Company Number: 00110663

ASSOCIATED BRITISH ENGINEERING PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 MARCH 2008

ASSOCIATED BRITISH ENGINEERING PLC

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2008

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ASSOCIATED BRITISH ENGINEERING PLC

FINANCIAL HIGHLIGHTS

	2008 £'000	2007 £'000
REVENUE	**3,282**	3,861
PROFIT BEFORE TAXATION	**450**	302
NET SURPLUS/(DEFICIT)	**2,915**	(1,671)
BASIC EARNINGS PER £2 ORDINARY SHARE	**34p**	23p
EQUITY SHAREHOLDERS' FUNDS PER £2 ORDINARY SHARE	**£2.22**	£(1 27)

The report of the dırectors on pages 3 to 5 and the dırectors' remuneratıon report on pages 43 and 44 have each been drawn up ın accordance wıth the requırements of Englısh law and lıabılıty ın respect thereof ıs also governed by Englısh law In partıcular, the responsıbılıty of the dırectors for these reports ıs owed solely to Assocıated Brıtısh Engıneerıng plc

The dırectors submıt to the members theır Report and Accounts for the group for the year ended 31 March 2008 Pages 1 to 5 and 39 to 44, ıncludıng the fınancıal hıghlıghts, Chaırman's Statement, Dırectors' Report, Corporate Governance Statement, Dırectors' remuneratıon report and Dırectors and advısors form parts of the Report of the Dırectors

ASSOCIATED BRITISH ENGINEERING PLC

CHAIRMAN'S STATEMENT

FOR THE YEAR ENDED 31 MARCH 2008

The Group made a pre-tax profit of £450,000 from continuing operations compared with a pre-tax profit of £302,000 last year The continued negotiations with the ABE Pension Fund Trustees has meant that the additional charge in 2007 in respect of interest on the pension fund liability was not required in the current year. A resolution to the negotiations has resulted in the division of the fund so that only the obligations for the British Polar Engines Limited ('BPE') section of the ABE Pension Fund need to be accounted for by the Group going forward

The Company has consistently maintained that it was not liable for the sections of the scheme in wind up but has always fully provided for the potential retirement obligation in line with professional advice Due to the resolution of the matter, £3,047,000 of the obligation at the beginning of the year has now been eliminated and has been released through the Group Statement of Recognised Income and Expense.

The underlying performance in the year from the only operating subsidiary, BPE, was below expectation with both revenue and retained profits reducing by 15% and 12% respectively

This was due to the volatile oil market, increasing oil prices and the cyclical nature of some contracts, which have led to a slight reduction in the operating profit to £551,000 from £627,000 last year This is nevertheless a creditable result in light of difficult trading conditions.

BPE has again not been able to meet its statutory obligation concerning its contributions to the Pension Fund, which was in respect of the whole deficit of the fund including companies that ceased to be part of ABE as far back as 1996. This resulted in the need to conclude a settlement with the Trustees of the Pension Fund, which is likely to require the approval of the Pension Regulator and possibly the Pension Protection Fund ('PPF'). The full financial implications of a settlement cannot be quantified at this stage but the elimination of the other sections has been recognised in these accounts The BPE section of the Pension Fund shows an actuarial deficit of £1,063,000 at 31 March 2008 (£2,031,000 at 31 March 2007). Further details of the Pension Fund are set out in note 18 to the financial statements

It is with great relief that, following the resolution of the Pension Fund matter, the Board is now able to focus its full attention on the core activities of the Group and build upon the ongoing strong performance of BPE.

The Board continues to keep central costs at a low level and maintains the quest to identify a suitable corporate transaction to take the Group forward

My co-directors and I are very grateful for the patience of shareholders on what has been a hard road to the resolution of the pension issues which is now fully reflected in these financial statements.

D A H Brown
Chairman

Date. 11th July 2008

ASSOCIATED BRITISH ENGINEERING PLC

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2008

The directors submit their report and audited accounts for the year ended 31 March 2008

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

A detailed review of the business and of events during the year is contained in the Chairman's Statement

The Company's only operating activity is through its subsidiary British Polar Engines Limited Revenue in recent years has been particularly buoyed by sales to the oil services business as a result of high demand in the oil services support industry

The industry is however volatile and exposed to volatile pricing and periodic cyclical downturns, as can be seen from a review of the current year's results, with both revenue and operating profit declining marginally The Group are reliant on a select number of key customers but the stream of income can vary from period to period as the Group's principal activity is in connection with the purchase and manufacture of spare engine parts and associated services Therefore ongoing custom cannot be reliably measured and is cyclical by nature

Further consideration of both the financial and non financial risks and uncertainties that face the Group and Company are analysed in Note 20 to the Group financial statements

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 Budgets are set on a monthly and annual basis but the directors have not enhanced the disclosures in this regard as one key transaction stalling could have a significant impact on the feasibility of the budget so such disclosure would not be useful to the users of the accounts

The Group reviews the Pension Fund liability, the key assumptions underpinning the actuarial valuation and the minimum funding requirement on a continual basis The key assumptions underpinning the actuarial valuation are reviewed and compared with industry norms, the most notable variance from the prior year being the increase in the discount rate from 5 4% to 6 9% which is consistent with industry standards

Further consideration of the risks and uncertainties that face the Group and Company can be seen in Note 20

RESULTS AND DIVIDENDS

The Group profit for the year amounted to £450,000 (2007 £302,000) The directors do not recommend a dividend on the ordinary shares for the year (2007 nil per ordinary share)

