generating units are written down to their recoverable amounts.

TAXATION

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

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

Deferred tax is provided in full using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

ASSOCIATED BRITISH ENGINEERING PLC

GROUP ACCOUNTING POLICIES (continued)

FOR THE YEAR ENDED 31 MARCH 2007

FOREIGN CURRENCIES

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the exchange rates ruling at the balance sheet date. All exchange differences are dealt with through the income statement.

RETIREMENT BENEFIT COSTS

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

For defined benefit retirement schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside profit or loss and presented in the statement of recognised income and expense.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to cumulative unrecognised past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

The Group has recognised the actuarial losses and gains immediately within the Statement of Recognised Income and Expenditure in accordance with the provisions stated within IAS 19 'Employee benefits'.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short term deposits with a maturity of three months or less which are subject to an insignificant risk of changes in value.

FINANCIAL INSTRUMENTS

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. Finance costs are calculated so as to produce a constant rate of charge on the outstanding liability.

Where none of the contractual terms of share capital meet the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

Trade receivables

Trade receivables are originally recognised at fair value. Subsequent measurement is at amortised cost using the effective interest rate method. An estimate for doubtful debts is made when the collection of the full amount is no longer probable. Bad debts are written off when identified.

Trade payables

Trade payables are originally recognised at fair value. Subsequent measurement is at amortised cost using the effective interest rate method.

ASSOCIATED BRITISH ENGINEERING PLC
GROUP ACCOUNTING POLICIES (continued)
FOR THE YEAR ENDED 31 MARCH 2007

FINANCIAL INSTRUMENTS (CONTINUED)

Investments in securities

Investments are recognised and derecognised on a trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, with all transaction costs being written off to the income statement as incurred

Investments are classified as held for trading and are measured at subsequent reporting dates at fair value. Gains and losses arising from changes in fair value of held for trading financial assets are included in the net profit or loss for the period

CUMULATIVE PREFERENCE SHARES

Cumulative preference shares are measured subsequent to initial recognition at amortised cost using the effective interest rate method. Where the group revises its estimates of cash payments, the carrying amount of the financial liability is adjusted to reflect actual and revised estimated cash flows. The group recalculates the carrying amount by computing the present value of the estimated future cash flows at the financial instruments' original effective interest rate. The adjustment is recognised as income or expense in the income statement

SHARE BASED PAYMENTS AND SHARE OPTIONS

Former employees of the Group have received remuneration in the form of share based payment transactions, whereby employees render services in exchange for rights over shares ('equity settled transactions'). The cost of these transactions is measured by reference to their fair value at the date at which the options are granted. The fair value is determined by using the Black-Scholes Option pricing model. In preparing these consolidated financial statements in accordance with IFRS 1, the Group has elected to apply the share-based payment exemption. It applied IFRS 2 'Share Based Payment' from 1 April 2004 to those options which were issued after 7 November 2002 but had not vested by 1 April 2006

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

At each balance sheet date, the Group reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount in which case the reversal of the impairment loss is treated as a revaluation increase

ASSOCIATED BRITISH ENGINEERING PLC

GROUP INCOME STATEMENT

FOR THE YEAR ENDED 31 MARCH 2007

	Note	2007 £'000	2006 £'000
REVENUE	1	3,861	3,278
Operating costs	2	(3,304)	(3,050)
OPERATING PROFIT		<u>557</u>	<u>228</u>
Finance expense	7	(305)	(340)
Finance income	7	50	34
PROFIT/(LOSS) BEFORE TAXATION		<u>302</u>	<u>(78)</u>
Taxation	8	-	-
PROFIT/(LOSS) FOR THE YEAR		<u><u>302</u></u>	<u><u>(78)</u></u>
PROFIT/(LOSS) PER SHARE			
BASIC AND DILUTED	9	<u><u>23p</u></u>	<u><u>(6 0)p</u></u>

GROUP STATEMENT OF RECOGNISED INCOME AND EXPENSE

FOR THE YEAR ENDED 31 MARCH 2007

	2007 £'000	2006 £'000
Actuarial losses on retirement benefit obligation	(410)	(933)
Profit/(loss) for the year	302	(78)
TOTAL RECOGNISED INCOME AND EXPENSE FOR THE YEAR	<u><u>(108)</u></u>	<u><u>(1,011)</u></u>

The accounting policies on pages 8 to 11 and the notes on pages 15 to 27 form part of these accounts

ASSOCIATED BRITISH ENGINEERING PLC

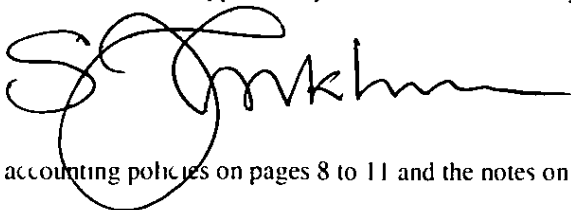
GROUP BALANCE SHEET

31 MARCH 2007

	Note	2007 £'000	2006 £ 000
ASSETS			
Non-current assets			
Property, plant and equipment	10	274	299
Current assets			
Inventories	12	1,266	1,328
Trade and other receivables	13	1,179	670
Held for trading investments	14	74	60
Cash and cash equivalents		1,642	1,205
		<u>4,161</u>	<u>3,263</u>
Total assets		<u><u>4,435</u></u>	<u><u>3,562</u></u>
EQUITY AND LIABILITIES			
Called up share capital	15	2,627	2,627
Share premium account	17	5,038	5,038
Other reserve	17	11	11
Retained earnings	17	(9,347)	(9,239)
Equity attributable to the Company's Equity shareholders		<u>(1,671)</u>	<u>(1,563)</u>
LIABILITIES			
Non-current liabilities			
Retirement benefit obligation	18	5,078	4,395
Cumulative preference shares	15	-	-
Obligations under finance leases	19	4	1
		<u>5,082</u>	<u>4,396</u>
Current liabilities			
Trade and other payables	19	1,023	728
Obligations under finance leases	19	1	1
		<u>1,024</u>	<u>729</u>
Total liabilities		<u><u>6,106</u></u>	<u><u>5,125</u></u>
Total equity and liabilities		<u><u>4,435</u></u>	<u><u>3,562</u></u>

These financial statements were approved by the directors on 19 July 07 and are signed on their behalf by

Director



The accounting policies on pages 8 to 11 and the notes on pages 15 to 27 form part of these accounts

ASSOCIATED BRITISH ENGINEERING PLC

GROUP CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2007

	2007 £'000	2006 £'000
Cash flows from operating activities		
Cash generated from operations	446	69
Interest received	50	34
Interest paid	(3)	(4)
Net cash from operating activities	<u>493</u>	<u>99</u>
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	-	5
Purchase of property, plant and equipment	(38)	(39)
Purchase of trading investments	(14)	(30)
Net cash used in investing activities	<u>(52)</u>	<u>(64)</u>
Cash flows from financing activities		
Repayments of obligations under finance leases	(4)	(3)
Net cash used in financing activities	<u>(4)</u>	<u>(3)</u>
Net increase in cash and cash equivalents	437	32
Cash and cash equivalents at beginning of year	1,205	1 173
Cash and cash equivalents at end of year	<u>1,642</u>	<u>1 205</u>

CASH FLOW FROM OPERATING ACTIVITIES

	2007 £'000	2006 £'000
Net profit/(loss)	302	(78)
Adjustments for		
Depreciation	67	72
Loss on disposal of fixed assets	3	-
Interest income	(50)	(34)
Interest expense	3	4
Pension scheme interest expense	302	336
Current service cost	(29)	(37)
Changes in working capital		
Decrease/(increase) in inventories	62	(55)
Increase in trade and other receivables	(509)	(263)
Increase in payables	295	135
Decrease in provisions	-	(11)
Cash generated from operations	<u>446</u>	<u>69</u>

The accounting policies on pages 8 to 11 and the notes on pages 15 to 27 form part of these accounts

ASSOCIATED BRITISH ENGINEERING PLC
NOTES TO THE ACCOUNTS - GROUP
FOR THE YEAR ENDED 31 MARCH 2007

1 SEGMENTAL REPORTING

Based on risks and returns the directors consider that the primary reporting format is by business segment. The directors consider that there is only one business segment being diesel and related engineering activities.

