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Molins PLC

Annual Report and Accounts 2005

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Contents

Tobacco Machinery

Molins Tobacco Machinery designs, manufactures, markets and services specialist machinery for the tobacco industry and serves its customers from its extensive international base.

Sasib, based in Bologna, Italy, designs, manufactures and sells specialist machinery, predominantly packing machines to cigarette manufacturers.

Packaging Machinery

Molins ITCM, based in Coventry, UK, is a specialist engineering supplier, developing innovative products and associated production and packaging machinery for blue-chip customers.

Langen Packaging, based in Mississauga, Ontario, Canada, is a designer and manufacturer of cartoning machinery, end-of-line and robotic solutions, as well as a provider of complete turnkey projects involving design and integration of packaging systems.

Langenpac, based in Wijchen, the Netherlands, is a designer and manufacturer of cartoning machinery, case packers and robotic solutions, as well as a provider of complete turnkey projects involving design and integration of packaging systems.

Sandiacre Rose Forgrove, based in Nottingham, UK, is a manufacturer of vertical form fill and seal bagging machines and of horizontal flow wrapping machines.

Cerulean Packing Machinery, based in Milton Keynes, UK, is a designer and manufacturer of specialist equipment for the handling and packing of tubular products.

Scientific Services

Arista Laboratories, based in Richmond, Virginia, USA, and Kingston upon Thames, UK, is an independent tobacco and smoke constituent analytical laboratory.

Cerulean, based in Milton Keynes, UK, develops, assembles, sells and maintains process and quality control instruments for the tobacco industry.

Molins – an international business providing high performance machinery and services for the production and packaging of consumer products. Innovative solutions delivered on a global basis.

For the year ended 31 December	2005 £m	2004 £m
Sales	121.4	122.9
Underlying operating profit*	5.7	2.3
Reorganisation costs and goodwill impairment	(8.4)	(12.9)
Loss before tax	(3.3)	(11.8)
Cash generated from operations before reorganisation	13.2	7.7
Net debt	19.0	26.0
Amount per ordinary share		
Basic loss	(21.9)p	(61.1)p
Underlying earnings*	19.1p	1.9p

*Before net pension credit, reorganisation costs and goodwill impairment

Note: All results are reported under International Financial Reporting Standards (IFRS)

Chairman's statement

Peter Byrom
Chairman

The Group returned to a more satisfactory level of underlying profitability, following the continued restructuring of the Tobacco Machinery division in 2005. Cash flow was strong in the year, with £13.2m generated from operating activities before reorganisation payments and net debt reducing by £7.0m to £19.0m.

Group sales were at similar levels to the previous year at £121.4m (2004: £122.9m). Underlying operating profit (before net pension credit, reorganisation costs and goodwill impairment) was £5.7m (2004: £2.3m). After interest and taxation costs, underlying earnings per share was 19.1p (2004: 1.9p).

MTM
Sales in MTM, which comprises the businesses of the Tobacco Machinery division excluding Sasib, were £41.6m, down from £50.3m in 2004. The division had embarked on a significant restructuring of its business in 2004 following a sharp fall in orders for new and rebuild machinery. Having entered 2005 with a low order book the reduction in sales was anticipated. Restructuring continued in 2005 and further costs of £2.2m were incurred as the division looked to improve operational performance.

Demand for spare parts and services, which account for the majority of the division's sales, was at similar levels to the previous year. Margins improved, reflecting the reduction in costs.

Sales of new and rebuild machinery were sharply down in the year. The division entered 2005 with a reduced order book compared with the previous year, but even though demand for such machinery remained subdued through the year, the level of the order book at the end of the year had increased slightly.

Consequent to the reorganisation, despite the reduction in sales, underlying operating profit of the division, excluding Sasib, improved to £2.4m (2004: £0.4m).

Sasib
The financial performance of Sasib continues to be disappointing. Sales in the year of £18.2m, supported by a reasonably strong order book at the beginning of the year, were significantly higher than the £11.5m in 2004. However, order intake for new machinery, which constitutes a larger proportion of Sasib's total sales compared with MTM, has been low. Performance was also affected by the frustration of a sale that Sasib was expecting to make at the end of the year, before the US customer filed for creditor protection under Chapter 11.

Despite increased sales, the business still returned an operating loss of £0.6m, an improvement over the £2.3m loss in 2004.

"The Group returned to a more satisfactory level of underlying profitability... Cash flow was strong in the year..."

We continue to take actions to reduce costs, but the business and legislative environment within which Sasib operates is not conducive to quick and economic solutions. In view of its financial performance in the year and with poor current order prospects, the Board has decided that it can no longer support the carrying value of goodwill in the Group balance sheet and has provided against the whole amount of £6.7m.

Packaging Machinery
Performance in the Packaging Machinery division has been mixed. Sales declined in the year by 5% to £43.7m, reflecting continued weakness in the UK and European food packaging sectors in particular, and delays in the placement of some larger potential orders. Operating profit was also down at £1.3m (2004: £2.4m).

Performance at Molins ITCM, Langenpac and Cerulean Packing was strong and these businesses are well placed to progress further as their growth strategies continue to develop. Langen Packaging in Canada suffered from a disappointing delay in orders but its development of robotic packaging solutions and its current prospects list support future progress. Sandiacre Rose Forgrove had a difficult year, with operational inefficiencies combined with strong pricing pressures leading to a significant loss. Action has been taken to improve this position, as we work to ensure the business makes the most of its strong market position.

Scientific Services
The Scientific Services businesses performed well in the year, with sales up 17% to £17.9m and operating profit increasing to £2.6m from £1.8m in the previous year. Growth was driven by Cerulean, with strong demand for its range of quality control instruments and smoking machines. The business also made good progress in the market introduction and acceptance of its new C^2 range of instruments, where demand is expected to increase progressively. Arista's performance was maintained at similar levels to the previous year, with a broadening customer base and range of testing capabilities compensating for the in-sourcing of work from some of its larger customers.

Property
A formal planning application for the development of commercial property on the Company's 26 acre site at Saunderton was made during the year. This first application was rejected towards the end of the year. We are working with our advisers to address the issues raised by Wycombe District Council before submitting either an appeal against the first decision or a second application.

Employees
I would like to thank the Group's employees throughout the world for their contribution to the performance of our businesses.

Dividend
An interim dividend was not paid for the first half of the year, as the Group continued its reorganisation, and the Board is not recommending the payment of a final dividend.

Outlook
MTM's order book at the beginning of 2006 is a little higher than at the same time last year. The business continues to improve its operational performance, although this is against a background of a competitive market. Sasib's order book for original equipment is weak and actions are being taken to reduce costs, and it is expected that further reorganisation costs will be incurred in 2006.

The Packaging Machinery division also faces competitive markets but is well placed to progress in the year, through a combination of sales opportunities and operational efficiency improvements.

The Scientific Services division entered 2006 with an increased order book compared with 2005 and prospects for maintaining its improved performance are good.

Peter Byrom
Chairman
1 March 2006

Operating review Tobacco Machinery

Dick Hunter
Managing Director
Molins Tobacco Machinery

Summary

- The division returned to profitability following reorganisation.
- Spare parts and services account for the majority of MTM's sales and demand has remained at similar levels.
- Demand for Sasib's products remains weak.

Overall a significantly improved financial performance was delivered in 2005 following the successful implementation of a division-wide restructuring programme during 2004 and 2005.

The division comprises the Molins Tobacco Machinery (MTM) and Sasib businesses. MTM has operations in the UK, Czech Republic, Singapore, Brazil, Paraguay and the USA, whilst Sasib operates from Bologna, Italy. It is structured to meet the needs of its customers wherever they are located.

2005 sales were £59.8m (MTM £41.6m and Sasib £18.2m), comprising sales of original equipment, rebuild machinery, spare parts and related services. Underlying operating profit was £1.8m, with MTM contributing £2.4m (2004: £0.4m) and Sasib recording a loss of £0.6m (2004: £2.3m loss).

MTM

A wide-ranging reorganisation of the MTM businesses, which commenced in 2004, was successfully continued in 2005. Significant cost savings have been achieved through simplification of the business structure and maintained focus on improving efficiencies and margins.

Order intake overall was a little higher than in 2004. Market conditions remain uncertain especially for original equipment and rebuild machinery, but continue to favour service-focused global suppliers such as MTM.

MTM's sales were £41.6m in the year, down from the £50.3m which had been supported by a strong opening order book in 2004. Order flow was not maintained in 2004 and this led to the extensive reorganisation of the division. The operational structure of MTM is now more closely matched with the ongoing expected level of sales; further opportunities for cost savings and efficiency improvements continue to be assessed.

The EMEA regional sales team is based in the UK and services this wide geographical area through a combination of sales managers and engineers and also through industry-specific agents. Demand for original equipment remained low through the year, but increased for after-sales services, including spare parts, upgrade kits and other services. Following a slow first half, demand for rebuild equipment increased in the second half of the year.

Molins Richmond in the USA performed strongly during the year, despite lower sales, with order intake and profitability ahead of the previous year. The North American market for the division's original and rebuild equipment remained soft, following a period of strong industry investment during 2002 and 2003. However, the business continues to offer a greatly valued 'onshore' service presence to all market sectors in North America, based around the supply of spare parts, upgrade kits, service and repair activities for Molins equipment.

Molins Far East, based in Singapore, sells into the Asian markets, including China. Order intake increased by 16% over 2004, with the focus on satisfying the service needs of customers continuing to generate growth. The development of new upgrade kits for the large installed base of Molins machines in the region has also helped to drive sales growth. The dedicated spares and service operation based in Shanghai, China performed well during the year in a very competitive area of the market.