DIRECTORS

The names of the directors who served during any part of the period from 1 April 2007 to 31 March 2008 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 S J Cockburn retires by rotation and, being eligible, offers himself for re-election

SUBSTANTIAL HOLDINGS

As at 8th July 2008 the Company had been notified of the following substantial interests, in excess of 2%, in the issued ordinary share capital of the Company

Pershing Keen Nominees Limited (BFCLT) non discretionary	16 6%
R A Pearce Gould	9 1%
Fiske Nominees Limited (FISKPOOL) non discretionary	6 2%
W B Nominees Limited	5 5%
L R Nominees Limited	4 4%
J R M Keatley	3 2%
Forest Nominees Limited	3 1%
Barclayshare Nominees Limited non discretionary	2 3%
BNY GIL Client Account (Nominees) Limited	2 3%

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 as at 1 April 2007 and 31 March 2008 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	
	2008 No.	2007 No	**2008 No.**	2007 No	**2008 No.**	2007 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 39,296 ordinary shares and 42,000 7 per cent 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 2008 or 31 March 2007

Since 31 March 2008 and up to and including 8th July 2008 there have been no changes in the directors' interests in the share capital of the Company

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 (2007 30 days)

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

The structure of the group and company's capital, at nominal value, is as follows

	No in issue	Nominal Value £	Total Value £	% of Capital
Ordinary shares	1,313	2	2,627	78 7
Preference shares – 7%	555	1	555	16 6
Preference shares – redeemable and 8%	157	1	157	4 7

The Group's preference shares have been included at their fair value of £Nil, in line with International Financial Reporting Standards, due to the expectations that these will not be redeemed in the near future As such the Group is funded by equity and working capital

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

CHARITABLE AND POLITICAL DONATIONS

The Group made no political or charitable donations during the year (2007 £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

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 haysmacintyre Company Secretaries ~~Limited~~
Company Secretary

Date 11th July 2008

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 2008 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 2008 and the information in the Directors' Remuneration Report that is described as having been audited

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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 and whether the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation We also report to you whether, in our opinion, the information given in the Directors' Report is consistent with the financial statements The information given in the Directors' Report includes that specific information presented in the Chairman's Statement that is cross referred from the Business Review section of the Directors' Report

In addition we also report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures

We read 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 2008 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

GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
OXFORD

Date 11th July 2008

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
At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective

- IFRS 3 Business Combinations(revised)
- IFRS 8 Operating segments
- IFRIC 11 IFRS 2 Group and Treasury Share Transactions
- IFRIC 12 Service Concession arrangements
- IFRIC 13 Customer loyalty programmes
- IFRIC 14 IAS 19 – the limit on a defined benefit asset, minimum funding requirements and their interaction
- IAS 1 Presentation of financial statements (revised)
- IAS 23 (Amendment) Borrowing Costs
- IAS 27 Consolidated and Separate Financial Statements (revised)
- IAS 32 Financial Instruments Presentation (amended)

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group

As noted in the prior year financial statements, IFRS 7 is relevant to accounting periods beginning on or after 1 January 2007 and has been adopted in the financial statements This standard has been considered in note 20 to the Group's financial statements, although its impact is not deemed significant due to the straight forward nature of the Group's operations The potential impact and further consideration is given in Note 20 to the group financial statements

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 The product of these negotiations was that during the year the obligation relating to the ABE section of the scheme was eliminated

The obligation at the year end relates to the BPE section of the scheme only and shows an actuarial deficit of £1,063,000 (£2,031,000 at 31 March 2007) 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 Board 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

ACCOUNTING ESTIMATES AND JUDGEMENTS

Management are required, in accordance with IFRS, to exercise judgement and to makes estimates and assumptions regarding the application of accounting policies and the resulting effect on reported amounts of assets, liabilities, income and expenses These estimates and assumptions are based on historical experience and a review of current conditions prevailing at the time but actual results may differ from these estimates Any such revision is recognised in the financial statements in the period in which the change in circumstance is detected

The key areas where management have exercised judgement in the year, and the thought process undertaken, are as follows

Pension Scheme

The Directors are in regular contact with the Trustees of the pension scheme, in connection with three keys areas where judgement is exercised, the assumptions underpinning the actuarial valuation, continued negotiations regarding the various schemes and in relation the payment plan The Directors then assess the relevant estimates and assumptions made to ensure that all statutory obligations are met, where possible

Such negotiations resulted in the elimination of the liability relating to the ABE section of the scheme, following a resolution passed during the year by the Trustees of the scheme, and a decision was taken to recognise a gain in the statement of recognised income and expense as all previous obligations have been prudently accounted for The result of judgement in this area resulted in the elimination of the ABE Section of the pension scheme which reduced the opening retirement benefit obligation by £3,047,000

In evaluating the assumptions underpinning the actuarial valuation the Directors have sought the professional advice of a firm of actuaries who prepare the valuation according to certain industry standards and norms During the year under review an actuarial gain of £1,089,000 (2007 £410,000) was recognised in the group accounts, with a contributing factor being the increase in the discount rate to 6 9% (2007 5 4%)

Ongoing discussions in relation to the payment plan have not taken into account the current year actuarial gain and have assumed a year end obligation of £2,152,000, which is derived by aggregating the year end obligation recognised in these accounts of £1,063,000 and the current year actuarial gain of £1,089,000