The secondary reporting format is by geographical analysis by destination as shown below.

The following table shows an analysis of the Group's sales by geographical market.

	2007 £'000	2006 £'000
United Kingdom	1,974	1,347
Europe	798	769
Middle East	110	256
Far East and Australasia	684	312
Africa	31	57
North and South America	264	522
Russia	-	15
	<u>3,861</u>	<u>3,278</u>

All of the above revenue arises from diesel and related engineering activities and originates in the United Kingdom.

In the year ended 31 March 2007 and 31 March 2006 all of the assets held by the group were located in the United Kingdom and all capital expenditure was incurred within the United Kingdom.

2. OPERATING COSTS

	2007 £'000	2006 £'000
Changes in inventories	(69)	55
Raw materials used	1,835	1,580
Staff costs	1,164	1,120
Depreciation and amortisation	67	72
Other expenses	307	223
	<u>3,304</u>	<u>3,050</u>

3. OPERATING PROFIT

	2007 £'000	2006 £'000
Operating profit is stated after charging		
Depreciation on owned assets	65	70
Depreciation on assets held under finance leases	2	2
Auditors' remuneration		
Audit of the company pursuant to legislation	9	9
Audit of subsidiaries	26	21
Taxation	8	8
Operating lease rental on plant and machinery	24	25
Operating lease rental on land and buildings	54	54
Pension provision reversal	-	(11)
Foreign exchange loss	2	3
	<u>2</u>	<u>3</u>

ASSOCIATED BRITISH ENGINEERING PLC
NOTES TO THE ACCOUNTS - GROUP (continued)
FOR THE YEAR ENDED 31 MARCH 2007

4. STAFF COSTS AND EMPLOYEES	2007	2006
	£'000	£ 000
Wages and salaries	915	878
Social security costs	87	74
Other pension costs	162	167
	<u>1,164</u>	<u>1 119</u>

The average monthly number of persons employed by the Group during the year was

	2007	2006
	Number	Number
By activity		
Production	13	13
Administration	17	22
	<u>30</u>	<u>35</u>

5. DIRECTORS' REMUNERATION

Directors received emoluments of £36,000 (2006 £36,000) Further details can be found on page 43

6. KEY MANAGEMENT COMPENSATION	2007	2006
	£'000	£'000
Remuneration of group directors	<u>36</u>	<u>36</u>

The group made no pension contributions in respect of group directors during the year ended 31 March 2007 or 31 March 2006

7. NET FINANCE EXPENSE	2007	2006
	£'000	£'000
Interest on obligations under finance leases	3	4
7% Cumulative preference dividend	-	-
8% Cumulative redeemable preference dividend	-	-
Pension interest cost less expected return on scheme assets	302	336
	<u>305</u>	<u>340</u>
Interest receivable	(50)	(34)
	<u>255</u>	<u>306</u>

The Company is required to pay cumulative dividends on the non-equity shares. However, the Company has insufficient distributable reserves to pay these dividends which have been provided in accordance with the Company's Articles of Association. Further information is disclosed within note 15 of the notes to the group financial statements

ASSOCIATED BRITISH ENGINEERING PLC
NOTES TO THE ACCOUNTS - GROUP (continued)
FOR THE YEAR ENDED 31 MARCH 2007

8.	TAXATION	2007	2006
		£'000	£'000
	The tax position is set out below		
	United Kingdom corporation tax at 30% (2006 30%)	-	-
	Total current tax and tax on profit/(loss) on ordinary activities	<u>-</u>	<u>-</u>

The tax assessed for the period is different from the standard rate of corporation tax in the UK of 30% (2006 30%) The differences are explained as follows

	2007	2006
	£'000	£'000
Profit/(loss) on ordinary activities before tax	<u>302</u>	<u>(78)</u>
Profit/(loss) on ordinary activities multiplied by standard rate of Corporation tax in the UK of 30% (2006 30%)	91	(23)
Effects of		
Expenses not deductible for tax purposes	128	(45)
Other temporary differences	<u>(219)</u>	<u>68</u>
Total tax for period	<u>-</u>	<u>-</u>

The group has trading losses of approximately £1.7 million (2006 £1.6 million), surplus ACT of approximately £910,000 (2006 £910,000) and capital losses of £9.1 million (2006 £9.1 million) These are available to set against future taxable profits, taxation liabilities and capital gains respectively These amounts are subject to agreement with Her Majesty's Revenue and Customs

9. PROFIT/(LOSS) PER SHARE

The calculation of profit/(loss) per ordinary share is based on the profit/(loss) attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year

	Profit £'000	2007 Weighted Average number of Shares	Per shares amount pence	Loss £'000	2006 Weighted Average Number of Shares	Per shares amount Pence
Basic and diluted profit/(loss) per share	<u>302</u>	<u>1,313,427</u>	<u>23p</u>	<u>(78)</u>	<u>1,313,427</u>	<u>(6.0)</u>

ASSOCIATED BRITISH ENGINEERING PLC
NOTES TO THE ACCOUNTS - GROUP (continued)
FOR THE YEAR ENDED 31 MARCH 2007

10. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings £'000	Plant and machinery £'000	Total £'000
COST			
At 1 April 2005	689	1,434	2,123
Additions	-	39	39
Disposals	-	(97)	(97)
	<hr/>	<hr/>	<hr/>
At 31 March 2006	689	1,376	2,065
Additions	-	44	44
Disposals	-	(62)	(62)
	<hr/>	<hr/>	<hr/>
At 31 March 2007	689	1,358	2,047
	<hr/>	<hr/>	<hr/>
ACCUMMULATED DEPRECIATION			
At 1 April 2005	489	1,297	1,786
Charge for year	32	40	72
Eliminated on disposals	-	(92)	(92)
	<hr/>	<hr/>	<hr/>
At 31 March 2006	521	1,245	1,766
Charge for year	32	35	67
Eliminated on disposals	-	(60)	(60)
	<hr/>	<hr/>	<hr/>
At 31 March 2007	553	1,220	1,773
	<hr/>	<hr/>	<hr/>
CARRYING AMOUNTS			
At 31 March 2007	136	138	274
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 March 2006	168	131	299
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Plant and machinery assets with a carrying amount of £14,000 (2006 £10,000) are held under finance leases. The amount of depreciation in respect of such assets amounted to £2,000 (2006 £2,000) for the year.

11. CAPITAL COMMITMENTS

At 31 March 2007 the Group had capital commitments of £11,000 (2006 £Nil)

ASSOCIATED BRITISH ENGINEERING PLC
NOTES TO THE ACCOUNTS – GROUP (continued)
FOR THE YEAR ENDED 31 MARCH 2007

12. INVENTORIES

	2007	2006
	£'000	£ 000
Raw materials	211	128
Work in progress	152	247
Finished goods	903	953
	<u>1,266</u>	<u>1,328</u>

The closing inventory balance is stated net of provisions of £1 710,000 (2006 £1,228,000)

13. TRADE AND OTHER RECEIVABLES

	2007	2006
	£'000	£'000
Trade receivables	1,085	557
Other receivables	83	108
Prepayments and accrued income	11	5
	<u>1,179</u>	<u>670</u>

The Group has no significant concentration of credit risk, with exposure spread over a large number of customers

14. HELD FOR TRADING INVESTMENTS

	2007	2006
	£'000	£ 000
Equity Securities – UK	74	60
	<u>74</u>	<u>60</u>

The fair value of the equity investments held is calculated by reference to the quoted market price at the year end