The MTM operations in South America performed satisfactorily in 2005, despite the negative impact of the strengthening of the Brazilian real against the US dollar. This exchange rate movement has reduced the competitiveness of exports from Molins do Brasil to the US in particular, with a consequent impact on margins. It has also impacted the competitiveness of customers' exports of regionally produced cigarettes, which has led to pricing pressure and in some areas a reduction in demand for spare parts. Good demand for rebuild equipment has been maintained as the business continues to deliver high quality and price competitive machinery to the market.

MTM's operation based in Saunderton, UK, continued to develop as the central engineering and logistics hub of the MTM division. On-site manufacturing activity has been focused on some of the division's critical machining and assembly operations, where such key skills remain essential in meeting the service needs of customers. All other manufacturing activities have been either transferred to the division's operation in Plzen, Czech Republic or sourced from third party

Sales	£59.8m
Employees	719
Manufacturing facilities	5
Sales and service locations	8

suppliers. The smooth transfer of all rebuild machinery assembly from the division's former specialist rebuild operation, closed at the beginning of 2005, was a major achievement in the year.

The operation in Plzen, Czech Republic, which supplies the division with manufactured parts and assembled machines, has grown strongly during 2005. Further development of the business will result in other types of Molins machinery being assembled there in 2006. Additional capital investment is planned in order to increase the range of machining activities that can be undertaken on site.

The main focus of the division's engineering activities remains on the development of upgrade and enhancement kits for the existing Molins machine base. These kits enable our customers to minimise their level of capital spend and enable MTM to prolong the life of its large installed machine base within the cigarette making industry.

Sasib

Sasib delivered an improved performance over 2004 following reorganisation of the business during early 2005, but despite this still returned an operating loss. The business continues to experience weak and irregular demand for its range of original and rebuild equipment, which is typically a larger proportion of its total sales compared with MTM. The ability of Sasib to flex cost structures within the Italian business environment has proved difficult, both in terms of speed of implementation and cost.

Further opportunities for improving the cost base of the business continue to be explored.

Sales in 2005 were considerably higher than in 2004, at £18.2m compared with £11.5m, but were supported by a strong opening order book. Order intake during 2005 for original and rebuild equipment was considerably lower than in the previous year, although demand for spare parts increased. Sasib offers a limited range of new equipment to the market and operates in a very competitive area.

The business is active in marketing its capability to provide customised packing solutions to customers. These typically involve specially designed, small batch run packs, for which Sasib's engineering concepts are well suited.

Summary

The reorganisation initiatives undertaken in 2004 and through into 2005 have had a positive impact on financial performance across the division.

The MTM business will continue to make incremental improvements in the way it operates. Market conditions remain uncertain but the business is well positioned to continue to react to the changing needs of customers through its international structure, service focus and strong reputation within the industry.

Further reorganisation of Sasib is likely to be required during 2006 in view of the ongoing weak demand for its products.

Operating review
Packaging Machinery

Adam Robson
Managing Director
Molins Packaging Machinery
& Scientific Services

Summary

- Performance by business varied by market sector.
- Continued investment in robotics, high performance engineering and flexible modular structures.
- Strong performance at ITCM, Langenpac and Cerulean Packing.
- Action being taken to improve performance at Sandiacre.
- New ITCM business unit opened in North America.

The Molins Packaging Machinery (MPM) division delivered sales of £43.7m in the year, compared with £45.8m in the previous year. Underlying operating profit fell to £1.3m (2004: £2.4m), reflecting mixed performances from the different businesses in the division.

Market conditions varied by sector and geography. The food sector, to which the division has a high exposure, remained weak in the UK and Europe but improved in North America. The other sectors that the division serves, which include pharmaceuticals, personal care and consumer durables, were generally more buoyant, but customer decision-making cycles remained long.

Investment by customers continues to be driven by two imperatives; cost reduction and packaging innovation to differentiate products from the competition. To meet these two typically conflicting market requirements, the division is pursuing a dual strategy: maximising the use of standardised machinery to deliver high quality and proven machines at excellent value for the customer; and providing strong engineering and custom machinery build capability, to deliver both innovative and high performance machinery and packaging lines to each customer's distinct requirements.

To deliver packaging innovation and cost reductions, the division has a continuing programme of investment to update and broaden its product range, with a focus on high performance, effective cost engineering and flexible, modular structures. This includes a growing use of robotics and other standardised specialist machines sourced from our supply partners. The division increasingly uses low cost sources for parts and assembly. It also continues to invest in engineering and machinery build capabilities, with improvements in computer aided design tools, project management and supplier management.

The drive for cost reduction leads customers to consider both the capital cost and overall in-service operational effectiveness of each project. All of the division's businesses have a strong focus on delivering high-value product lifetime solutions, based on robustness of product design and manufacture. The division also supports its customer base by continuously enhancing after-sales services and improving spare parts availability. These areas are being strengthened with more staff and dedicated engineering resources to reduce lead-times.

The success of this strategy is demonstrated by the large number of repeat sales to the division's major relationship customers.

Molins ITCM, based in Coventry, UK, develops innovative solutions and associated production and packaging machinery for its customers. The business had another strong year of sales and profits and delivered a large number of major machine programmes to customers in the pharmaceutical and FMCG sectors. As a result, the business established further its reputation as a key technology partner with these multinational customers. ITCM delivers innovation in product concepts and design of packaging lines.

Sales	£43.7m
Employees	398
Manufacturing facilities	6
Sales and service locations	7

It has helped customers to achieve record levels of throughput and cost efficiencies by supplying unique, high performance production machinery. The number of blue-chip customers has increased during the year and the business continues to invest in its employees and infrastructure in anticipation of another year of strong performance.

To support the division's strategy of extending its service capabilities, we have opened a new business unit of ITCM in Atlanta, Georgia. We believe there is a substantial market for engineering services in the packaging industry. The drivers are the trend by larger customers to downsize and outsource their internal project engineering and by smaller businesses to require assistance for one-off projects. The business provides a range of services to help customers plan and implement capital projects and to manage capital assets.

Langen and Langenpac, based respectively in Mississauga, Ontario and Wijchen, the Netherlands, serve the markets for highly automated product handling and cartoning machinery in North America and Europe respectively. The businesses supply standard machines and infeeds, custom engineered solutions and complete turnkey installations, as required by their customers.

This year has seen a continuation of the growth in the use of robotics for automated infeeds and material handling and in providing end-of-line carton, case and pallet packing solutions. The Chinook cartoner, the division's platform high speed and high specification horizontal cartoning range, continued to gain market share. This product line is being extended to provide a wide range of value propositions. Good progress has been made in the year in establishing a strong position in the supply of top-load cartoning applications.

The performance of Langenpac in 2005 was particularly noteworthy, with record sales and improved profit margins. Activity levels at Langen were less strong than in the previous year, with capital approvals in North America continuing to be slow and a further decline in the Canadian to US dollar exchange rate impacting its profit performance. Both businesses, however, ended the year with higher order books than they carried into 2005.

Sandiacre Rose Forgrove, based in Nottingham, UK, and Lancaster, Pennsylvania, had a difficult year. The business primarily serves the food sector and sales were down in all markets, except North America. Price competition continues to be strong in all geographic areas, which is compounded further in North America by a relatively weak US dollar. There has been a continuing programme of cost and overhead reductions and productivity improvements across the business since 2004. Progress has taken longer than expected although, importantly, service performance has improved through the year as the business focuses on ensuring customers are well supported. The consequence of the pricing pressures and operational inefficiencies has been a particularly disappointing financial performance. The management team has now been strengthened, including a new Managing Director being appointed. New investments have been made in the products, production and information systems. An improved performance is expected in 2006.

Cerulean Packing, supplying tube packing machinery from its base in Milton Keynes, UK, had a particularly good year. The business delivered strong sales and profits and enters 2006 with an increased order book. The business is extending its product range, assisted by its sister companies within MPM.

Summary

The division closed the year with order books at similar levels to those at the end of 2004. There are a significant number of active projects where investment decisions have been delayed as customers seek capital approvals, but we remain optimistic that a number of these orders will be placed. With these potential projects and with our continued investment in improving product lines, service capability and cost effectiveness, we expect the division's performance to improve in 2006. We continue to evaluate new alliance and acquisition opportunities consistent with our focused sales and profit growth strategy.

Operating review
Scientific Services

Summary

- Strong sales and profit growth in the division.
- Cerulean sales of smoking machines and quality control instrumentation increased with growth in most geographic areas.
- Arista Laboratories maintained performance in the year and its customer base and range of services broadened.
- Continued high levels of investment in new products and services.

The Scientific Services division, which comprises Cerulean and Arista Laboratories, performed strongly in the year. Sales increased by 17% to £17.9m (2004: £15.3m) and operating profit improved to £2.6m (2004: £1.8m). The strong pressure on profit margins continued in the year but was more than off-set by the increase in sales.

Cerulean, based in Milton Keynes, UK, is the market-leading supplier of quality control instruments and analytical smoke constituent capture machinery to the tobacco industry, independent laboratories and government bodies. The business sells throughout the world, supported by a network of fifteen sales and service offices located in the major economic and industrial centres. Sales growth was achieved in most major geographic areas, with a particularly marked increase in Asia, as customers increased their investment in quality control and process improvement equipment for the production area.

Product innovation continues to be a major driver of sales growth for the business and helps to set it apart from its competitors in the industry. Cerulean has continued to invest heavily in its product lines and product development capabilities. This was recognised during the year when Cerulean was presented with the Institute of Mechanical Engineers Manufacturing Excellence award for Product Innovation.

Cerulean won the Institute of Mechanical Engineers (IMechE) Product Innovation Award for Manufacturing Excellence (MX) for 2005 and were finalists in two other categories.

Sales	£17.9m
Employees	135
Laboratories	2
Manufacturing facilities	1
Sales and service locations	17

Sales of the industry leading SM 450 smoking machine have been strong as this machine has become the recognised standard linear machine for the testing of cigarettes. The business has also extended the machine's range of smoking tests with the inclusion of variants for side-stream smoke, cigar and research and development smoking. In addition, a rotary smoking machine has been developed and will be available for delivery in 2006.