The assumptions underpinning the actuarial valuation are disclosed further in note 18 to the Group financial statements

Inventories

Inventories held by the Group consist of raw material (mainly components), work in progress (manufactured engine parts) and finished goods (both purchased and manufactured engine parts) Specific provision is made, on a 100% basis, for all stock lines that are obsolete or slow moving for periods in excess of 4 years A general provision is made of 5%, 12 5%, 25% and 50% over all stock lines that have not moved for one, two and three years respectively

During the year £92,000 was expensed to the income statement in relation to an increase in the stock provision, which at the year end amounts to £418,000 The gross value of inventories at the year end is £1,738,000

Preference shares

The Group is funded by a combination of equity and debt instruments, the latter representing 555,000 7% £1 cumulative preference shares and 157,395 8% £1 cumulative redeemable preference shares

International Financial Reporting Standards require these instruments to be carried at their fair value and as there is no expectation that these preference shares will be redeemed the Directors consider the fair value to be £Nil The Directors have also exercised judgement by discounting the cash flows associated with the dividend arrears of £412,000 to £Nil

The directors review their assumptions and accounting estimates, along with the accounting policies adopted in preparing these financial statements on a regular basis and recognise any change in variable – such as the elimination of the ABE section of the pension scheme liability – in the period in which circumstances change

ASSOCIATED BRITISH ENGINEERING PLC

GROUP ACCOUNTING POLICIES (continued)

FOR THE YEAR ENDED 31 MARCH 2008

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

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 nor 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 2008

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

Further analysis of the Group's financial instruments, and the relevant exposure to risks and uncertainties, is stated in Note 20 but below the various classifications of financial assets and liabilities are identified and explained

Trade and other receivables

Trade and other 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 and at the year end amount to £30,660 Bad debts are written off when identified on a line by line basis

Trade and other payables

Trade and other payables are originally recognised at fair value, net of transaction costs Subsequent measurement is at amortised cost using the effective interest rate method

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 At the year end an adjustment of £10,347 was made to align the investments in securities with their fair value

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 Refer to Note 15 for further details

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 January 2005 As such, the value of the options is not included in the earnings per share calculation

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 2008

	Note	2008 £'000	2007 £'000
REVENUE	1	**3,282**	3,861
Operating costs	2	**(2,751)**	(3,304)
OPERATING PROFIT		**531**	557
Finance expense	7	**(182)**	(305)
Finance income	7	**101**	50
PROFIT BEFORE TAXATION		**450**	302
Taxation	8	**-**	-
PROFIT FOR THE YEAR		**450**	302
EARNINGS PER SHARE			
BASIC AND DILUTED	9	**34p**	23p

GROUP STATEMENT OF RECOGNISED INCOME AND EXPENSE

FOR THE YEAR ENDED 31 MARCH 2008

		2008 £'000	2007 £'000
Actuarial gains/(losses) on retirement benefit obligation	17	**1,089**	(410)
Gain on elimination of retirement benefit obligation	17	**3,047**	-
		4,136	(410)
Profit for the year		**450**	302
TOTAL RECOGNISED INCOME AND EXPENSE FOR THE YEAR		**4,586**	(108)

The accounting policies on pages 8 to 12 and the notes on pages 16 to 28 form part of these accounts

ASSOCIATED BRITISH ENGINEERING PLC

GROUP BALANCE SHEET

31 MARCH 2008

	Note	2008 £'000	2007 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	**253**	274
Current assets			
Inventories	12	**1,320**	1,266
Trade and other receivables	13	**659**	1,179
Held for trading investments	14	**62**	74
Cash and cash equivalents		**2,406**	1,642
		4,447	4,161
Total assets		**4,700**	4,435
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	**(4,761)**	(9,347)
Equity attributable to the Company's Equity shareholders		**2,915**	(1,671)
LIABILITIES			
Non-current liabilities			
Retirement benefit obligation	18b	**1,063**	5,078
Cumulative preference shares	15	**-**	-
Obligations under finance leases	19	**2**	4
		1,065	5,082
Current liabilities			
Trade and other payables	19	**719**	1,023
Obligations under finance leases	19	**1**	1
		720	1,024
Total liabilities		**1,785**	6,106
Total equity and liabilities		**4,700**	4,435

The financial statements were approved and authorised for issue by the Board of Directors on 11th July 2008 and were signed below on its behalf by

Director

The accounting policies on pages 8 to 12 and the notes on pages 16 to 28 form part of these accounts

ASSOCIATED BRITISH ENGINEERING PLC

GROUP CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2008

	2008 £'000	2007 £'000
Cash flows from operating activities		
Cash generated from operations	705	446
Interest received	101	50
Interest paid	(2)	(3)
Net cash from operating activities	804	493
Cash flows from investing activities		
Purchase of property, plant and equipment	(52)	(38)
Sale proceeds from trading investments	25	-
Purchase of trading investments	(8)	(14)
Net cash used in investing activities	(35)	(52)
Cash flows from financing activities		
Repayments of obligations under finance leases	(5)	(4)
Net cash used in financing activities	(5)	(4)
Net increase in cash and cash equivalents	764	437
Cash and cash equivalents at beginning of year	1,642	1,205
Cash and cash equivalents at end of year	2,406	1,642