15 CALLED UP SHARE CAPITAL

	2007	2006
	£'000	£'000
Authorised		
1 699,078 ordinary shares of £2 each	3,398	3,398
750,000 7% cumulative preference shares of £1 each	750	750
1,681,443 8% cumulative redeemable preference shares of £1 each	1,681	1 681
	<u>5,829</u>	<u>5,829</u>
Nominal value.		
Allotted and fully paid		
1,313,427 ordinary shares of £2 each	2,627	2,627
555,000 7% cumulative preference shares of £1 each	555	555
157,395 8% cumulative redeemable preference shares of £1 each	157	157
	<u>3,339</u>	<u>3,339</u>

ASSOCIATED BRITISH ENGINEERING PLC
NOTES TO THE ACCOUNTS – GROUP (continued)
FOR THE YEAR ENDED 31 MARCH 2007

15. CALLED UP SHARE CAPITAL (CONTINUED)

Carrying value:

Equity shares		
1,313,427 ordinary shares of £2 each	2,627	2,627
	<u> </u>	<u> </u>
Shares classed as financial liabilities		
555 000 7% Cumulative preference shares of £1 each	-	-
157 395 8% Cumulative redeemable preference shares of £1 each	-	-
	<u> </u>	<u> </u>
	<u> </u>	<u> </u>

There were no shares allotted during the course of the years ended 31 March 2007 or 31 March 2006. The Company has one class of ordinary share which carries no right to fixed income. The Company also has two classes of cumulative preference shares, which carry the right to fixed returns of 7% and 8% per annum respectively.

The 7% cumulative preference shares and 8% cumulative redeemable preference shares, classified as debt under IAS 32, are non voting unless the dividends are six months in arrears or the resolution relates to the winding up of the Company or affects the rights attaching to them. The Company has the power to redeem the 8% Cumulative preference shares at par (together with arrears of dividends) at any time. Since the dividends are more than six months in arrears, the 8% Cumulative redeemable preference shares of £1 each have 50 votes per share and the 7% Cumulative preference shares of £1 each have 4 votes per share.

In accordance with IAS 39 the 7% cumulative preference shares and the 8% cumulative redeemable preference shares are required to be carried at fair value within the financial statements. As there is no expectation of being able to redeem the preference shares in the foreseeable future the fair value is deemed to be zero. The 7% cumulative preference shares are accruing a dividend of £39,000 per annum and the 8% cumulative redeemable preference shares are accruing a dividend of £13,000 per annum. At 31 March 2007 total dividend arrears of £360,000 (2006 £308,000) had accrued, representing arrears to date of 49 pence per share relating to the 7% cumulative preference shares and 56 pence per share relating to the 8% cumulative redeemable preference shares.

Under IAS 32 the preference dividends should be disclosed as finance charges and any arrears of dividends included with accruals. IAS 39 also permits the total of accumulated arrears of dividends to be discounted. As the company has no distributable reserves and there is no expectation of being able to pay the dividend arrears in the foreseeable future as a result of anticipated future cash flows, the accrued dividends are deemed to have a fair value of zero and therefore have been discounted to zero.

16. SHARE BASED PAYMENTS

The Company operates an Executive Share Option Scheme (ESOP) under which options are granted with the guidance of the remuneration committee. Options are granted with a fixed exercise price equal to the market price of the shares under option at the date of the grant. The contractual life of an option is 10 years. Options granted under the ESOP will become exercisable on the third anniversary of the date of the grant. Share options unexercised at the end of the year:

Date of grant	Dates exercisable	Price	At 31 March 2006	Lapsed	At 31 March 2007
6 January 2001	January 2007 to January 2011	£2.00	7,000	-	7,000
			<u> </u>	<u> </u>	<u> </u>
			7,000	-	7,000
			<u> </u>	<u> </u>	<u> </u>

At 31 March 2007 the weighted average exercise price of the remaining share options in issue was £2.00 (2006 2.00). During the year ended 31 March 2006 options over 1,480 shares at a price of £8.50 per share lapsed.

ASSOCIATED BRITISH ENGINEERING PLC
 NOTES TO THE ACCOUNTS – GROUP (continued)
 FOR THE YEAR ENDED 31 MARCH 2007

17. STATEMENT OF CHANGES IN SHAREHOLDERS' DEFICIT

	Share Capital £'000	Share Premium £'000	Other reserve £'000	Retained Earnings £'000	Total £'000
Balance at 1 April 2005	2,627	5,038	11	(9,178)	(1,502)
Loss for the year	-	-	-	(78)	(78)
Actuarial losses in defined benefit plan	-	-	-	(933)	(933)
Defined benefit plan adjustment	-	-	-	950	950
Balance at 31 March 2006	2,627	5,038	11	(9,239)	(1,563)
Profit for the year	-	-	-	302	302
Actuarial losses in defined benefit plan	-	-	-	(410)	(410)
Balance at 31 March 2007	<u>2,627</u>	<u>5,038</u>	<u>11</u>	<u>(9,347)</u>	<u>(1,671)</u>

18. RETIREMENT BENEFIT SCHEMES

The Group operates a defined benefit pension scheme, holding the assets in a separate trustee administered fund ("the ABE Pension Fund"). The required contributions are assessed with the advice of an independent qualified actuary using the projected unit credit method. The Group also has a designated Group personal pension plan which meets stakeholder requirements.

The Company is in the process of leaving the ABE Pension Scheme and has negotiated 'in principle' Heads of Terms with the Trustees of the scheme.

	2007 £'000	2006 £'000
(a) Pension cost (recognised in Income Statement)		
<i>Operating charge</i>		
Current service cost	121	109
Total operating charge	<u>121</u>	<u>109</u>
<i>Other finance charges</i>		
Interest on pension scheme liabilities	697	663
Expected return on pension scheme assets	(395)	(327)
Net finance charge	<u>302</u>	<u>336</u>
Total pension cost recognised in the Income Statement	<u>423</u>	<u>445</u>

ASSOCIATED BRITISH ENGINEERING PLC
NOTES TO THE ACCOUNTS – GROUP (continued)
FOR THE YEAR ENDED 31 MARCH 2007

18. RETIREMENT BENEFIT SCHEMES (Continued)

(b) Benefit liability	2007	2006
	£'000	£'000
Present value of funded obligations	14,496	14,088
Fair value of plan assets	(9,418)	(9 693)
Net liability	<u>5,078</u>	<u>4,395</u>

The major categories of plan assets are as follows

Equities	1,438	4,103
Bonds	7,956	4,673
Cash	24	(33)
Other	-	950
	<u>9,418</u>	<u>9,693</u>

(c) Change in benefit obligation

Benefit obligation at beginning of the year	14,088	12,186
Current service cost	121	109
Interest cost	697	663
Actuarial losses	17	1,519
Contributions by plan participants	25	24
Benefits paid	(452)	(413)
Benefit obligation at end of the year	<u>14,496</u>	<u>14,088</u>

(d) Change in plan assets

Fair value of plan assets at beginning of the year	9,693	8,062
Expected return on plan assets	395	327
Actuarial (losses)/gains on plan assets	(394)	586
Contributions made by employer	151	157
Contributions by plan participants	25	24
Benefits paid	(452)	(413)
Defined benefit plan adjustment	-	950
Fair value of plan assets at end of the year	<u>9,418</u>	<u>9,693</u>

The cumulative amount of actuarial loss recognised in the statement of recognised income and expense is £103 000 (2006 £405 000)

ASSOCIATED BRITISH ENGINEERING PLC
NOTES TO THE ACCOUNTS – GROUP (continued)
FOR THE YEAR ENDED 31 MARCH 2007

18. RETIREMENT BENEFIT SCHEMES (Continued)

The expected long term return on cash is equal to bank base rates at the balance sheet date. The expected return on bonds is determined by reference to United Kingdom long dated gilt and bond yields at the balance sheet date. The expected rate of return on equities have been determined by setting an appropriate risk premium above gilt/bond yields having regard to market conditions at the balance sheet date. The expected rates have then all been reduced to reflect the level of anticipated future expenses.