Sales of quality control instrumentation have also been strong. The established QTM range of instruments has retained its market leading position for laboratory and production testing. Good progress has been made on establishing the new C^2 range of instruments in the market. Extensive customer trials have been undertaken as a result of which the product has been enhanced further. Shipments of this revised version of the product started in 2005 and sales are expected to grow in 2006 as the complete range of variants become available for at-line testing, hopper feeding and laboratory analysis.

The business has continued to focus on its operational excellence programme to improve customer satisfaction and efficiency. The use of lean manufacturing techniques is being extended and the business has an embedded continuous improvement culture.

Arista Laboratories, based in Richmond, Virginia and Kingston upon Thames, UK, is dedicated to meeting the need for testing, through independent, specialist, high quality analysis of tobacco and cigarette smoke constituents for regulatory, research and product development purposes.

After a difficult start to the year, Arista saw a steady improvement in its performance. It successfully increased its sales in new business areas but continued to see a decline in traditional areas where customers have been in-sourcing and margins have been under competitive pressure.

A new toxicological testing service has been successfully launched, resulting in a good level of sales. Growth has also come from the newly regulated tests for ignition propensity. Arista has developed an agrochemical residue identification testing service and this is expected to contribute to sales in 2006.

Arista markets its services worldwide through its laboratory teams in the US and the UK and also with the support of the Tobacco Machinery division's international sales network. It is the only specialist laboratory of its kind with this global reach which is expected to yield further benefits in the future as tobacco regulations are tightened across the world.

The division is well placed to maintain performance in 2006.

Financial review

David Cowen
Group Finance Director

Group underlying operating profit (which excludes net pension credit, reorganisation costs and goodwill impairment) for the year was £5.7m, up from £2.3m in 2004 on similar sales. In addition, the Group benefited from a net pension credit in respect of ongoing benefits of £0.5m, and incurred reorganisation costs within the Tobacco Machinery division of £2.2m before tax credits (2004: £11.3m) and a £6.7m impairment of purchased goodwill relating to Sasib. Underlying earnings per share was 19.1p (2004: 1.9p). The basic loss per share was 21.9p (2004: 61.1p).

International Financial Reporting Standards
In line with other UK listed companies, the Group has adopted International Financial Reporting Standards (IFRS) for its 2005 reporting as required by European Union regulations. All information, including prior year figures, has been restated accordingly. The Company issued a comprehensive analysis of the impact of IFRS on the reported results of the Group for 2004 on 30 June 2005; a further analysis of the transitional impact to IFRS is shown in the notes to the accounts.

One of the main impacts of adopting IFRS on the Group arises from the change in pension accounting. Under SSAP 24 Accounting for pension costs, changes to actuarial gains and losses were amortised over the expected average remaining service lives of current employees. Under IFRS (IAS 19 (revised) Employee benefits), the fair value of the schemes' net liabilities at the end of the year are shown on the balance sheet, with any actuarial gains or losses being charged to reserves through the statement of recognised income and expense (SORIE). This resulted in a decrease to equity of £29.8m after deferred tax at 31 December 2004. Other changes to equity at 31 December 2004 as a consequence of adopting IFRS, include the capitalisation of certain product development costs of £2.2m and an increase of £4.6m in the book value of land and buildings, both amounts being net of deferred tax.

Operating results
The trading performance of the Group is discussed in the Operating review.

Group revenue at £121.4m was at similar levels to the previous year (2004: £122.9m). Tobacco Machinery division sales, including those of Sasib, were £59.8m (2004: £61.8m). Underlying operating profit of the MTM businesses, excluding Sasib, recovered to £2.4m (2004: £0.4m). Sasib incurred an underlying operating loss of £0.6m (2004: £2.3m loss).

The Packaging Machinery division sales were £43.7m (2004: £45.8m) and the division's operating profit was £1.3m (2004: £2.4m). Scientific Services sales increased by 17% to £17.9m (2004: £15.3m) and operating profit increased to £2.6m from £1.8m.

Goodwill impairment
Following a review of the future order prospects for Sasib, and the continued difficulties in returning this business to profitability, the carrying value of goodwill capitalised on the purchase of the business of £6.7m has been provided against in full.

Reorganisation costs
The Tobacco Machinery division continued its reorganisation which commenced in 2004, incurring costs of £2.2m in 2005. These comprised redundancy costs, including related pension costs, in the UK and Brazil of £1.5m, other UK related reorganisation costs of £0.3m and an additional inventory provision of £0.4m, reflecting the impact of rationalising the product range of the Group's South American operations in line with the rest of the division. Payments of £4.1m were made in the year in respect of this reorganisation and the completion of the programme announced in 2004.

During the year proceeds of £0.5m were received following the closure in 2004 and subsequent liquidation of the Company's 48% investment in Kunming Molins Tobacco Machinery Company.

Interest and taxation
Net interest expense in 2005 was £1.1m (2004: £1.2m). The taxation charge in the year was £0.7m (2004: credit £0.8m), comprising a charge of £1.2m in respect of profit before reorganisation costs (2004: £0.7m) and a net credit of £0.5m in relation to the reorganisation costs (2004: £1.5m). The effective tax rate in the year, excluding the impact of reorganisation costs, was 24% which benefited from a number of credits that will not recur.

Earnings per share
Underlying earnings per share (before net pension credit, reorganisation costs and goodwill impairment) was 19.1p (2004: 1.9p). Basic and diluted loss per share was 21.9p (2004: 61.1p).

"Group underlying profit for the year was £5.7m, up from £2.3m in 2004 on similar sales."

Dividend
An interim dividend was not paid and the Board is not recommending a final dividend.

Cash, treasury and funding activities
The Group's net debt position improved in 2005 and amounted to £19.0m (2004: £26.0m) at the year end. Net cash inflow from operations before reorganisation costs was £13.2m (2004: £7.7m), reflecting the improved profitability of the Group and reduction in working capital of £3.2m. Payments made in respect of the Tobacco Machinery reorganisation in the year were £4.1m (2004: £3.5m) and £0.5m was received from the closure of the Kunming Molins company (2004: £0.2m). There were net tax receipts of £0.7m (2004: net payments of £0.8m). Net expenditure on property, plant and equipment was £1.0m (2004: £3.4m) and product development expenditure was £1.5m (2004: £1.2m). Net interest payments were £1.1m (2004: £1.2m).

There were no significant changes during the year in the financial risks, principally currency risks and interest rate movements, to which the business is exposed and the Group treasury policy has remained unchanged. The Group does not trade in financial instruments and enters into derivatives (principally forward exchange contracts) solely for the purpose of minimising currency exposures on sales or purchases not in the functional currencies of its various operations.

The Group maintains bank facilities appropriate to its expected needs. These include secured, committed facilities with its two principal UK bankers, amounting to £26m at 31 December 2005, which will reduce by £5m over a two year period in line with the terms of the facility agreed early in 2005. The balance of the commitment of £21m expires on 31 July 2008. The committed facilities are subject to covenants covering earnings and cash flow levels and are denominated in both sterling and other currencies. In addition, the Group maintains committed facilities with overseas banks of £5.7m. Short-term overdrafts and borrowings are utilised around the Group to meet local cash requirements and these are typically denominated in local currencies. Foreign currency borrowings are used to hedge investments in overseas subsidiaries where appropriate.

Pension valuations
The Group's main defined benefit scheme is in the UK. The last formal actuarial valuation of the fund was carried out as at 30 June 2003, updated to reflect conditions at 1 January 2004. This showed that a surplus in excess of three years' worth of employer's contributions existed at that date and the fund's trustee and the Company agreed that the employer's contribution holiday would continue to 30 June 2006 at which time the next triennial valuation will take place. The Group also maintains a defined benefit scheme in the US.

The Group adopted IAS 19 (revised) Employee benefits in 2005 as its basis of accounting for pension costs, as part of its IFRS implementation. For accounting purposes, valuations of the UK fund assets and liabilities have been undertaken at 31 December 2005 and at prior years for the purpose of restatement under IFRS, based on the 2003 valuation with its assumptions updated to reflect assumptions existing at each balance sheet date. Under IAS 19 (revised) the Company has elected to recognise all actuarial gains and losses outside of the income statement.

The net pension credit arising from the UK and US funds in 2005 was £0.1m (2004: £1.4m cost), which comprises a £0.5m net credit (2004: £nil) in respect of ongoing benefits, less curtailment costs of £0.4m (2004: £1.4m) arising from redundancies in the year. The IAS 19 (revised) valuation of the UK pension fund at 31 December 2005 showed a net deficit of £14.3m, a reduction of £5.4m in the year, before deferred tax. The deficit in the US fund at the end of the year was £0.3m (2004: £1.4m surplus), before deferred tax.

Equity
Group equity at 31 December 2005 was £29.9m (2004: £29.2m). The increase arises from the £4.0m loss for the year, offset by a £2.4m net actuarial gain arising on the Group's net pension liabilities, issue of new shares of £0.1m, favourable exchange movements on the net assets of overseas operations of £1.9m and a net £0.3m increase in reserves arising from accounting for the Group's long-term incentive plan.

David Cowen
Group Finance Director
1 March 2006

Board of directors

P J Byrom BSc FCA*
Chairman
Peter Byrom joined the Molins Board as a non-executive director on 4 February 1999 and became Chairman of the Board on 21 April 1999 and executive Chairman on 9 December 1999. He is also Chairman of Domino Printing Sciences plc and a non-executive director of Rolls-Royce plc, Wilson Bowden plc and AMEC plc. Aged 61 years.

D J Cowen BSc (Econ) FCA
Group Finance Director
David Cowen joined the Molins Board as Group Finance Director on 8 February 1999 from Rolls-Royce Motor Cars Ltd where he was Finance Director. He previously held senior financial positions with Vickers PLC. Aged 42 years.