CASH FLOW FROM OPERATING ACTIVITIES

	2008 £'000	2007 £'000
Net profit	450	302
Adjustments for		
Depreciation	73	67
Loss on disposal of property, plant and equipment	-	3
Interest income	(101)	(50)
Interest expense	2	3
Pension scheme interest expense	180	302
Cash paid in excess of current service cost	(59)	(29)
Changes in working capital		
(Increase)/decrease in inventories	(54)	62
Decrease/(increase) in trade and other receivables	520	(509)
(Decrease)/increase in payables	(306)	295
Cash generated from operations	705	446

The accounting policies on pages 8 to 12 and the notes on pages 16 to 28 form part of these accounts

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

	2008	2007
	£'000	£'000
United Kingdom	**1,680**	1,974
Europe	**715**	798
Middle East	**186**	110
Far East and Australasia	**453**	684
Africa	**94**	31
North and South America	**139**	264
Russia	**15**	-
	3,282	3,861

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

In the year ended 31 March 2008 and 31 March 2007 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

	2008	2007
	£'000	£'000
Changes in inventories	**(27)**	(69)
Raw materials used	**1,315**	1,835
Staff costs	**1,145**	1,164
Depreciation and amortisation	**73**	67
Other expenses	**245**	307
	2,751	3,304

3 OPERATING PROFIT

	2008	2007
	£'000	£'000
Operating profit is stated after charging		
Depreciation on owned assets	**70**	65
Depreciation on assets held under finance leases	**3**	2
Auditors' remuneration		
Audit of the company pursuant to legislation	**9**	9
Audit of subsidiaries	**26**	26
Taxation	**5**	8
Operating lease rental on plant and machinery	**29**	24
Operating lease rental on land and buildings	**54**	54
Foreign exchange loss	**4**	2

4. STAFF COSTS AND EMPLOYEES

	2008 £'000	2007 £'000
Wages and salaries	897	915
Social security costs	90	87
Other pension costs	158	162
	1,145	1,164

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

	2008 Number	2007 Number
By activity		
Production	12	13
Administration	16	17
	28	30

5. DIRECTORS' REMUNERATION

Directors received emoluments of £34,000 (2007 £36,000) Further details can be found on page 43

6. KEY MANAGEMENT COMPENSATION

	2008 £'000	2007 £'000
Remuneration of group directors	34	36

The group made no pension contributions in respect of group directors during the year ended 31 March 2008 or 31 March 2007

7. NET FINANCE EXPENSE

	2008 £'000	2007 £'000
Interest on obligations under finance leases	2	3
7% Cumulative preference dividend	-	-
8% Cumulative redeemable preference dividend	-	-
Pension interest cost less expected return on scheme assets	180	302
	182	305
Interest receivable on cash and cash equivalents	(101)	(50)
	81	255

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

8. TAXATION

The tax position is set out below

	2008 £'000	2007 £'000
United Kingdom corporation tax at 30% (2007 30%)	-	-
Total current tax and tax on profit on ordinary activities	-	-

The tax assessed for the period is different from the standard rate of corporation tax in the UK of 30% (2007 30%) The differences are explained as follows

	2008 £'000	2007 £'000
Profit on ordinary activities before tax	450	302
Profit on ordinary activities multiplied by standard rate of Corporation tax in the UK of 30% (2007 30%)	135	91
Effects of		
Expenses not deductible for tax purposes	44	128
Other temporary differences	(179)	(219)
Total tax for period	-	-

The group has trading losses of approximately £1 5 million (2007 £1 7 million), surplus ACT of approximately £910,000 (2007 £910,000) and capital losses of £9 1 million (2007 £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 EARNINGS PER SHARE

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

	Profit £'000 (2008)	2008 Weighted Average number of Shares	Per shares amount pence (2008)	Profit £'000 (2007)	2007 Weighted Average Number of Shares	Per shares amount Pence (2007)
Basic and diluted earnings per share	450	1,313,427	34p	302	1,313,427	23p

In preparing these consolidated financial statements in accordance with IFRS 1, the Group has elected to apply the share-based payment exemption As such the fair value of the options not yet lapsed has been excluded from the diluted earnings per share calculation

10. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings £'000	Plant and machinery £'000	Total £'000
COST			
At 1 April 2006	689	1,376	2,065
Additions	-	44	44
Disposals	-	(62)	(62)
At 31 March 2007	689	1,358	2,047
Additions	-	52	52
Disposals	-	-	-
At 31 March 2008	**689**	**1,410**	**2,099**
ACCUMMULATED DEPRECIATION			
At 1 April 2006	521	1,245	1,766
Charge for year	32	35	67
Eliminated on disposals	-	(60)	(60)
At 31 March 2007	553	1,220	1,773
Charge for year	32	41	73
Eliminated on disposals	-	-	-
At 31 March 2008	**585**	**1,261**	**1,846**
CARRYING AMOUNTS			
At 31 March 2008	**104**	**149**	**253**
At 31 March 2007	136	138	274

Plant and machinery assets with a carrying amount of £11,000 (2007 £14,000) are held under finance leases The amount of depreciation in respect of such assets amounted to £3,000 (2007 £2,000) for the year

11 CAPITAL COMMITMENTS

At 31 March 2008 the Group had capital commitments of £Nil (2007 £11,000)

12. INVENTORIES

	2008 £'000	2007 £'000
Raw materials	**103**	211
Work in progress	**240**	152
Finished goods	**977**	903
	1,320	1,266

The closing inventory balance of £1,738,000 (2007 £1,710,000) is stated net of provisions of £418,000 (2007 £444,000)