The expected long term rates of return (net of expenses) are as follows

	2007 % per annum	2006 % per annum
Equities	5.4	5.4
Bonds	3.0	3.0
Cash	1.5	1.5
	<hr/>	<hr/>
Overall rate of return for the plan	<u>3.3</u>	<u>4.1</u>

The actual return on the plan assets over the year ended 31 March 2007 was 19.27%

(e) Principal actuarial assumptions	2007	2006
Inflation	3.2%	3.0%
Rate of increase in pensionable salaries	4.2%	4.0%
Discount rate	5.4%	5.0%
Pension in payment increases	3.0%	2.8%
Revaluation rate for deferred pensioners	3.2%	3.0%
Estimate of contributions to be paid in the next accounting period	£135,000	£161,000
Pre retirement mortality	AM92,-5 (males) AF92,-5 (females)	AM92 -5 (males) AF 92,-5 (females)
Post retirement mortality	PMA92 (males) PFA92 (females)	PMA92 (males) PFA92 (females)

(f) History of experience gains and losses

(i) Difference between the expected and actual return on scheme (liabilities)/assets

	2007	2006	2005
(a) Amount (£'000)	(395)	586	569
(b) Percentage of scheme assets	(4)%	7%	7%
(ii) Experience (gains) and losses on scheme liabilities			
(a) Amount (£ 000)	(324)	(424)	444
(b) Percentage of present value of scheme liabilities	(2)%	(3)%	4%

ASSOCIATED BRITISH ENGINEERING PLC
NOTES TO THE ACCOUNTS - GROUP (continued)
FOR THE YEAR ENDED 31 MARCH 2007

19. PAYABLES

	2007	2006
	£'000	£'000
Current		
Obligations under finance leases	1	1
Trade creditors	536	275
Other taxation and social security	23	29
Other creditors	153	174
Accruals and deferred income	311	250
	<u>1,024</u>	<u>729</u>
Non-current		
Obligations under finance leases	4	1
	<u>4</u>	<u>1</u>
The net finance lease obligations are due		
In one year or less	1	1
Between one and two years	4	1
	<u>5</u>	<u>2</u>

The finance leases are secured on the assets they relate to

ASSOCIATED BRITISH ENGINEERING PLC
NOTES TO THE ACCOUNTS – GROUP (continued)
FOR THE YEAR ENDED 31 MARCH 2007

20. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The Group's financial instruments comprise cash, some borrowings, and various items, such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to finance the Group's operations. At 31 March 2007 the Group has cash balances of £1,642,000 (2006 £1,205,000) and no bank overdraft (2006 £Nil).

RISKS

The main risks arising from the Group's financial instruments are liquidity risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. These policies have been consistently applied throughout the period.

LIQUIDITY RISK

The Group's liquidity is dependent on the cash balances available and it is the Group's policy to place surplus cash on deposit to ensure as high a rate of return as possible. The maturity profile of the Group's finance lease liabilities at 31 March 2007 and 31 March 2006 is set out in note 19. The preference shares in issue have no fixed redemption date and will be redeemed when the company is in a position to do so.

CREDIT RISK

The Group's principal financial assets are cash deposits and trade receivables. The credit risk associated with the cash is limited as the counterparties have high credit ratings assigned by international credit-rating agencies. The principal credit risk arises therefore from its trade receivables.

In order to manage credit risk the directors of the subsidiary company set limits for customers based on a combination of payment history and third party credit references. Credit limits are reviewed by the subsidiary's directors on a regular basis in conjunction with debt ageing and collection history. In 2007 and 2006 there were no concentrations of credit risk, with exposure being spread over a large number of customers. Where appropriate, the subsidiary company requests payment or part-payment in advance of shipment which generally covers the cost of the goods. In connection with the trade receivables, there is a risk of warranty claims, which the subsidiary company tries to minimise. The carrying value of the trade receivables represents the maximum credit risk exposure.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The directors consider that the fair values of the Group's financial instruments at 31 March 2007 and 31 March 2006 were not materially different from their book values. The directors consider that under IFRS both classes of preference shares in issue have a fair value of zero and further details are disclosed within note 15 of the group financial statements.

ASSOCIATED BRITISH ENGINEERING PLC
NOTES TO THE ACCOUNTS – GROUP (continued)
FOR THE YEAR ENDED 31 MARCH 2007

21. DEFERRED TAXATION

There is no unprovided deferred taxation liability at 31 March 2007 or 31 March 2006

The directors consider that there are currently no plans for the distribution of the retained reserves of the overseas subsidiary that would give rise to a UK corporation tax liability. Consequently no deferred tax provision has been made.

No provision has been made for the potential deferred tax assets on the trading losses carried forward as they are not sufficiently certain to crystallise in the foreseeable future. The amounts not recognised (all of which have been calculated at 30%) are set out below.

Group	2007 £'000	2006 £'000
Arising from trading losses	510	486
Arising from capital losses	2,754	2,758
Arising from pension deficit	1,523	1,319
Other temporary differences	52	53
	<u>4,839</u>	<u>4,616</u>

22. CONTINGENT LIABILITIES

	2007 £'000	2006 £'000
a) Banker's indemnities	<u>30</u>	<u>30</u>
b) In order to achieve the settlement relating to the defined benefit pension scheme as noted in the Chairman's statement, the Company and the Trustees will require approval from the Pensions Regulator. The Regulator could order ABE to contribute further to the deficit on the scheme, over and above what is currently proposed. Whilst unlikely, the Directors, based on professional advice, consider this possible, but at the current time do not consider that this can be quantified.		

The Board anticipates that these discussions will be completed in the near future and will result in the Pensions Protection Fund taking over the obligations for the BPE section of the ABE Pension Fund.

c) There were no other contingent liabilities at 31 March 2007 or 31 March 2006.

ASSOCIATED BRITISH ENGINEERING PLC
NOTES TO THE ACCOUNTS – GROUP (continued)
FOR THE YEAR ENDED 31 MARCH 2007

23. COMMITMENTS UNDER OPERATING LEASES

At 31 March the Group had the following commitments under non-cancellable operating leases

	Land and buildings		Other	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Within one year	54	50	23	18
Between two and five years inclusive	208	200	16	11
After more than five years	216	250	-	-
	<u>478</u>	<u>500</u>	<u>39</u>	<u>29</u>

24. PRINCIPAL SUBSIDIARIES

At 31 March 2007 and 31 March 2006 the company held 100% of the share capital of the following subsidiaries

	Class of share capital	Proportion held by the parent company	Country of incorporation	Nature of business
British Polar Engines Limited	Ordinary	100%	England and Wales	Manufacture and supply of diesel engines, associated servicing and sale of spare parts
Danway Limited	Ordinary	100%	Cayman Islands	Dormant

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF ASSOCIATED BRITISH ENGINEERING PLC

We have audited the parent company financial statements of Associated British Engineering plc for the year ended 31 March 2007 which comprise the principal accounting policies, the balance sheet and notes 1 to 13. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the group financial statements of Associated British Engineering plc for the year ended 31 March 2007. That report is modified by the inclusion of an emphasis of matter paragraph regarding going concern.

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 auditor

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the parent company financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view, whether the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the Chairman's Statement, the Directors' Report, the Corporate Governance Statement and the unaudited part of the Directors' Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements and the part of the Directors' Remuneration 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 parent company financial statements and the part of the Directors' Remuneration Report to be audited.

**REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF ASSOCIATED BRITISH
ENGINEERING PLC (CONTINUED)**

Opinion

In our opinion

- the parent company financial statements give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice of the state of the company's affairs as at 31 March 2007,
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements for the year ended 31 March 2007

Emphasis of matter - going concern

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosure made in the Corporate Governance Report and Company Accounting Policies concerning the group's ability to continue as a going concern. The group recorded a profit of £302,000 for the year ended 31 March 2007 and at that date the group's balance sheet showed an overall deficit of £1.67m.