R C Hunter BSc MBA
Managing Director, Molins Tobacco Machinery
Dick Hunter joined the Company in January 2003 and was appointed to the Board on 28 June 2004. He previously held a number of general management positions within Coats Viyella plc and Dynacast International Ltd in Europe, the US and the Far East. Aged 42 years.

A D Robson BSc MSc MBA
Managing Director, Molins Packaging Machinery & Scientific Services
Adam Robson joined the Company in March 2003 and was appointed to the Board on 28 June 2004. He previously held a number of senior management positions within LucasVarity PLC, prior to which he worked for the Boston Consulting Group. Aged 46 years.

D M C E Steen MA (Oxon)§
Non-executive
Michael Steen joined the Molins Board on 29 February 2000 as a non-executive director. He was formerly a senior partner with KPMG until his retirement in 1998. He is an author, a director of Old Mutual South Africa Trust plc, a commissioner of the Gambling Commission and Chairman of the Friends of the V&A. Aged 60 years.

J Wilson§
Non-executive
John Wilson joined the Molins Board on 1 August 2000 as a non-executive director. He has had a long career in engineering and was from 1992 to 1998 Chief Executive of Vickers Aerospace and Marine Division. Aged 62 years.

* Member of the Nomination Committee
§ Member of the Audit, Remuneration and Nomination Committees

Financial contents

Contents

Directors' report

The directors present their report to shareholders together with the audited accounts for the year ended 31 December 2005.

Principal activities

Group companies are engaged principally in the supply of specialist process and packaging machinery and scientific services for the tobacco and other fast moving consumer goods industries. A review of operations and likely future developments is given on pages 4 to 9 and a financial review appears on pages 10 and 11. Further details of the principal subsidiaries and divisions are shown on pages 58 and 59.

Results and dividends

The results of the Group are set out in the consolidated income statement on page 26. The directors do not recommend the payment of a dividend on ordinary shares (2004: £nil). Dividends on the 6% preference shares are due for payment on 30 June and 31 December in each year and in 2005 amounted to £54,000 (2004: £54,000).

Research and development

Group policy is to retain and enhance its market position through the design and development of specialist machinery and support services. To achieve this objective, engineering and product development facilities are maintained in the UK and overseas. Research and development expenditure incurred in 2005, net of third party income, amounted to £2.7m (2004: £2.8m), of which £1.2m (2004: £1.6m) was charged to the consolidated income statement and £1.5m (2004: £1.2m) was capitalised and included in development costs.

Supplier payment policy

It is the Group's policy to agree payment terms with its suppliers when it enters into purchase contracts. It then seeks to adhere to these arrangements provided it is satisfied that the supplier has delivered the goods or services in accordance with the agreed terms and conditions. At 31 December 2005 trade creditors amounted to the equivalent of 34 days (2004: 55 days) purchases in respect of the Group and 37 days (2004: 47 days) in respect of the Company.

Directors

The names of the directors of the Company at the date of this report are shown on page 12. All held office throughout 2005.

The directors retiring by rotation, in accordance with the articles of association, at the Annual General Meeting to be held on 24 April 2006 are Mr D J Cowen and Mr J Wilson. Both, being eligible, offer themselves for re-appointment. Mr Cowen has a service contract which can be terminated on notice of one year by the Company. Mr Wilson, as a non-executive director, does not have a service contract.

Directors' interests

Directors' interests in the Company's shares are shown on pages 19 and 20 in the Remuneration report.

Substantial shareholdings

At 28 February 2006, the Company was advised that the following shareholders had a notifiable interest in the issued ordinary share capital of the Company:

	Number of ordinary shares	% of issued ordinary shares
Schroders (Schroder Investment Management Limited, Schroder Capital Management International Inc., Schroder Unit Trusts Limited)	5,561,757	27.6
Mourant & Co Trustees Limited	1,623,978	8.1
Thameside MBC	1,483,278	7.4
British Coal Staff Superannuation Scheme*	1,418,648	7.0
Mineworkers' Pension Scheme*	1,275,011	6.3
JPMorgan Fleming Mercantile Investment Trust	1,228,562	6.1
Redbird Holding S.A.	1,050,000	5.2

**Included within the holding disclosed by Schroders*

Environmental policy

The Group is committed not only to compliance with environmental legislation but also to the progressive introduction of appropriate measures to limit the adverse effects of its operations upon the environment. In particular, reasonable efforts are made to minimise waste arising from operations, to recycle materials wherever possible and to consider alternative methods of design or operation. The Group aims both to reduce its costs by these means and to promote good practice in use of resources at sustainable levels.

Share capital

Since June 1999 the Company has purchased and cancelled 15,702,070 ordinary shares representing 44% of the pre buy-back issued share capital. At the 2005 Annual General Meeting, authority to purchase for cancellation a further 3,000,000 ordinary shares was granted. The 2005 Annual General Meeting authority expires on 24 April 2006 and the directors consider it appropriate to seek further authority from the shareholders at the forthcoming Annual General Meeting for the Company to purchase its own shares. Resolution 8, which will be proposed as a special resolution, will seek the necessary authority to enable the Company to purchase for cancellation ordinary shares in the market for a period of twelve months from the date of the meeting, upon the terms set out in the resolution, up to a maximum number of 3,000,000 ordinary shares representing approximately 15% of the issued ordinary share capital at the date of the notice convening the Annual General Meeting.

In reaching a decision to purchase ordinary shares, the directors will take account of the Company's cash resources and capital and the general effect of such purchase on the Company's business. The authority would only be exercised by the directors if they considered it to be in the best interests of the shareholders generally and if the purchase could be expected to result in an increase in earnings per ordinary share.

Mourant & Co Trustees Limited holds shares as trustee in connection with the Company's long-term incentive plan. The trustee has agreed to waive all dividends and not to exercise voting rights in respect of shares representing 8% of the issued share capital.

Information about the Company's share capital, including changes during the year, is given in note 24 to the accounts on pages 48 and 49.

Employment policies

The Group is committed to developing its employment policies in line with best practice and providing equal opportunities for all, irrespective of gender, marital status, sexual orientation, ethnic origin, religious belief or disability. Full and fair consideration is given to applications for employment from people with disabilities having regard to their aptitudes and abilities. Every reasonable effort is made to support those who become disabled, either in the same job or, if this is not practicable, in suitable alternative work.

Employee involvement

Emphasis is placed on training, effective communication and the involvement of employees in the development of the business. Information is regularly provided on the progress of the Group through local review meetings, briefings and consultative bodies. Involvement in the achievements of the business is encouraged through other means appropriate to each location.

Donations

During the year the Group and the Company made donations to UK charitable organisations of £1,000 (2004: £1,100).

Annual General Meeting

The Annual General Meeting will take place on Monday 24 April 2006. Notice of the meeting can be found on pages 60 and 61.

Auditor

The auditor, KPMG Audit Plc, is willing to continue in office and a resolution concerning its re-appointment and remuneration will be submitted to the Annual General Meeting to be held on 24 April 2006.

By order of the Board

J. Messent.

J Messent
Secretary
1 March 2006

Remuneration report

The Remuneration Committee deals with all aspects of remuneration of the executive directors and certain other senior executives. The Committee consists of Mr Steen and Mr Wilson, both non-executive directors, and is chaired by Mr Steen.

Information contained in the sections marked § is provided in accordance with the Companies Act 1985 and is subject to audit.

Policy on remuneration of executive directors

1. Policy

The Remuneration Committee aims to ensure that remuneration packages offered are competitive and designed to attract, retain and motivate executive directors of the right calibre. The Committee also seeks to recognise and reward performance in achieving growth annually and in the long-term.
To achieve these goals, the Committee's policy is to establish fixed salary at around half of the total obtainable in the case of excellent performance.

In reaching its decisions on policy and specific packages, incentive arrangements and targets, the Remuneration Committee obtains professional advice (typically through the Secretary) when necessary from Towers Perrin and Korn/Ferry International on the salary, benefits and incentive arrangements for executive directors. It has also taken advice from Ashursts on executive directors' contractual terms and from Watson Wyatt on pension arrangements. Additionally a separate team in Watson Wyatt provides actuarial services to the trustee of the Molins UK Pension Fund.

It is expected that the Committee's policy will continue unchanged in 2006.

2. Remuneration packages

The main components of the package for each executive director are:

i Basic salary

Basic salary is determined by taking into account the performance of the individual and information on the rates of salary for similar jobs in companies of comparable size and complexity in a range of engineering and other manufacturing industries.

ii Incentive scheme

The executive directors participate each year in a cash bonus scheme which provides for payments according to challenging targets for earnings per share ("EPS") and, additionally in respect of Mr Hunter and Mr Robson, other business performance targets, set annually by the Remuneration Committee. For the year ended 31 December 2005 the maximum bonus attainable by executive directors ranged between 50% and 60% of relevant salaries.

iii Long-term incentive plan ("LTIP")

The LTIP is intended to offer an effective incentive over the longer term, in line with accepted practice, to executive directors and certain other senior executives. In relation to all awards, if the growth of the EPS of the Company over the three year period fails to exceed the growth in the UK Retail Price Index over the same period then no award shares will be allocated to participants.

In relation to awards under the 2005 plan and in relation to awards made prior to 2003, the performance condition is as follows:

100% of the award shares will be allocated to a participant if the Company's total shareholder return* (TSR) over a three year period when compared with certain other listed companies (the "comparator group") is in the top quartile of performance. 25% of the award shares will be allocated if the Company's TSR over a three year period when compared with the comparator group is at the median. Below median, no shares will be allocated under this provision. Between these two points, allocation will be on a straight line basis pro rata to the relative performance of TSR to the comparator group.