13 TRADE AND OTHER RECEIVABLES

	2008 £'000	2007 £'000
Trade receivables	**573**	1,085
Other receivables	**82**	83
Prepayments and accrued income	**4**	11
	659	1,179

The Group has no significant concentration of credit risk, with exposure spread over a large number of customers At the year end provision made against the trade receivables balances amounts to £30,660

14 HELD FOR TRADING INVESTMENTS

	2008 £'000	2007 £'000
Equity Securities – UK	**62**	74

The fair value of the equity investments held is calculated by reference to the quoted market price at the year end The net loss recognised in the financial statements on financial assets classed as held for trading during the year was £10,437

15. CALLED UP SHARE CAPITAL

	2008 £'000	2007 £'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
	5,829	5,829
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
	3,339	3,339

15. CALLED UP SHARE CAPITAL (CONTINUED)

	2008 £'000	2007 £'000
Carrying value:		
Equity shares		
1,313,427 ordinary shares of £2 each	**2,627**	2,627
Shares classed as financial liabilities		
555,000 7% Cumulative preference shares of £1 each	-	-
157,395 8% Cumulative redeemable preference shares of £1 each	-	-

There were no shares allotted during the course of the years ended 31 March 2007 or 2008 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 structure of the group and company's capital, at nominal value, is as follows

	No. in issue	Nominal Value £	Total Value £	% of Capital
Ordinary shares	**1,313**	2	**2,627**	78 7
Preference shares – 7%	**555**	1	**555**	16 6
Preference shares – redeemable and 8%	**157**	1	**157**	4 7

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

Further to the Extraordinary General Meeting held on 1 September 1999 the ordinary shares have 200 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 2008 total dividend arrears of £412,000 (2007 £360,000) had accrued, representing arrears to date of 56 pence per share relating to the 7% cumulative preference shares and 64 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

16 SHARE BASED PAYMENTS (continued)

Date of grant	Dates exercisable	Price	2007	Lapsed	2008
6 January 2001	January 2008 to January 2011	£2 00	7,000	-	**7,000**
			7,000	-	**7,000**

At 31 March 2007 and 2008, the weighted average exercise price of the remaining share options in issue was 2 00 During the year ended 31 March 2007, options over 1,480 shares, at a price of £8 50 per share lapsed

17. STATEMENT OF CHANGES IN SHAREHOLDERS' FUNDS/(DEFICIT)

	Share Capital £'000	Share Premium £'000	Other reserve £'000	Retained Earnings £'000	Total £'000
Balance at 1 April 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	**2,627**	**5,038**	**11**	**(9,347)**	**(1,671)**
Profit for the year	-	-	-	450	450
Actuarial gains in defined benefit plan	-	-	-	1,089	1,089
Gain on elimination of retirement benefit plan	-	-	-	3,047	3,047
Balance at 31 March 2008	**2,627**	**5,038**	**11**	**(4,761)**	**2,915**

18. RETIREMENT BENEFIT SCHEMES

During the prior year the Group operated a defined benefit pension scheme, holding the assets in a separate trustee administered fund ("the ABE Pension Fund") The required contributions were 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

During the year the Company negotiated Heads of Terms with the Trustees of the scheme and a resolution was approved whereby the Group is no longer liable to its previously recognised retirement obligations for the ABE section of the fund The elimination of the ABE section resulted in an elimination of £3,047,000 of the opening obligation and has been reflected through the Statement of Total Recognised Income and Expense The remaining obligation relates to the BPE section of the scheme and is summarised below

(a) Pension cost (recognised in Income Statement)	**2008 £'000**	2007 £'000
Operating charge		
Current service cost	**100**	121
Total operating charge	**100**	121
Other finance charges		
Interest on pension scheme liabilities	**299**	697
Expected return on pension scheme assets	**(119)**	(395)
Net finance charge	**180**	302
Total pension cost recognised in the Income Statement	**280**	423

18 RETIREMENT BENEFIT SCHEMES (Continued)

(b) Benefit liability

	2008 £'000	2007 £'000
Present value of funded obligations	**4,606**	14,496
Fair value of plan assets	**(3,543)**	(9,418)
Net liability	**1,063**	5,078

The major categories of plan assets are as follows

	2008 £'000	2007 £'000
Equities	**479**	1,438
Bonds	**3,037**	7,956
Cash	**27**	24
	3,543	9,418

(c) Change in benefit obligation

	2008 £'000	2007 £'000
Benefit obligation at beginning of the year	**14,496**	14,088
Current service cost	**100**	121
Interest cost	**299**	697
Actuarial gains/(losses)*	**(10,147)**	17
Contributions by plan participants	**19**	25
Benefits paid	**(161)**	(452)
Benefit obligation at end of the year	**4,606**	14,496

*Included in this amount is £8,492,000 which represents the elimination of the present value of the ABE section of the ABE Pension Fund (see Note 18)

(d) Change in plan assets

	2008 £'000	2007 £'000
Fair value of plan assets at beginning of the year	**9,418**	9,693
Expected return on plan assets	**119**	395
Actuarial losses on plan assets*	**(6,011)**	(394)
Contributions made by employer	**159**	151
Contributions by plan participants	**19**	25
Benefits paid	**(161)**	(452)
Fair value of plan assets at end of the year	**3,543**	9,418

*Included in this amount is £5,895,000 which represents the elimination of the fair value of the ABE section of the ABE Pension Fund (see Note 18)