The directors are currently in negotiations with the Trustees of the ABE Pension Fund, the Pension Regulator and the PPF regarding the deficit within the ABE Pension Fund and have commenced proceedings to wind up a number of the sections of the ABE Pension Fund. However, these conditions, as explained in the Group Accounting Policies, indicate the existence of a material uncertainty which may cast doubt over the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern.

Grant Thornton UK LLP

GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
OXFORD

19 July, 2007.

ASSOCIATED BRITISH ENGINEERING PLC

PRINCIPAL ACCOUNTING POLICIES – COMPANY

FOR THE YEAR ENDED 31 MARCH 2007

BASIS OF PREPARATION

The Company accounts have been prepared in accordance with applicable UK accounting standards (United Kingdom Generally Accepted Accounting Practice). The summary of the principal accounting policies, which have been applied consistently, is set out below. The policies have remained unchanged from the previous year.

BASIS OF ACCOUNTING

The accounts are prepared on the historical cost basis, modified to incorporate the fair valuation of financial instruments.

GOING CONCERN

A subsidiary of the company, BPE, has not been able to meet its statutory obligations concerning its contributions to the Pension Fund, which has resulted in the need to conclude a settlement with the Trustees of the ABE Pension Fund, the Pension Regulator and the PPF. All sections of the ABE Pension Fund show an actuarial deficit of £5,078,000 at 31 March 2007 (£4,395,000 at 31 March 2006), and all sections of the Pension Fund, with the exception of the BPE section, are in wind up.

Further details of the Pension Fund are set out in note 18 to the Group financial statements. The financial statements have been prepared on the going concern basis as the Board considers that the Group has sufficient resources to continue in operational existence for the foreseeable future, including the servicing of the Pension Fund's minimum funding requirements.

TANGIBLE FIXED ASSETS

Freehold land is not depreciated. Other fixed assets are depreciated over their estimated useful lives at the following annual rates to cost:

Freehold buildings	5 per cent
--------------------	------------

DEFERRED TAXATION

Deferred tax is recognised on all timing differences where the transactions or events that give the Company an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

FOREIGN CURRENCIES

Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the year end date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Any exchange gains or losses are credited or charged to the profit and loss account in the year in which they arise.

ASSOCIATED BRITISH ENGINEERING PLC

PRINCIPAL ACCOUNTING POLICIES – COMPANY

FOR THE YEAR ENDED 31 MARCH 2007

FINANCIAL INSTRUMENTS

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. Finance costs are calculated so as to produce a constant rate of charge on the outstanding liability.

Where none of the contractual terms of share capital meet the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

CUMULATIVE PREFERENCE SHARES

Cumulative preference shares are measured subsequent to initial recognition at amortised cost using the effective interest rate method. Where the company revises its estimates of cash payments, the carrying amount of the financial liability is adjusted to reflect actual and revised estimated cash flows. The company recalculates the carrying amount by computing the present value of the estimated future cash flows at the financial instruments' original effective interest rate. The adjustment is recognised as income or expense in profit or loss.

INVESTMENTS

Investments are included at cost less amounts written off.

Investments are recognised and derecognised on a trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, with all transaction costs being written off to the income statement as incurred.

ASSOCIATED BRITISH ENGINEERING PLC

COMPANY BALANCE SHEET

AS AT 31 MARCH 2007

	Note	2007 £'000	2006 £'000
FIXED ASSETS			
Tangible fixed assets	3	471	503
Investments	5	2,484	2,484
		<u>2,955</u>	<u>2,987</u>
CURRENT ASSETS			
Investments	6	94	79
Debtors	7	15	29
Cash at bank and in hand		485	610
		<u>594</u>	<u>718</u>
Creditors – amounts falling due within one year	8	(937)	(942)
Net current liabilities		<u>(343)</u>	<u>(224)</u>
Total assets less current liabilities		2,612	2,763
Creditors – amounts falling due after one year	8	(2,292)	(2,292)
		<u>320</u>	<u>471</u>
CAPITAL AND RESERVES			
Called up share capital	10	2,627	2,627
Share premium account		5,038	5,038
Other reserve		212	212
Profit and loss account	12	(7,557)	(7,406)
SHAREHOLDERS' FUNDS		<u>320</u>	<u>471</u>

These financial statements were approved by the directors on 19 July 2007 and are signed on their behalf by

Director



The accounting policies on pages 30 and 31 and the notes on pages 33 to 37 form part of these accounts

ASSOCIATED BRITISH ENGINEERING PLC

NOTES TO THE ACCOUNTS - COMPANY

FOR THE YEAR ENDED 31 MARCH 2007

1. ADMINISTRATIVE EXPENSES

	2007	2006
	£'000	£'000
Directors and employees (note 2)	36	36
Depreciation of tangible fixed assets owned	32	32
	<u> </u>	<u> </u>

2. DIRECTORS

	2007	2006
	£'000	£'000
Remuneration in respect of directors was as follows		
Remuneration	36	36
	<u> </u>	<u> </u>

The average number of employees, all of whom are directors of the company during the year was 3 (2006 3)

More detailed information concerning directors' remuneration is shown in the Directors' Remuneration Report

3. TANGIBLE FIXED ASSETS

	Freehold land and buildings £'000
COST	
At 1 April 2006 and 31 March 2007	607
	<u> </u>
DEPRECIATION	
At 1 April 2006	104
Charge for the year	32
	<u> </u>
At 31 March 2007	136
	<u> </u>
NET BOOK VALUE	
At 31 March 2007	471
	<u> </u>
At 31 March 2006	503
	<u> </u>

4 CAPITAL COMMITMENTS

At 31 March 2007 the company had no capital commitments (2006 £Nil)

ASSOCIATED BRITISH ENGINEERING PLC
NOTES TO THE ACCOUNTS - COMPANY
FOR THE YEAR ENDED 31 MARCH 2007

5.	FIXED ASSET INVESTMENTS	Subsidiary Undertakings £'000
	COST	
	At 1 April 2006 and 31 March 2007	<u>3,406</u>
	Amounts written off	
	At 1 April 2006 and 31 March 2007	<u>(922)</u>
	Net book amount at 1 April 2006 and 31 March 2007	<u><u>2,484</u></u>

The principal subsidiary undertakings, both of which are wholly owned are

Company	Activity	Country of incorporation
British Polar Engines Limited	Engineering	Great Britain
Danway Limited	Non-trading	Cayman Islands

The investment in British Polar Engines Limited was fully provided at 31 March 2007 and 31 March 2006

6.	CURRENT ASSET INVESTMENTS	2007 £'000	2006 £'000
	Equities	74	60
	Cash on deposit	20	19
		<u>94</u>	<u>79</u>

7.	DEBTORS	2007 £'000	2006 £'000
	Other debtors	4	24
	Prepayments and accrued income	11	5
		<u>15</u>	<u>29</u>

ASSOCIATED BRITISH ENGINEERING PLC
NOTES TO THE ACCOUNTS - COMPANY
FOR THE YEAR ENDED 31 MARCH 2007

8. CREDITORS

	2007	2006
	£'000	£'000
Amounts falling due within one year		
Amounts due to group undertakings	815	815
Other creditors	24	24
Accruals and deferred income	98	103
	<u>937</u>	<u>942</u>
	<u><u>937</u></u>	<u><u>942</u></u>
 Amounts falling due after one year		
	2007	2006
	£'000	£ 000
Amounts due to group undertakings	2,292	2,292
Financial liabilities (see note 10)	-	-
	<u>2,292</u>	<u>2,292</u>
	<u><u>2,292</u></u>	<u><u>2,292</u></u>

9. DEFERRED TAXATION

There is no unprovided deferred taxation liability at 31 March 2007 or 31 March 2006

The directors consider that there are currently no plans for the distribution of the retained reserves of the overseas subsidiary that would give rise to a UK corporation tax liability. Consequently no deferred tax provision has been made.