In relation to awards made in 2003 and 2004, the performance conditions are:

a 50% of the award shares will be allocated to a participant if the Company's total shareholder return* ("TSR") over a three year period when compared with certain other listed companies (the "comparator group") is in the top quartile of performance. 12.5% of the award shares will be allocated if the Company's TSR over a three year period when compared with the comparator group is at the median. Below median, no shares will be allocated under this provision. Between these two points, allocation will be on a straight line basis pro rata to the relative performance of TSR to the comparator group; and

b 50% of the award shares will be allocated if the percentage growth in the Company's EPS over three years exceeds the percentage increase in the Retail Price Index (RPI) over the same period by 10% per annum or more. 12.5% of the shares will be allocated if the increase in EPS is no less than that of RPI plus 3% per annum. Below this, no shares will be allocated under this provision. Between these two points, allocation will be on a straight line basis, pro rata to the relative performance of EPS and RPI.

* The aggregate in relation to any TSR Test Period of (a) the increase (or decrease) in the average market value of such a share, and (b) the aggregate of dividends (grossed-up for the associated tax credit), as determined pursuant to a proprietary formula commissioned by the Remuneration Committee (and subject to such adjustments as the formula may provide in relation to matters affecting the share capital of the Company or any comparator company during the TSR Test Period).

Policy on remuneration of executive directors continued

2. Remuneration packages continued

iii Long-term incentive plan (LTIP) continued

The shares potentially available to participants as a result of performance against these conditions are all immediately available after the performance period in relation to the 2004 and 2005 awards. In respect of previous awards the participant is entitled to receive 60% of such shares if he elects to receive them before the fourth anniversary of the grant, 71% after the fourth but before the fifth anniversary, 84% after the fifth but before the sixth anniversary and the full amount after the sixth anniversary. In the event of a change of control in the Company, the maximum award would be available subject to satisfaction of a TSR performance condition.

The comparator group for the TSR calculation comprises substantially all listed engineering companies with a market capitalisation from £15m to £275m as at 30 September 2002 plus a number of similar manufacturing companies.

The Committee has chosen these criteria, which currently apply to all participants, to align the interests of participants with the interests of shareholders in achieving long-term growth in profit and in TSR. Achievement of the TSR conditions is independently verified by Towers Perrin.

The trustee of the LTIP has agreed to waive all dividends in relation to shares in the Company held in the trust.

3. Contracts of service

The current service contracts were concluded with Mr Byrom on 25 October 2002, with Mr Cowen on 18 October 2002 and with Mr Hunter and Mr Robson on 10 February 2005. These service contracts are terminable on notice of one year given by the Company and six months given by the director. In the event of termination by the Company, the Company has the option of making a payment of liquidated damages equivalent to the value of twelve months salary and benefits (including bonus at the rate of the average of the two previous years), or of negotiating appropriate compensation reflecting the principle of mitigation.

In the event of a change of control in the Company, if the Company terminates the contract within 24 months of the change of control, or if the director terminates the contract within six months of the change of control, the Company will be obliged to pay liquidated damages equivalent to the value of twelve months salary and benefits (including bonus at the rate of the average of the two previous years).

The purpose of this policy is that the contracts should provide reasonable and appropriate security to the directors concerned and to the Company.

The policy has been considered by the Remuneration Committee in the light of advice as indicated above. The policy is reviewed regularly.

4. Pensions

Molins' policy is to offer its executive directors membership of the Molins UK Pension Fund (the Fund), which is a funded, HM Revenue & Customs approved, contributory, final salary, occupational pension scheme. Alternative pension arrangements are in place for Mr Byrom. The Fund's main features as they affect executive directors are:

i a normal pensionable age of 60 in respect of Mr Cowen and 65 in respect of Mr Hunter and Mr Robson;

ii pension at normal pensionable age of two thirds of final pensionable salary, subject to completion of 20 years service, in respect of Mr Cowen and Mr Hunter. In respect of Mr Robson pension is accrued at 1/60th of final pensionable salary;

iii life assurance cover of four times pensionable salary;

iv pension payable in the event of ill health and incapacity; and

v spouse's pension on death.

Pensionable salary is the member's basic salary. The executive directors are subject to the earnings cap introduced by the Finance Act 1989, limiting the calculation of remuneration for the purposes of pensions and death benefits under approved schemes to a level of, at present, £105,600. In the case of Mr Cowen, the Company has agreed to increase pension benefits through the payment of additional emoluments, which was previously achieved through payments into a funded unapproved retirement benefits scheme, and death benefit through top up life assurance.

Remuneration report continued

Non-executive directors

The fees of non-executive directors are determined by the Board (but with the non-executive directors themselves abstaining from voting) based on comparable market levels.

Directors' emoluments§

	Salaries 2005 £000	Fees 2005 £000	Incentive scheme 2005 £000	Benefits 2005 £000a	Other payments 2005 £000b	2005 £000	2004 £000
Executive directors							
P J Byrom – Chairman	258	–	129	11	–	398	265
D J Cowen	188	–	94	14	24	320	214
R C Hunter c	143	–	58	11	–	212	78
A D Robson c	140	–	44	10	–	194	75
Non-executive directors							
D M C E Steen	–	25	–	–	–	25	25
J Wilson	–	25	–	–	–	25	25
Former directors c	–	–	–	–	–	–	214
Total	729	50	325	46	24	1,174	896

Notes

a Benefits comprise mainly:
- i Mr Byrom – a car allowance payment.
- ii Mr Cowen – a car allowance payment, private medical cover and life assurance premiums relating to salary above the current cap limit.
- iii Mr Hunter and Mr Robson – the provision of a company car and private medical cover.

b Other payments comprise:
Mr Cowen – a pension related payment in lieu of his contractual entitlement of payments into his funded unapproved retirement benefit scheme.

c The 2004 figures for Mr Hunter and Mr Robson and the former directors relate only to the period for which they were directors. In the case of Mr Hunter and Mr Robson that was from 28 June 2004.

In addition to the foregoing information the following table provides details, as required by Schedule 6 to the Companies Act 1985, of the aggregate amount of directors' emoluments.

Aggregate emoluments of the directors were:

	2005 £000	2004 £000
Fees	50	58
Salaries	729	702
Performance related element	325	5
Benefits	46	72
Other payments	24	17
	1,174	854
Compensation for loss of office	–	42
Total emoluments	1,174	896

Directors' pensions information§

The following table relates to the benefits of Mr Cowen, Mr Hunter and Mr Robson under the Molins UK Pension Fund.

	Pensionable salary at beginning of period £ pa	Pensionable salary at 31 December 2005 £ pa	Accrued pension at beginning of period £ pa	Increase in accrued pension £ pa	Accrued pension at 31 December 2005 £ pa	Transfer value at beginning of period £	Transfer value at 31 December 2005 £	Transfer value of increase in accrued benefit £
D J Cowen	102,000	105,600	16,190	3,445	19,635	121,040	157,615	31,340
R C Hunter	102,000	105,600	5,385	2,980	8,365	29,615	49,360	14,510
A D Robson	102,000	105,600	2,975	1,865	4,840	18,850	32,920	8,835

Notes

The increase in transfer value is after deduction of directors' contributions.

The transfer values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11, using market yields at 31 December 2005. The beginning of the period transfer values have been calculated as at 31 December 2004.

The above disclosures relate to defined benefit pension arrangements for the executive directors. Additionally in 2004 £3,465 was contributed to Mr Cowen's funded unapproved retirement benefit scheme. Payments totalling £103,286 (2004: £101,760) were made in respect of pension arrangements for Mr Byrom.

Directors' interests in shares

The beneficial interests of directors holding office at 31 December 2005 and persons connected with them in the ordinary shares of the Company (excluding share options) were as follows:

Shares	Held 31 December 2005	Held 1 January 2005
P J Byrom	299,400	300,600
D J Cowen	21,219	21,219
D M C E Steen	10,700	10,700
J Wilson	5,000	5,000

Note

No director holds or held at any time during the year a beneficial interest in the Company's preference shares.

Directors' share options§

No director held options in respect of the Company's shares during the year.

Remuneration report continued

Long-term incentive plan§

Details of conditional grants of Molins ordinary shares under the Company's LTIP for each director who held office during the year are as follows:

	Held at 1 January 2005	Grant on 22 February 2005	Exercised on 29 April 2005	Lapsed grants at 31 December 2005	Held at 31 December 2005
P J Byrom	444,000	188,000	–	(120,000)	512,000
D J Cowen [a]	356,009	135,000	(47,247)	(78,000)	365,762
R C Hunter	52,500	100,000	–	(30,000)	122,500
A D Robson	30,000	100,000	–	(15,000)	115,000

Notes

a The aggregate gain made by Mr Cowen on exercise amounted to £76,700.

There were no changes in the above conditional grants held for the directors between 31 December 2005 and 1 March 2006.

No other conditional grants in respect of the Company's shares were made to any director during the year.

The mid-market price of Molins PLC ordinary shares at 22 February 2005 was 159.0p and at 31 December 2005 was 123.0p. The range during the year was 117.5p to 180.0p.

The performance conditions have been satisfied in full during each of the three year performance periods ended 31 December 2001, 2002 and 2003. The number of conditional grants held by the directors at 31 December 2005 in respect of these performance periods were: Mr Byrom – 240,000; Mr Cowen – 170,762.

The performance condition was not met in respect of the three year period ended 31 December 2005 and the conditional grants in respect of the said period have lapsed. The conditional grants in respect of the three year period ended 31 December 2004 had lapsed prior to 1 January 2005.

Total shareholder return information

The Company's TSR performance is shown in the following line graph over the last five years, compared with the FTSE SmallCap Total Return Index. The Board believes this is the most appropriate broad equity market index with which to compare the Company's performance.