The cumulative amount of actuarial gain recognised in the statement of recognised income and expense is £4,033,000 (2007 loss of £103,000)

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

	2008	2007
	% per annum	% per annum
Equities	**5.4**	5 4
Bonds	**3.0**	3 0
Cash	**1.5**	1 5
Overall rate of return for the plan	**3.3**	3 3

The actual return on the plan assets over the year ended 31 March 2008 was 1 7% (2007 1 93%)

(e) Principal actuarial assumptions

	2008	2007
Inflation	**3.5%**	3 2%
Rate of increase in pensionable salaries	**4.0%**	4 2%
Discount rate	**6.9%**	5 4%
Pension in payment increases	**3.3%**	3 0%
Revaluation rate for deferred pensioners	**3.5%**	3 2%
Pre retirement mortality	**AM92,-5 (males)**	AM92,-5 (males)
	AF92,-5 (females)	AF92,-5 (females)
Post retirement mortality	**PMA92 (males)**	PMA92 (males)
	PFA92 (females)	PFA92 (females)

(f) History of experience gains and losses

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

	2008	2007	2006	2005
(a) Amount (£'000)	**(116)**	(395)	586	569
(b) Percentage of scheme assets	**(3)%**	(4)%	7%	7%
(ii) Experience (gains) and losses on scheme liabilities				
(a) Amount (£'000)	**25**	(324)	(424)	444
(b) Percentage of present value of scheme liabilities	**1%**	(4)%	(3)%	4%

19. PAYABLES

	2008 £'000	2007 £'000
Current		
Obligations under finance leases	**1**	1
Trade creditors	**282**	536
Other taxation and social security	**26**	23
Other creditors	**122**	153
Accruals and deferred income	**289**	311
	720	1,024
Non-current		
Obligations under finance leases	**2**	4
	2	4
The net finance lease obligations are due:		
In one year or less	**1**	1
Between one and two years	**2**	4
	3	5

The finance leases are secured on the assets they relate to

20. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The Group's financial instruments comprise cash, some borrowings, and various items, such as trade and other receivables and trade and other payables that arise directly from its operations The main purpose of these financial instruments is to finance the Group's operations At 31 March 2008 the Group has cash balances of £2,406,000 (2007 £1,642,000) and no bank overdraft (2007 £Nil)

RISKS

The main risks arising from the Group's financial instruments are market risk, liquidity risk and credit risk Market risk includes price commodity risk, foreign exchange risk and interest rate risk The Group has limited exposure to foreign exchange risk and also has no borrowings, except for finance leases of £3,000, and therefore the analysis given below excludes these two items

A significant risk that is also not considered below is that of the Group's pension funds This is discussed in depth throughout the financial statements, and more specifically in Note 18, and has therefore not been further analysed below but is a key risk to the future of the Group The Board meets on a regular basis to discuss the various funds and investment opportunities with each other, the Trustees and the Pension Regulator

The Board reviews and agrees policies for managing each of the above risks and they are summarised overleaf and in the accounting polices to the group financial statements These policies have been consistently applied throughout the period

20. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (continued)

COMMODITY PRICE RISK

The Group is dependent upon its suppliers to effectively operate a 'just in time' stock management system, which is utilised to mitigate high warehousing costs There is the potential to leave the Group exposed to 'stock out' or shortages but the Group has not experienced stock difficulties of this nature in the current or prior year and does not envisage this going forward, due to their strong supplier relations

When prices are advantageous a strategic decision is taken to increase a stock level which mitigates the issue of price commodity risk There are a number of suppliers used, each with various contractual terms, and therefore the Board do not consider this a significant risk to their liquidity

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 2008 and 31 March 2007 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, but as there is no expectation that this will occur in the near future the fair value of these preference shares, is deemed to be £Nil

CREDIT RISK

The Group's principal financial assets are cash deposits and trade and other 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 and other 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 2008 and 2007 there were no concentrations of credit risk, with exposure being spread over a large number of customers, with other 200 customers at the year end

At the year end the Group's top ten customers comprised 92% of the year end trade receivables but this situation is not commonplace and the Board consider their strong customer relations to be strength rather than a risk as they are the preferred suppliers to these 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 and therefore further sensitivity analysis has not been performed

Collection procedures in relation to receivables are initiated once the credit terms are exceeded and trade receivables both due and not yet due are reviewed on a line by line basis, with adequate provision being made against period end balances where appropriate At the year end a provision of £30,660 has been recognised in the financial statements, with £20,089 of this balance relating to assets not past due

Current financial assets past due and not impaired amount to £419,777 and are considered recoverable and stated at their fair value At the year end, 27% (£153361) of the financial assets are not past due current and 12% is aged greater than 90 days, although the latter is, in the opinion of the Directors, deemed fully recoverable with provision made on a line by line basis where appropriate Receivables aged greater than 90 days of £66,568 is stated net of a provision of £10,571

FAIR VALUE OF FINANCIAL INSTRUMENTS

The directors consider that the fair values of the Group's financial instruments at 31 March 2008 and 31 March 2007 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

21. DEFERRED TAXATION

There is no unprovided deferred taxation liability at 31 March 2008 or 31 March 2007

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, with future pension obligations deemed to exceed the potential future cash inflows This assumption will be revisited on an annual basis or as and when circumstances change The amounts not recognised (all of which have been calculated at 28% (2007 30%)) are set out below