No provision has been made for the potential deferred tax assets on the trading losses carried forward as they are not sufficiently certain to crystallise in the foreseeable future. The amounts not recognised (all of which have been calculated at 30%) are set out below.

	2007	2006
	£'000	£'000
Arising from trading losses	342	266
Arising from capital losses	2,678	2,682
	<u>3,020</u>	<u>2,948</u>
	<u><u>3,020</u></u>	<u><u>2,948</u></u>

ASSOCIATED BRITISH ENGINEERING PLC

NOTES TO THE ACCOUNTS – COMPANY (Continued)

FOR THE YEAR ENDED 31 MARCH 2007

10. CALLED UP SHARE CAPITAL

	2007 £'000	2006 £'000
Company		
Authorised		
1,699,078 ordinary shares of £2 each	3,398	3,398
750,000 7% cumulative preference shares of £1 each	750	750
1,681,443 8% Cumulative redeemable preference shares of £1 each	1,681	1,681
	<u>5,829</u>	<u>5,829</u>
Nominal value:		
Allotted, called up and fully paid		
1,313,427 ordinary shares of £2 each	2,627	2,627
555,000 7% Cumulative preference shares of £1 each	555	555
157,395 8% Cumulative redeemable preference shares of £1 each	157	157
	<u>3,339</u>	<u>3,339</u>
Carrying value.		
Equity shares		
1,313,427 ordinary shares of £2 each	2,627	2,627
Shares classified as financial liabilities		
555,000 7% Cumulative preference shares of £1 each	-	-
157,395 8% Cumulative redeemable preference shares of £1 each	-	-
	<u>-</u>	<u>-</u>

The Company has one class of ordinary share which carry no right to fixed income. The Company also has two classes of cumulative preference shares, which carry the right to fixed returns of 7% and 8% per annum respectively. The 7% cumulative preference shares and 8% cumulative redeemable preference shares, classified as debt under FRS 25, are non-voting unless the dividends are six months in arrears or on implementation of the resolution relating to the winding-up of the Company, both of which affect the rights attached to both these classes of share. The Company has the power to redeem the 8% cumulative preference showing at par (together with arrears of dividends) at any time. Since the dividends are more than six months in arrears, the 8% cumulative redeemable preference shares of £1 each have 50 votes per share and the 7% cumulative preference shares of £1 each have 4 votes per share.

In accordance with FRS 26 the 7% cumulative preference shares and the 8% cumulative redeemable preference shares are required to be carried at fair value within the financial statements. As there is no expectation of being able to redeem the preference shares in the foreseeable future the fair value is deemed to be zero. The 7% cumulative preference shares are accruing a dividend of £39,000 per annum and the 8% cumulative redeemable preference shares are accruing a dividend of £13,000 per annum. At 31 March 2007 total dividend arrears of £360,000 (2006 £308,000) had accrued representing arrears to date of 49 pence per share relating to the 7% cumulative preference shares and 56 pence per share relating to the 8% cumulative redeemable preference shares.

Under FRS 25 the preference dividends should be disclosed as a finance charge and any arrears of dividends included within accruals. FRS 26 permits the total accumulated accruals of dividends to be discounted. As the Company has no distributable reserves and is not permitted to make a distribution and on the basis of the discounted future cash flows, the arrears of preference dividends have been discounted to £Nil.

Further to the Extraordinary General Meeting held on 1 September 1999 the ordinary shares have 200 votes per share.

ASSOCIATED BRITISH ENGINEERING PLC

NOTES TO THE ACCOUNTS – COMPANY (Continued)

FOR THE YEAR ENDED 31 MARCH 2007

11. SHARE BASED PAYMENTS

The Company operates an Executive Share Option Scheme (ESOP) under which options are granted with the guidance of the remuneration committee. Options are granted with a fixed exercise price equal to the market price of the shares under option at the date of the grant. The contractual life of an option is 10 years. Options granted under the ESOP will become exercisable on the third anniversary of the date of the grant.

Share options unexercised at the end of the year

Date of grant	Dates exercisable	Price	At 31 March 2006	Lapsed	At 31 March 2007
6 January 2001	January 2007 to January 2011	£2.00	7,000	-	7,000
			<u>7,000</u>	<u>-</u>	<u>7,000</u>

12. PROFIT AND LOSS ACCOUNT

At 1 April 2006	(7,406)
Retained loss	(151)
At 31 March 2007	<u>(7,557)</u>

As permitted by Section 230 of the Companies Act 1985, the company's profit and loss account has not been included in these accounts. The Company's loss for the financial year was £151,000 (2006: £113,000).

13. CONTINGENT LIABILITIES

	2007 £'000	2006 £'000
a) Banker's indemnities	-	-
b) In order to achieve the settlement relating to the defined benefit pension scheme as noted in the Chairman's statement, the Company and the Trustees will have to have the Compromise Agreement approved by the new Pensions Regulator. The Regulator could order Associated British Engineering Plc to contribute further to the deficit on the scheme, over and above what is proposed in the Compromise Agreement. Whilst unlikely, the directors, based on professional advice, consider this possible, but at the current time do not consider that this can be quantified.		
c) There were no other contingent liabilities at 31 March 2007 or 31 March 2006		

ASSOCIATED BRITISH ENGINEERING PLC

STATEMENT OF DIRECTORS' RESPONSIBILITIES

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the company financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the directors are aware

- there is no relevant audit information of which the company's auditor is unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

ASSOCIATED BRITISH ENGINEERING PLC

CORPORATE GOVERNANCE

In accordance with the requirements of the Listing Rules of the Financial Services Authority, set out below are details of the Company's corporate governance arrangements including a statement as to how the Company applies the principles of Section 1 of the Revised Code, together with a statement regarding its compliance with specific provisions. Whilst welcoming the principles contained within the Code, the Board considers that it should be recognised that what may be appropriate for a large company may not necessarily be so appropriate for a smaller company and the Company's current circumstances. As a result, the Company has been in compliance throughout the year with the provisions set out in the Combined Code for Corporate Governance with the following exceptions -

- The division of responsibilities between the roles of chairman and chief executive have not been clearly established, set out in writing and agreed by the Board. This is contrary to provision A 2.1,
- There is no formally appointed senior independent director. This is contrary to provision A 3.3,
- The Board has not undertaken a formal and rigorous annual evaluation of its own performance and the individual Directors. This is contrary to provision A 6.1,
- There is no formal training programme for new Directors on joining the Board. This is contrary to provision A 5.1,
- The non – executive directors of the Company have not been appointed for specific terms as required by provision A 7.2,
- The terms and conditions of appointment of non-executive directors and the letters of appointment were not in place for any of the Directors throughout the year, contrary to provision A 4.4. Since the year end, this provision has been complied with and the documents are available for inspection on request.
- There is no formal performance evaluation or election process for the appointment of Non-Executive Directors. This is contrary to provision A 7.2.
- No non-executive directors are considered to be independent. This is contrary to provision A 3.2.
- The Board considers that it is unable to state that it has conducted a review of the effectiveness of the Group's system of internal controls. This is contrary to provision C 2.1.
- The Company does not have a Remuneration Committee, this is contrary to provisions B 2.1 – B 2.2.
- The Company does not have a Nomination Committee, this is contrary to provisions A 4.1 – A 4.3.
- The Company does not have an Audit Committee, this is contrary to provisions C 3.1 – C 3.6.

In view of the size and circumstances of the Group, the Board do not consider Remuneration, Nomination and Audit Committees appropriate. The Board as a whole carries out the functions and responsibilities that would be performed by these Committees.

Board of Directors

The Board comprises three Non-Executive Directors.

In common with other organisations of a similar size, the Directors review all the transactions and activities of the business. The Board of Directors meets three to four times a year and is responsible for formulating strategy and monitoring financial performance. The strategies proposed by management of the subsidiary are fully discussed, critically examined against the best and long term interests of not only the shareholders but also employees, customers, suppliers and various communities within which the Group operates. During the year, all three serving Directors attended the three Board meetings that were held. In addition to the scheduled meetings there is frequent contact between all the Directors in connection with the Group's business.