By order of the Board

J. Messent

J Messent
Secretary
1 March 2006

Corporate governance

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires directors to prepare group and parent company financial statements for each financial year. Under that law the directors have elected to prepare both the Group and the Company financial statements in accordance with IFRS as adopted by the EU and required to present fairly the financial position of the Group and the Company and the performance for that period. The Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the Group and Company financial statements, the directors are required to:

i select suitable accounting policies and then apply them consistently;

ii make judgements and estimates that are reasonable and prudent;

iii state whether they have been prepared in accordance with IFRS as adopted by the EU; and

iv prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and 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 parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

Going concern

Having made due enquiries the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Statement of compliance

The directors consider that the Company complied throughout 2005 with all of the provisions of the revised Combined Code, as published in July 2003 and contained in the rules of the UK Listing Authority, except as follows in this section 'Statement of compliance'. In relation to section A.2 the directors recognise that the posts of Chairman and Chief Executive Officer are combined in Mr Byrom in his role as executive Chairman. As there is a strong and independent non-executive element on the Board, the directors at present consider the merged role appropriate having regard to the size and organisational structure of the Group and its current stage of development. Mr Steen is the recognised senior independent director to whom concerns can be conveyed.

The Board has reviewed the effectiveness of the system of internal controls in place throughout the Group.

The Board

The Board meets regularly throughout the year and met nine times during 2005. It is responsible for:

i overall Group strategy;

ii approving revenue and capital budgets and material expenditure plans;

iii approving acquisitions and disposals of businesses, subsidiaries or material assets;

iv determining the financial and corporate structure of the Group (including financing and dividend policy);

v approving material or extraordinary contracts;

vi setting the Company's values and standards and ensuring that its obligations to its shareholders and others are understood and met; and

vii ensuring appropriate training of directors and other senior executives.

Corporate governance continued

The Board continued

Day to day management of the Company's businesses is delegated to divisional and business unit managing directors or general managers in accordance with a clear and comprehensive statement of delegated authorities. The Board reviews at each meeting comprehensive financial and trading information produced by management each month and considers the trends in the Company's businesses and their performance against strategic objectives and plans. It also regularly reviews the work of its formally constituted standing committees as described below and compliance with the Group's health and safety, environmental and risk management policies and compliance with legal requirements.

The director recognised as the senior independent director for the purposes of the Combined Code is Mr Steen. The Board also considers Mr Wilson to be an independent director.

In furtherance of the principles of good corporate governance, the Board has appointed the Audit, Remuneration and Nomination Committees, each with formal terms of reference, which can be read on the Company's website at www.molins.com/corporate. The current memberships of the Committees are shown on page 12.

All members of the Board and its committees have attended all meetings held in 2005.

The non-executive directors attended seminars during 2004 and 2005 to assist with training in their awareness of compliance issues facing boards of listed companies. Other directors have ensured they maintain awareness of current issues and skills development, through membership of professional associations where appropriate.

Details of the service contracts of the executive directors are shown in the Remuneration report. The two non-executive directors do not have service contracts but their terms of appointment were revised on 17 November 2003 so that each is appointed for a fixed term of three years expiring on 16 November 2006. In each case compensation for loss of office is excluded by the letter of appointment.

Audit Committee

The Committee is chaired by Mr Steen and met four times in 2005. The Committee comprises the two independent non-executive directors. The Chairman of the Board, the Group Finance Director, the Secretary, the most senior member of the internal audit function and, when interim or year end accounts are to be considered, representatives of the auditor are normally invited to attend all or part of each meeting. The Committee Chairman also ensures that each of them has confidential access to him at other times.

The Committee assists the Board in the discharge of its duties concerning the announcements of results, the Annual Report and Accounts and the maintenance of proper internal controls. It reviews the scope and planning of the audit and the auditor's findings and considers Group accounting policies and the compliance of those policies with applicable legal and accounting standards.

The Committee also considers the independence of the external auditor and has developed policies relating to the employment of former employees of the auditor and the engagement of the auditor or advisors related to the auditor on non-audit work. These policies, which have been adopted formally by the Board require, inter alia, the Committee's consent to material engagements or any employment and appropriate confirmations from the auditors.

The Committee considers annually how the internal audit function operates in the Group, the terms of reference of the function and whether this gives sufficient assurance that the business of the Company is adequately reviewed. The function is part of the Group finance department and its senior member reports to the Committee at each meeting on its activities.

Remuneration Committee

The Committee is chaired by Mr Steen and meets on a regular basis, usually at least three times a year, and additionally whenever required, although it only met twice in 2005. The Committee determines the remuneration and other benefits of the executive directors and certain senior managers and makes recommendations on the Group's framework of executive remuneration.

The Remuneration report, set out on pages 16 to 20, describes the relevant policies and how they have been implemented by the Committee.

In addition, the Committee has reviewed the performance of the Chairman as part of the annual process of performance evaluation undertaken by the Board.

Nomination Committee

The Committee is chaired by Mr Byrom and is responsible for formulating and reviewing proposals for the appointment of directors and making recommendations thereon to the Board. It met once during 2005 and intends to meet at least annually to review the structure, size and composition of the Board and its Committees (including the balance of skills, knowledge and experience and the need for succession planning or additional members of the Board).

Relationships with shareholders

The Board recognises the importance of maintaining regular dialogue with institutional shareholders to ensure that its strategy is communicated and any concerns can be addressed. In addition, all shareholders have the opportunity to attend the Annual General Meeting where the Group's operations can be discussed with the directors. The Chairman and Group Finance Director make themselves available for meetings with analysts and representatives of the major shareholders on the day of the preliminary announcement of the annual results and half year results or shortly thereafter and upon request at other times of the year. They report accordingly to the Board on shareholders' views. Any shareholder wishing to be invited to these should make themselves known to the Secretary. The senior independent non-executive director can be contacted through the Secretary if shareholders wish to do so.

Relationship with the auditor

During the year under review KPMG provided tax advice to the Company and some of its principal subsidiaries. The Board has considered the effect on independence of the auditor and the objective criteria on which any decisions to appoint KPMG should be made. It was concluded that in the circumstances its appointment as tax advisors was the most cost-effective means of securing appropriate advice without a serious risk of affecting the independence of the auditor. KPMG has confirmed that it does not consider its independence to be affected. The Board has developed policies to safeguard the independence of the auditor based upon:

i internal KPMG processes to prevent information being shared between teams except where it is appropriate;

ii separate consideration of each category or major item of work, including the cost effectiveness of any proposed work and the suitability of competing advisors;

iii consideration of the total level of fees payable to KPMG and its associated entities; and

iv periodic rotation of audit partner (which was last effected during 2003).

Internal controls

The Board of directors is responsible for the Group's system of internal controls and has established a framework of financial and other controls which is periodically reviewed in accordance with the Turnbull guidance for its effectiveness.

The Board has taken and will continue to take appropriate measures to ensure that the chances of financial irregularities occurring are reduced as far as reasonably possible by improving the quality of information at all levels in the Group, fostering an open environment and ensuring that financial analysis is rigorously applied. Any system of internal control can, however, only provide reasonable, but not absolute, assurance against material misstatement or loss.

The major elements of the system of internal control are as follows:

i major commercial, strategic and financial risks are formally identified, quantified and assessed by each operating unit during the annual budgeting exercise and presented to and discussed with executive directors, after which they are considered by the Board;

ii there is a comprehensive system of planning, budgeting, reporting and monitoring of the Group's operating units. This includes monthly management reporting and monitoring of performance and forecasts. The reports are reviewed by Group staff and are also submitted to the Board for review. Monthly and quarterly reviews are embedded in the internal control process and cover each principal operating unit. Monthly reviews require each operating unit to consider, inter alia, business development, financial performance against budget and forecast, health and safety and capital expenditure proposals. Quarterly reviews of operating units also include a review of longer term business development, performance against budget and forecast and all other aspects of the business. They are attended by executive directors and other Group staff as appropriate;

iii there is an organisational structure with clearly defined lines of responsibility and delegation of authority;

iv each operating unit is required to comply with defined policies, financial controls and procedures and authorisation levels which are clearly communicated;

v a regular programme of internal control reviews and specific investigations is carried out by Group finance staff and are followed up during regular executive management visits. The internal control reviews include assessment of compliance with Group policies and procedures and reports of their findings are made to the Audit Committee and Board as appropriate. The internal audit procedures and practices were reviewed by KPMG during the year as a special exercise and some suggestions for improvements have been made, which have been considered by the Board and a number of which will be implemented. In general, however, they have advised that the existing procedures and practices are sufficient to meet the needs of the function;

Corporate governance continued

Internal controls continued

vi there are "whistleblower" procedures of which all employees are made aware, to enable concerns to be raised either with line management or, if appropriate, confidentially outside line management; and

vii a formal risk management audit is regularly carried out by Group staff and external risk management consultants which covers physical damage, environmental and health and safety risks together with business continuity issues. Formal reports including recommendations are sent to each operating unit for action and reported back to Group management. Progress reports are issued to the Board for review and monitoring.

The Board has reviewed the effectiveness of the system of internal controls during the year ended 31 December 2005 and intends to review controls annually, having ensured that appropriate control mechanisms and review processes are in place.

By order of the Board

J. Messent

J Messent
Secretary
1 March 2006

Auditors' report

Report of the independent auditors to the members of Molins PLC

We have audited the group and parent company financial statements (the "financial statements") of Molins PLC for the year ended 31 December 2005 which comprise the Consolidated income statement, the Group and Company balance sheets, the Group and Company statement of cash flows, the Group and Company Statement of recognised income and expense and the related notes. These 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.

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 auditors

The directors' responsibilities for preparing the annual report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU, and for preparing the Company financial statements and the Directors' remuneration report in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU are set out in the Statement of directors' responsibilities on page 21.