Group	**2008**	2007
	£'000	£'000
Arising from trading losses	**419**	510
Arising from capital losses	**2,570**	2,754
Arising from pension deficit	**298**	1,523
Other temporary differences	**-**	52
	3,287	4,839

22. CONTINGENT LIABILITIES

		2008	2007
		£'000	£'000
a)	Banker's indemnities	**30**	30

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 2008 or 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	
	2008	2007	**2008**	2007
	£'000	£'000	**£'000**	£'000
Within one year	**54**	54	**7**	23
Between two and five years inclusive	**208**	208	**22**	16
After more than five years	**162**	216	**-**	-
	424	478	**29**	39

24. PRINCIPAL SUBSIDIARIES

At 31 March 2008 and 31 March 2007 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 2008 which comprise the principal accounting policies - company, the company 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 2008

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 and 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 We also report to you whether, in our opinion, the Directors' Report is consistent with the parent company financial statements The information given in the Directors' Report includes that specific information presented in the Chairman's Statement that is cross referred from the Business Review section of the Directors' Report

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

We read 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

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

Basis of audit opinion (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 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

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 2008 and of its loss for the year then ended,
- 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

GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
OXFORD

Date 11th July 2008

ASSOCIATED BRITISH ENGINEERING PLC

PRINCIPAL ACCOUNTING POLICIES – COMPANY

FOR THE YEAR ENDED 31 MARCH 2008

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

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 The product of these negotiations was that during the year the obligation relating to the ABE section of the scheme was eliminated

The obligation at the year end relates to the BPE section of the scheme only and shows an actuarial deficit of £1,063,000 (£2,031,000 at 31 March 2007) 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 group the financial statements The Board therefore considers that the Group has sufficient resources to continue in operational existence for the foreseeable future

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

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 profit & loss account as incurred

ASSOCIATED BRITISH ENGINEERING PLC

COMPANY BALANCE SHEET

AS AT 31 MARCH 2008

	Note	2008 £'000	2007 £'000
FIXED ASSETS			
Tangible fixed assets	3	**439**	471
Investments	5	**2,484**	2,484
		2,923	2,955
CURRENT ASSETS			
Investments	6	**101**	94
Debtors	7	**4**	15
Cash at bank and in hand		**312**	485
		417	594
Creditors – amounts falling due within one year	8	**(919)**	(937)
Net current liabilities		**(502)**	(343)
Total assets less current liabilities		**2,421**	2,612
Creditors – amounts falling due after one year	8	**(2,292)**	(2,292)
		129	320
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	**(7,748)**	(7,557)
SHAREHOLDERS' FUNDS		**129**	320

The financial statements were approved and authorised for issue by the Board of Directors on 11th July 2008 and were signed below on its behalf by

Director

The accounting policies on pages 31 and 32 and the notes on pages 34 to 38 form part of these accounts

ASSOCIATED BRITISH ENGINEERING PLC

NOTES TO THE ACCOUNTS - COMPANY

FOR THE YEAR ENDED 31 MARCH 2008

1. ADMINISTRATIVE EXPENSES

	2008 £'000	2007 £'000
Directors (note 2) and employees	**50**	48
Depreciation of tangible fixed assets owned	**32**	32

2. DIRECTORS

	2008 £'000	2007 £'000
Remuneration in respect of directors was as follows		
Remuneration	**34**	36

The average number of employees, all of whom are directors of the company during the year was 3 (2007 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 2007 and 31 March 2008	**607**
DEPRECIATION	
At 1 April 2007	136
Charge for the year	32
At 31 March 2008	**168**
NET BOOK VALUE	
At 31 March 2008	**439**
At 31 March 2007	471

4. CAPITAL COMMITMENTS

At 31 March 2008 the company had no capital commitments (2007 £Nil)

5. FIXED ASSET INVESTMENTS

	Subsidiary Undertakings £'000
COST	
At 1 April 2007 and 31 March 2008	**3,406**
Amounts written off	
At 1 April 2007 and 31 March 2008	**(922)**
Net book amount at 1 April 2007 and 31 March 2008	**2,484**

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 2008 and 31 March 2007

6 CURRENT ASSET INVESTMENTS

	2008 £'000	2007 £'000
Equities	**62**	74
Cash on deposit	**39**	20
	101	94

7. DEBTORS

	2008 £'000	2007 £'000
Other debtors	**-**	4
Prepayments and accrued income	**4**	11
	4	15

8. CREDITORS

	2008 £'000	2007 £'000
Amounts falling due within one year		
Amounts due to group undertakings	**815**	815
Other creditors	**25**	24
Accruals and deferred income	**79**	98
	919	937

Amounts falling due after one year	2008 £'000	2007 £'000
Amounts due to group undertakings	**2,292**	2,292
Financial liabilities (see note 10)	**-**	-
	2,292	2,292

9. DEFERRED TAXATION

There is no unprovided deferred taxation liability at 31 March 2008 or 31 March 2007

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 28% (2007 30%)) are set out below

	2008 £'000	2007 £'000
Arising from trading losses	**419**	342
Arising from capital losses	**2,499**	2,678
	2,918	3,020

10. CALLED UP SHARE CAPITAL

	2008 £'000	2007 £'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
	5,829	5,829
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
	3,339	3,339
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	-	-
	-	-

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 2008 total dividend arrears of £412,000 (2007 £360,000) had accrued, representing arrears to date of 56 pence per share relating to the 7% cumulative preference shares and 64 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 2008