The Board retains full responsibility for the direction and control of the Group and has a formal schedule of matters in respect of which decisions are reserved to it covering key areas including strategy formulation, acquisitions or disposals, approval of the budget for the subsidiary, financial results, board appointments and proposals for dividend payments.

The Board has full and timely access to relevant information throughout the Group.

ASSOCIATED BRITISH ENGINEERING PLC

CORPORATE GOVERNANCE

Non-Executive Directors

The biographies of the Directors appear on page 44 and show considerable and varied experience in the business world and the City. The Board believes it is an effective independent body and therefore has not appointed a senior independent non-executive director. There have been no changes in the other significant commitments of the Chairman.

All Directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are complied with. There is also a formal agreed procedure for Directors in the furtherance of their duties to take independent professional advice as necessary at the Company's expense.

Under the Company's Articles of Association, at least one third of the Directors retire from office each year. The retiring Director is eligible for re-election.

The role of Non-Executive Directors is a vital element of corporate accountability. Due to the small size of the Board and because there are no full time Executive Directors, the Non-Executive Directors do carry out certain limited specific executive responsibilities.

Remuneration and Nomination

The Board meets at least once a year to decide remuneration. Details of remuneration, policy and practices, together with the remuneration of the directors are given in the Directors' Remuneration Report on page 43. The level of remuneration for the Non-Executive Directors reflects the time commitment and responsibilities of the role. Remuneration for the Non-Executive Directors does not include share options.

Appointment to Executive Director would be fully discussed by the Chairman and the two Non-Executive Directors. Potential new Non-Executive Directors are proposed by all the members of the Board in the light of the Company's business requirements and the need to have a balanced Board. Possible candidates are discussed amongst all Directors before any approach is made to them.

Communication with Shareholders

The Board believes it is important to respond adequately to the queries of both private and institutional shareholders. The Group responds throughout the year to correspondence from shareholders on a wide variety of issues.

The Chairman's Statement in the Annual Report contains a business review. An interim business review is also provided with the half yearly announcement. The Chairman is available to shareholders at any time to discuss strategy and governance matters.

The Board seeks to ensure that its report and accounts and other financial statements provide a clear assessment of the Group's business. All shareholders have the opportunity to ask questions and express their views at the Company's Annual General Meeting, at which all Directors are available to take questions.

ASSOCIATED BRITISH ENGINEERING PLC

CORPORATE GOVERNANCE

AUDIT AND INTERNAL CONTROL

The directors are responsible for the Group's system of internal control. These controls can only ever provide reasonable but not absolute assurance that assets are safeguarded against material loss or unauthorised use, that proper accounting records are maintained, and that the information used internally or for publication, is accurate and reliable. The key procedures, which exist to provide external control, are as follows -

- clearly defined organisation structures with segregation of duties wherever practicable. Operating and financial responsibilities for the subsidiary company are delegated to the subsidiary's Board and there are limits which apply to capital expenditure and significant contracts
- a regular review is undertaken to assess the risks facing the trading subsidiary and to enhance the systems which manage the risk identified. Local management establishes control procedures for each of the risks identified and reports whether the key controls have operated effectively
- agreement of Group short term financial objectives and business plans
- review by the Board of monthly Group Financial Statements and monitoring of results against budget. The Board attends regular Board meetings of the subsidiary
- Board control over treasury, taxation, legal, insurance and personnel issues
- The acquisition or disposal of a business may not be completed without the approval of the Board

Through these mechanisms, Group performance is continually monitored, risks identified in a timely manner, their financial implication assessed, control procedure re-evaluated and corrective actions agreed and implemented.

Nevertheless, the Board considers that it is unable to state that it has fully complied during the year with the Code. The principal reasons for this are

- There was no formal review of the effectiveness of internal control during the period up to 31 March 2007
- There was no receipt and review of formal reports on internal control

The Board believes that it is not currently appropriate for the Company to maintain an internal audit function due to the size of the Group.

The Board consider the independence and objectivity of the external auditors on an annual basis, with particular regard to non-audit services. The split between audit and non-audit fees for the year and information on the nature of the non-audit fees appear in note 3 to the financial statements. The non-audit fees are considered by the Board not to affect the independence or objectivity of the auditors. The Board also receive an annual confirmation of independence from the auditors.

GOING CONCERN

A subsidiary of the company BPE has not been able to meet its statutory obligations concerning its contributions to the Pension Fund which has resulted in the need to conclude a settlement with the Trustees of the ABE Pension Fund, the Pension Regulator and the PPF. All sections of the ABE Pension Fund show an actuarial deficit of £5,078,000 at 31 March 2007 (£4,395,000 at 31 March 2006), and all sections of the Pension Fund, with the exception of the BPE section are in wind up.

Further details of the Pension Fund are set out in note 18 to the Group financial statements. The financial statements have been prepared on the going concern basis as the Board considers that the Group has sufficient resources to continue in operational existence for the foreseeable future including the servicing of the Pension Fund's minimum funding requirements.

ASSOCIATED BRITISH ENGINEERING PLC

DIRECTORS' REMUNERATION REPORT

This Report contains the information required by the Companies Act 1985 and the relevant parts of the Listing Rules of the UK Listing Authority and Schedule B to the Combined Code on Corporate Governance

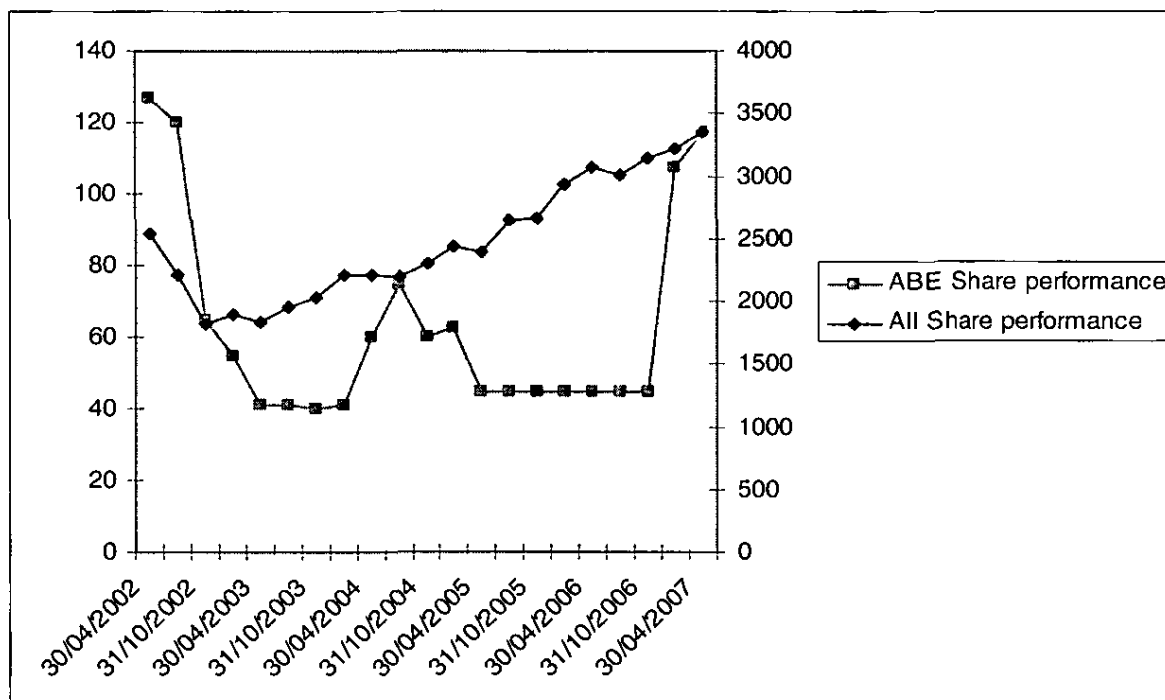
The following report is not audited except where specified

The Board is satisfied that the Company has complied throughout the period with the Combined Code concerning its remuneration policy except as noted above that the members of the Board comprise the remuneration committee are not independent non-executives as required by the Code

In setting the policy for the Groups' senior management it considers a number of factors including

- (a) the basic salaries and benefits available in comparable companies,
- (b) the need to attract and retain personnel of an appropriate calibre, and
- (c) the need to ensure individuals' commitment to the continued success of the Group by means of incentive schemes

Total Shareholder Return (TSR)



Source Yahoo UK finance

The graph above shows ABE's TSR performance compared to the FTSE All Share index over the past five years. TSR is defined as share price growth plus reinvested dividends. This provides a basis for comparison with a relevant equity index.