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

We review whether the Corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the 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 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 financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the Group and Company financial statements give a true and fair view, in accordance with IFRS as adopted by the EU, of the state of the Group's affairs as at 31 December 2005 and of its loss for the year then ended;
- the Group and Company financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the parts of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
1 March 2006

Consolidated income statement

For the year ended 31 December	Notes	2005 Before goodwill impairment and reorganisation costs £m	2005 Goodwill impairment £m (note 12)	2005 Reorganisation costs £m (note 5)	2005 Total £m	2004 Before reorganisation costs £m	2004 Reorganisation costs £m (note 5)	2004 Total £m
Revenue	1	121.4	–	–	121.4	122.9	–	122.9
Cost of sales		(85.8)	–	(1.2)	(87.0)	(92.5)	(7.2)	(99.7)
Gross profit		35.6	–	(1.2)	34.4	30.4	(7.2)	23.2
Other operating income	2	0.3	–	–	0.3	0.1	–	0.1
Distribution expenses		(9.8)	–	(0.2)	(10.0)	(8.4)	(0.3)	(8.7)
Administrative expenses		(18.7)	–	(0.3)	(19.0)	(18.2)	(2.4)	(20.6)
Other operating expenses	3	(1.2)	(6.7)	(0.5)	(8.4)	(1.6)	(1.4)	(3.0)
Operating profit/(loss)	1,4	6.2	(6.7)	(2.2)	(2.7)	2.3	(11.3)	(9.0)
Profit/(loss) on closure of associate	5	–	–	0.5	0.5	–	(1.6)	(1.6)
Profit/(loss) before financing costs		6.2	(6.7)	(1.7)	(2.2)	2.3	(12.9)	(10.6)
Financial income	8	0.4	–	–	0.4	0.3	–	0.3
Financial expenses	8	(1.5)	–	–	(1.5)	(1.5)	–	(1.5)
Net financing costs		(1.1)	–	–	(1.1)	(1.2)	–	(1.2)
Profit/(loss) before tax		5.1	(6.7)	(1.7)	(3.3)	1.1	(12.9)	(11.8)
Taxation	9	(1.2)	–	0.5	(0.7)	(0.7)	1.5	0.8
Profit/(loss) for the period		3.9	(6.7)	(1.2)	(4.0)	0.4	(11.4)	(11.0)
Basic earnings/(loss) per ordinary share	11				(21.9)p			(61.1)p
Diluted earnings/(loss) per ordinary share	11				(21.9)p			(61.1)p

Balance sheets

As at 31 December	Notes	Group 2005 £m	Group 2004 £m	Company 2005 £m	Company 2004 £m
Non-current assets					
Intangible assets	12	13.5	19.6	9.3	8.8
Property, plant and equipment	13	28.7	29.7	19.6	20.5
Investments	14	–	–	48.9	49.0
Trade and other receivables	17	1.2	1.0	0.5	0.5
Employee benefits	23	–	1.4	–	–
Deferred tax assets	15	5.4	6.8	4.3	5.9
		48.8	58.5	82.6	84.7
Current assets					
Inventories	16	27.2	35.2	13.1	16.3
Trade and other receivables	17	22.6	25.5	17.5	19.6
Taxation receivable	10	0.2	1.9	0.2	1.5
Cash and cash equivalents	18	2.8	5.1	0.1	1.1
		52.8	67.7	30.9	38.5
Current liabilities					
Bank overdrafts	18	(1.9)	(0.9)	(0.9)	–
Interest-bearing loans and borrowings	19	(2.4)	(0.8)	(2.0)	–
Trade and other payables	21	(25.6)	(32.4)	(26.1)	(29.1)
Taxation payable	10	(0.9)	(0.9)	–	–
Provisions	22	(2.2)	(5.4)	(1.7)	(3.6)
		(33.0)	(40.4)	(30.7)	(32.7)
Net current assets		19.8	27.3	0.2	5.8
Total assets less current liabilities		68.6	85.8	82.8	90.5
Non-current liabilities					
Interest-bearing loans and borrowings	19	(17.5)	(29.4)	(16.0)	(25.0)
Trade and other payables	21	(0.2)	–	(0.2)	–
Employee benefits	23	(16.9)	(22.6)	(14.3)	(19.7)
Deferred tax liabilities	15	(4.1)	(4.6)	(3.9)	(4.0)
		(38.7)	(56.6)	(34.4)	(48.7)
Net assets	1	29.9	29.2	48.4	41.8
Equity					
Issued capital	24	5.0	5.0	5.0	5.0
Share premium	24	26.0	25.9	26.0	25.9
Reserves	24	4.8	2.9	3.9	3.9
Retained earnings	24	(5.9)	(4.6)	13.5	7.0
Total equity		29.9	29.2	48.4	41.8

The accounts were approved by the directors on 1 March 2006 and signed on their behalf by:

P J Byrom
Director

D J Cowen
Director

Statement of cash flows

		Group		Company	
		2005	2004	2005	2004
Year ended 31 December	Notes	£m	£m	£m	£m
Cash flows from operating activities					
(Loss)/profit for the period		(4.0)	(11.0)	2.6	(3.4)
Reorganisation costs included in operating loss/profit for the period		2.2	11.3	1.8	5.0
Amortisation		0.9	0.8	0.8	0.8
Goodwill impairment		6.7	–	–	–
Depreciation		2.7	2.9	1.3	1.5
Interest income		(0.4)	(0.3)	(0.4)	(0.3)
Interest expense		1.5	1.5	1.2	1.1
Profit on sale of plant and equipment		(0.1)	–	–	–
(Profit)/loss on closure of associate		(0.5)	1.6	(0.5)	1.6
Equity-settled share-based transactions (LTIP)		0.3	0.2	0.3	0.2
Taxation expense/(credit)		0.7	(0.8)	0.2	(1.8)
Other movements		–	(0.1)	–	–
Working capital movements:					
– Decrease in inventories		8.1	1.2	3.1	4.5
– Decrease in trade and other receivables		3.7	12.7	2.3	10.4
– Decrease in trade and other payables		(7.1)	(12.4)	(2.9)	(24.3)
– (Decrease)/increase in provisions and employee benefits		(1.5)	0.1	(1.0)	0.4
Cash generated from operations before reorganisation		13.2	7.7	8.8	(4.3)
Reorganisation costs paid		(4.1)	(3.5)	(3.0)	(1.3)
Cash generated from operations		9.1	4.2	5.8	(5.6)
Taxation received/(paid)		0.7	(0.8)	1.2	–
Net cash from operating activities		9.8	3.4	7.0	(5.6)
Cash flows from investing activities					
Proceeds from sale of plant and equipment		0.4	0.4	0.1	–
Net proceeds from closure of associate		0.5	0.2	0.5	0.2
Increase in loans to subsidiaries		–	–	(2.2)	(12.8)
Decrease in loans to subsidiaries		–	–	1.9	18.5
Acquisition of property, plant and equipment		(1.4)	(3.8)	(0.5)	(0.4)
Development expenditure		(1.5)	(1.2)	(1.3)	(1.1)
Net cash from investing activities		(2.0)	(4.4)	(1.5)	4.4
Cash flows from financing activities					
Issue of new shares		0.1	–	0.1	–
Interest received		0.4	0.4	0.3	0.4
Interest paid		(1.5)	(1.6)	(1.1)	(1.1)
(Decrease)/increase in borrowings		(10.1)	2.9	(6.7)	5.2
Payment of finance leases		(0.1)	–	–	–
Dividends paid		–	(1.4)	–	(1.4)
Net cash from financing activities		(11.2)	0.3	(7.4)	3.1
Net (decrease)/increase in cash and cash equivalents	20	(3.4)	(0.7)	(1.9)	1.9
Cash and cash equivalents at 1 January		4.2	4.9	1.1	(0.8)
Effect of exchange rate fluctuations on cash held		0.1	–	–	–
Cash and cash equivalents at period end	18	0.9	4.2	(0.8)	1.1

Statement of recognised income and expense

Year ended 31 December	Note	Group 2005 £m	Group 2004 £m	Company 2005 £m	Company 2004 £m
Currency translation movements arising on foreign currency net investments		1.9	(1.0)	–	–
Actuarial gains		2.4	2.5	3.6	3.3
Net income recognised directly in equity		4.3	1.5	3.6	3.3
(Loss)/profit for the period		(4.0)	(11.0)	2.6	(3.4)
Total recognised income and expense for the period	24	0.3	(9.5)	6.2	(0.1)

Accounting policies

Basis of accounting

The Company and Group financial statements, including the restated financial information at 1 January 2004 and for the year ended 31 December 2004, have been prepared and approved by the directors in accordance with International Accounting Standards (IAS) and International Financial Reporting Standards issued by the International Accounting Standards Board that were effective at 31 December 2005 and adopted by the EU (Adopted IFRS).

The financial statements have been prepared on the historical cost basis except that financial instruments, principally forward foreign exchange contracts, are stated at fair value and non-current assets are stated at the lower of previous carrying amount and fair value less costs to sell.

The preparation of financial statements in conformity with adopted IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and assumptions are based on historical experience and other factors considered reasonable at the time, but actual results may differ from these estimates. Revisions to these estimates are made in the period in which they are recognised.

Basis of consolidation

The Group financial statements comprise the consolidated results of Molins PLC (the Company) and all of its subsidiary companies together with the Group's share of the results of its associated companies on an equity accounting basis. A separate income statement dealing only with the results of the Company has not been presented in accordance with Section 230(4) of the Companies Act 1985.

A subsidiary is a company controlled, directly or indirectly, by the Group. Control is the power to govern the financial and operating policies of the company so as to obtain benefits from its activities. A subsidiary's results are included in the Group financial statements from the date that control commences until the date that control ceases.

An associate is a company in which the Group has significant influence, but not control, over the financial and operating policies.

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements.

Foreign currencies

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the date of transaction.

Profits and losses of overseas subsidiaries are translated into sterling at the average exchange rates ruling during the year.