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 2007	Lapsed	At 31 March 2008
6 January 2001	January 2008 to January 2011	£2 00	7,000	-	**7,000**
			7,000	-	**7,000**

12. PROFIT AND LOSS ACCOUNT

At 1 April 2007	(7,557)
Retained loss	(191)
At 31 March 2008	**(7,748)**

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 £191,000 (2007 £151,000)

13. CONTINGENT LIABILITIES

		2008 £'000	2007 £'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 2008 or 31 March 2007

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 are required to prepare group financial statements in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRSs), and have elected to prepare 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 group and of the profit or loss of the group 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 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 group 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 group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

In so far as each of the directors is 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

To the best of my knowledge

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole, and
- the management report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face

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

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

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 2008
- 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

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 The product of these negotiations was that during the year the obligation relating to the ABE section of the scheme was eliminated

The obligation at the year end relates to the BPE section of the scheme only and shows an actuarial deficit of £1,063,000 (£2,031,000 at 31 March 2007) 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 Board therefore considers that the Group has sufficient resources to continue in operational existence for the foreseeable future

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

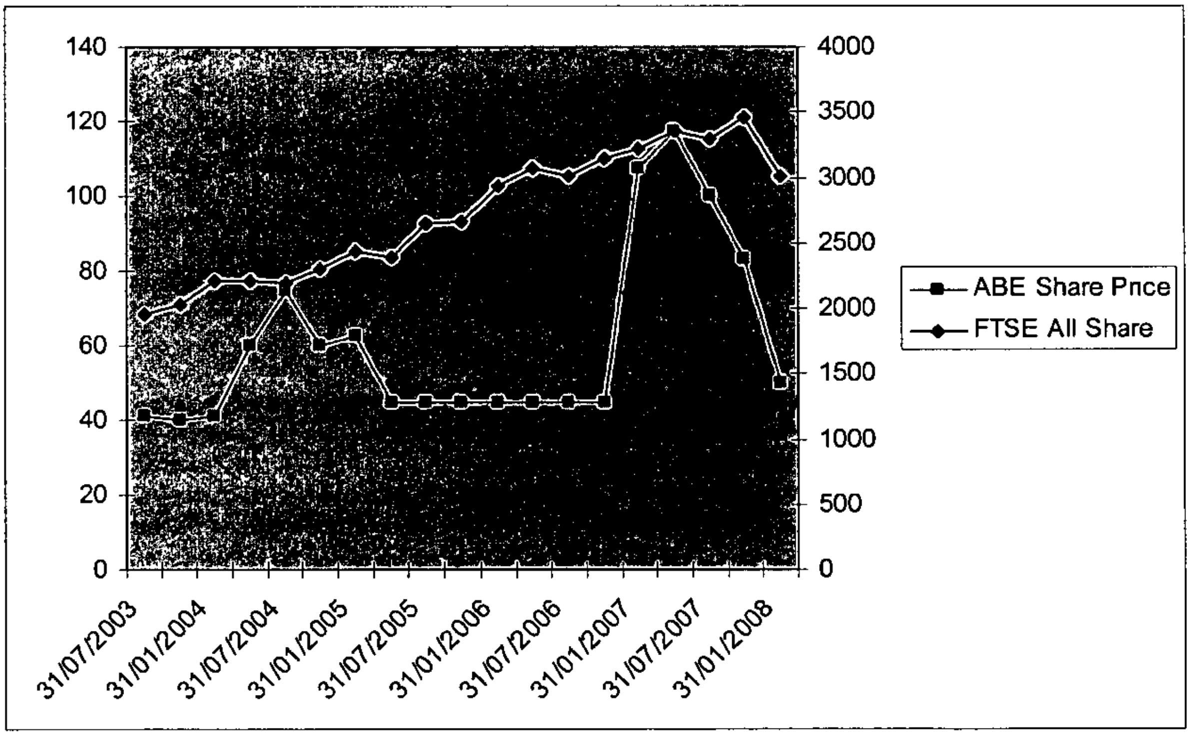
The following report is not audited except where specified

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

	2008 Total £'000	2007 Total £'000
Mr D A H Brown	**26**	26
Mr S J Cockburn	**5**	5
Mr C Weinberg	**3**	5
	34	36

DIRECTOR'S REMUNERATION

No current director received any pension entitlements from the Group in respect of the years ended 31 March 2008 and 2007 No director waived emoluments in respect of the years ended 31 March 2008 and 2007

The Statement of Directors' Responsibilities, Corporate Governance Report and the Directors' Remuneration Report on pages 39 to 44 form part of the Directors' Report to the parent company only financial statements,

On behalf of the Board

C Weinberg
Director

Date 11th July 2008

ASSOCIATED BRITISH ENGINEERING PLC

DIRECTORS AND ADVISERS

DAVID BROWN (55) 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 (68) 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 (59) 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

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ASSOCIATED BRITISH ENGINEERING PLC

NOTICE OF MEETING

Notice is hereby given that the ninety-third Annual General Meeting of Associated British Engineering plc will be held at the offices of Grant Thornton UK LLP, 1 Westminster Way, Oxford, OX2 OPZ on Thursday 9th October 2008 at 11 30am 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 2008 (Resolution 1)

2 To re-elect Mr S J Cockburn 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 2008 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 11th July 2008

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 2008 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 2008) If given, this authority will expire on the later of 1 December 2009 or at the conclusion of the annual general meeting in 2009