ASSOCIATED BRITISH ENGINEERING PLC

DIRECTORS' REMUNERATION REPORT

REMUNERATION POLICY FOR NON-EXECUTIVE DIRECTORS

The non-executive directors each receive a fee for their services, which is agreed by the Board after reviewing comparable organisations and appointments. None of the non-executive directors receive a pension or other benefits from the Company, nor do they participate in any bonus or incentive schemes or share option schemes.

The non-executive directors do not have service contracts with the Company. In accordance with the Articles of Association, each retires from office at the third annual general meeting after the annual general meeting at which he was last elected. A retiring director is eligible for re-election.

REMUNERATION POLICY FOR THE EXECUTIVE DIRECTORS

The Company has no executive directors.

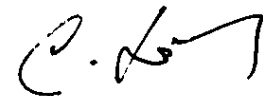
AUDITED INFORMATION

DIRECTOR'S REMUNERATION

	2007 Total £'000	2006 Total £'000
Mr D A H Brown	26	26
Mr S J Cockburn	5	5
Mr C Weinberg	5	5
	<u>36</u>	<u>36</u>

DIRECTOR'S REMUNERATION

No current director received any pension entitlements from the Group in respect of the years ended 31 March 2007 and 2006. No director waived emoluments in respect of the years ended 31 March 2007 and 2006.



C Weinberg
On behalf of the Board

Date 19 July 2007

ASSOCIATED BRITISH ENGINEERING PLC

DIRECTORS AND ADVISERS

DAVID BROWN (54) became a non-executive director on 22 March 2000 and became Chairman on 11 November 2002. He is managing director of the Sabre Development Group, carrying out real estate development and financing focused on Russia. He has previously been a company secretary and director of two fully listed companies and general counsel on the Canary Wharf Development. He is a non-practising qualified solicitor.

STEPHEN COCKBURN (67) has been a non-executive director since 1979. He is a non-executive director of Fiske plc, managing director of The Investment Company plc and a director of Dartmoor Investment Trust plc.

COLIN WEINBERG (58) became a non-executive director on 10 November 2003. He is an Associate Broker at Walker, Crips, Weddle, Beck plc. He has been a member of the London Stock Exchange since 1980 and was admitted to fellowship of the Securities Institute in 1995. He was previously a non-executive director of Peckham Building Society.

SECRETARY & REGISTERED OFFICE

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OX2 0PZ

CORPORATE ADVISERS

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EC1V 2DW

REGISTRARS

Computershare Investor Services plc
Lochside House
7 Lochside Avenue
Edinburgh Park
Edinburgh EH12 9DJ

SOLICITORS

Heald
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495 Silbury Boulevard
Milton Keynes
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ASSOCIATED BRITISH ENGINEERING PLC

NOTICE OF MEETING

Notice is hereby given that the ninety-second Annual General Meeting of Associated British Engineering plc will be held at the offices of Grant Thornton UK LLP, 1 Westminster Way, Oxford, OX2 0PZ on 19 July 2007 for the purpose of transacting the following business

ORDINARY BUSINESS

- 1 To receive and adopt the directors' report and accounts for the year ended 31 March 2007 (Resolution 1)
- 2 To re-elect Mr D A H Brown as a director following his retirement by rotation in accordance with the Company's articles of association (Resolution 2)
- 3 To re-appoint Grant Thornton UK LLP as auditors of the Company, to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and that their remuneration be fixed by the directors (Resolution 3)
- 4 In accordance with the Companies Act 1985 s241A(3) to approve on an advisory basis the Directors' Remuneration Report contained in the annual report including the Company's remuneration policy for directors and the level of directors remuneration disclosed therein (Resolution 4)

SPECIAL BUSINESS

As special business, to consider and, if thought fit, pass the following resolution, which will be proposed as a special resolution of the Company

- 5 That the directors of the Company be and are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot equity securities (within the meaning of section 94 (2) of the Companies Act 1985) for cash pursuant to authority conferred by Resolution 5 which was set out in the notice of the annual general meeting of the company convened for 1 September 1999 and passed at such meeting as if Section 89 (1) of the Companies Act 1985 did not apply to such allotment, provided that this authority shall -
 - (a) expire on the later of 1 December 2007 or the conclusion of the annual general meeting of the Company next following this meeting save that the Company may before such expiry make any offer or agreement which would or might require equity securities to be allotted after such expiry and the directors of the Company may allot equity securities in pursuance of any such offer or agreement as if this authority had not expired, and
 - (b) be limited to the allotment of equity securities -
 - (i) in connection with a rights issue in favour of the holders of ordinary shares in the capital of the Company on the relevant register on a fixed record date in proportion (as nearly as practicable) to their respective holdings and/or rights subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or legal or practical problems arising under the laws, or the requirements of any recognised regulatory body or stock exchange, of any territory, and
 - (ii) (otherwise than pursuant to (i) above) up to an aggregate nominal amount not exceeding £262 684 (Resolution 5)

On behalf of the Board



C Weinberg
Director

Date 19 July 2007

ASSOCIATED BRITISH ENGINEERING PLC

NOTICE OF MEETING

Each holder of ordinary shares entitled to vote on a resolution, on a show of hands has one vote if present in person and on a poll, if present in person or by proxy, has 200 votes for every ordinary share held by him

Each holder of 7 per cent cumulative preference shares entitled to vote on a resolution, on a show of hands has one vote if present in person and on a poll, if present or by proxy, has four votes for every 7 per cent cumulative preference share held by him

Each holder of 8 per cent cumulative redeemable preference shares entitled to vote on a resolution, on a show of hands has one vote if present in person and on a poll, if present or by proxy, has 50 votes for every 8 per cent cumulative redeemable preference share held by him

A member entitled to attend and vote is entitled to appoint one or more proxies to attend and vote instead of him, a proxy need not also be a member. Proxy forms to be effective at the meeting must be deposited at the offices of the Company's registrars Computershare Investor Services plc, P O Box, 1075 BRISTOL BS99 3ZZ not later than 48 hours before the time fixed for the meeting. Appointment of a proxy will not preclude a member from attending and voting in person at the annual general meeting.

The register of directors' shareholdings and transactions will be available for inspection at the registered office of the Company from the date hereof until the date of the annual general meeting during usual business hours and at the place of the annual general meeting for fifteen minutes prior to and during the annual general meeting.

Pursuant to regulation 41 of the Uncertificated Securities Regulations 1995, the Company specifies that in order to have the right to attend and vote at the meeting (and also for the purpose of calculating how many votes a person entitled to attend and vote may cast), a person must be entered on the register of holders of the ordinary shares of the Company by close of business on Sunday. Changes to entries on the register after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

EXPLANATORY NOTES

Resolution 5 Your directors also require additional authority from shareholders to allot shares or grants rights over shares where they propose to do so for cash and otherwise than to existing shareholders pro rata to their holdings. The authority granted at the last general meeting is due to expire on 1 December 2007. Accordingly, Resolution 5 will be proposed as a special resolution to grant such authority. Apart from a rights issue, the authority will be limited to the issue of shares up to an aggregate nominal value of £262,684 (being ten per cent of the issued ordinary share capital at 31 March 2007). If given, this authority will expire on the later of 1 December 2007 or at the conclusion of the annual general meeting in 2007.