Foreign currency assets and liabilities are translated into sterling at rates of exchange ruling at the balance sheet date. Exchange differences arising on the retranslation of the opening net assets, together with any differences between the average rate and the closing rate in the income statement, are taken to reserves via the statement of recognised income and expense.

Exchange differences arising from the translation of the net investment in foreign operations and of related hedges are taken to a translation reserve and are released into the income statement upon disposal of the investment.

Goodwill

Goodwill represents the excess of the fair value of the purchase consideration for the interests in subsidiary and associated undertakings over the fair value to the Group of the net identifiable assets acquired.

Goodwill arising on acquisitions is capitalised and is subject to impairment review, both annually and when there are indications that the carrying value may not be recoverable. Impairment losses are recognised in the income statement.

Prior to 1 January 1998 goodwill was written off to reserves in the year of acquisition. Goodwill arising since 1 January 1998 was amortised over its estimated useful life. Under IFRS 3 Business combinations, such amortisation ceased on 31 December 2003. From 1 January 2004, goodwill is subject to impairment review as stated above.

Impairment losses recognised are allocated first to reduce the carrying value of goodwill of the business it relates to, and then to reduce the carrying value of the other assets of that business on a pro rata basis.

Goodwill was tested for impairment as at 1 January 2004, the transition date to adopted IFRS, even though no indication of impairment existed.

Research and development

Research and development and related product development costs are charged to the income statement in the year in which they are incurred unless they are specifically chargeable to and recoverable from customers under agreed contract terms or the expenditure meets the criteria for capitalisation.

Research and development continued

Where the expenditure meets the criteria for capitalisation set out in IAS 38 Intangible assets, development costs are capitalised and amortised over their useful economic lives, to a maximum of five years. The expenditure capitalised includes costs of materials, direct labour and an appropriate proportion of overheads. Such intangible assets are assessed for impairment annually and any impairment is charged to the income statement.

Property, plant and equipment

Property, plant and equipment is stated at cost or deemed cost less accumulated depreciation and any provision for impairment in value.

Depreciation is provided on a straight-line basis to write off the cost, less the estimated residual value, of property, plant and equipment over their estimated useful lives.

The annual depreciation rates used are as follows:

Freehold land	– nil
Freehold buildings	– 3% on cost or deemed cost
Leasehold buildings	– over life of lease
Plant and machinery	– 8% to 25%
Fixtures and fittings	– 10% to 33%

The carrying value of property, plant and equipment is reviewed annually for impairment. Any change in value arising from impairment is charged or credited (up to the carrying value prior to any previous impairment) to the income statement for the year.

Certain items of property that had been revalued to fair value on or prior to 1 January 2004, the date of transition to IFRS, are measured on the basis of deemed cost, being the revalued amount at the date of the revaluation.

Leases

Assets held under finance leases are capitalised and included in property, plant and equipment at the lower of fair value and the present value of the minimum lease payments at the inception of the lease. Depreciation is provided in accordance with the Group's depreciation policy. The capital elements of obligations under finance leases are recorded as liabilities. The interest elements of the rental obligation are allocated to accounting periods over the lease term to give a constant periodic rate of interest on the outstanding liability.

Rentals payable under operating leases are charged to the income statement over the term of the lease.

Investments

Investments in subsidiary undertakings are held at cost less provision for any impairment in value.

Inventories

Inventory and work in progress is valued at the lower of cost, including appropriate overheads, and net realisable value. Provisions are made against excess and obsolete inventories.

Long-term contracts

The attributable profit recognised on long-term contracts is based on the stage of completion and the overall contract profitability after taking account of uncertainties. Full provision is made for any estimated losses to completion of contracts.

When progress payments received exceed recorded revenues, the excess is included in other payables. The amount by which recorded revenues are in excess of payments on account is included in other receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term fixed deposits, and for the statement of cash flows they also include bank overdrafts.

Share capital

When share capital is repurchased, the amount of consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares are classified as treasury shares and presented as a deduction from total equity.

Preference share capital is classified as a liability as dividend payments are not discretionary.

Dividends on the preference shares are disclosed as interest charges, are recognised as a liability and are accounted for on an accruals basis. Other dividends are recognised as a liability only in the period in which they are declared.

Accounting policies continued

Financial instruments

IAS 39 Financial Instruments – Recognition and measurement, requires the classification of financial instruments into different types for which the accounting requirement is different. The Group has classified its financial instruments as follows:

- Short-term fixed deposits, principally comprising funds held with banks and other financial institutions, are classified as loans and receivables;
- Borrowings are classified as other liabilities; and
- Derivatives, comprising forward foreign exchange contracts, are classified as held for trading instruments.

Financial instruments are initially measured at fair value. Their subsequent measurement depends on their classification:

- Loans and receivables and other liabilities are held at amortised cost; and
- Held for trading instruments are held at fair value. Changes in fair value are included in the income statement unless the instrument is included in a cash flow hedge.

Hedge accounting

The Group applies fair value and cash flow hedge accounting to forward foreign exchange contracts, held to reduce the exposure to movements in the future value of foreign currency receipts and payments.

For those contracts included in an effective fair value hedging relationship, changes in the fair value of the hedging instrument and hedged item are taken to the income statement. For those contracts included in an effective cash flow hedging relationship, changes in the fair value of the hedging instrument are taken to equity. When the hedged forecast transaction occurs, amounts previously recorded in equity are recognised in the income statement. Any ineffectiveness in the hedging arrangement is included in the income statement.

Post-retirement and other employee benefits

The Group accounts for pensions and post-retirement benefits under IAS 19 (revised) Employee benefits.

For defined benefit plans, the Group's net obligation is calculated separately for each scheme by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods. The benefit is discounted to determine its present value, and the fair value of the schemes' assets (at bid price) is deducted. The liability discount rate is the yield at the balance sheet date on AA credit rated bonds that have maturity rates approximating to the terms of the Group's obligations. The calculations are performed by qualified actuaries using the projected unit credit method. The operating and financing costs of such plans are recognised in the income statement. Current service costs are spread systematically over the lives of employees and financing costs are recognised in the periods in which they arise. Actuarial gains and losses are recognised in the period in which they arise in the statement of recognised income and expense.

Payments to defined contribution schemes are charged to the income statement as they fall due.

The Group's net obligation in respect to long-term service benefits, other than pension plans, is the amount of the future benefit that employees have earned in return for their service in the current and prior periods. Obligations are measured at their present value.

Share-based payments

The fair value of employee share plans is calculated using an option-pricing model and the resulting cost is charged to the income statement over the vesting period of the plans. For any plans with non-market based performance criteria, the value of the non-market based charge is adjusted to reflect expected and actual levels of options vesting.

Provisions

A provision is recognised when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. They comprise:

- Warranty and after-sales service – these are recognised when products or services are sold, and are based on historical data and a weighting of all possible outcomes against their associated probabilities; and
- Reorganisation – a provision for a reorganisation is recognised when the Group has approved a detailed and formal restructuring plan, and the reorganisation has either commenced or has been announced publicly.

Revenue

Revenue comprises sales to third party customers after discounts, excluding value added tax and other sales taxes.

Sales are recognised when the significant risks and rewards of ownership of goods are transferred to the customer. Where the impact of discounting to present value is significant, revenues are recognised at present value.

Long-term contract revenues are recognised when the outcome of the transaction can be assessed reliably. Revenue is recognised by reference to the stage of completion and which is dependent on the nature of the contract, but will generally be based on costs incurred up to the reporting date or achievement of contractual milestones where appropriate.

Interest

Interest receivable and payable is recognised in the income statement using the effective interest method as defined in IAS 39.

Taxation

Provision for taxation is made at the current rate and for deferred taxation at the tax rate expected to apply on temporary differences between the treatment of certain items for taxation and for accounting purposes, based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing different products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

IFRS transitional arrangements

When preparing the Group's IFRS balance sheet at 1 January 2004, the date of transition to IFRS, the following optional exemptions provided by IFRS 1 First-time adoption of International Financial Reporting Standards, from full retrospective application of IFRS accounting policies, have been adopted:

- Business combinations – the provisions of IFRS 3 have been applied from 1 January 2004. The net carrying value of goodwill at 31 December 2003 under the previous accounting policies has been deemed to be its cost at 1 January 2004;
- Share-based payments – the provisions of IFRS 2 Share-based payments, have not been applied to equity instruments that were granted on or before 7 November 2002;
- Property, plant and equipment – where assets have previously been revalued, the revalued amount at 1 January 2004 has been deemed to be the cost at 1 January 2004, except for certain other properties where their open market value at 1 January 2004 has been used as their deemed cost; and
- Cumulative translation differences arising on consolidation of subsidiaries – IAS 21 The effects of changes on foreign exchange rates, requires such differences to be held in a separate reserve, rather than included in retained earnings under UK GAAP. This was deemed to be £nil on 1 January 2004.

Notes to the accounts

1. Segmental analysis

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure.

Segment results and net assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly financing costs and net debt, pension credit and liabilities and taxation charges and balances.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one period.

All activities were in respect of continuing operations.

Business segments

	Tobacco Machinery		Packaging Machinery		Scientific Services		Total	
	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m
Revenue	59.8	61.8	43.7	45.8	17.9	15.3	121.4	122.9
Underlying segment operating profit/(loss) before net pension credit, reorganisation costs and goodwill impairment	1.8	(1.9)	1.3	2.4	2.6	1.8	5.7	2.3
Goodwill impairment	(6.7)	–	–	–	–	–	(6.7)	–
Reorganisation costs (before profit/(loss) on closure of associate)	(2.2)	(11.3)	–	–	–	–	(2.2)	(11.3)
Segment operating profit/(loss) before net pension credit	(7.1)	(13.2)	1.3	2.4	2.6	1.8	(3.2)	(9.0)
Net pension credit (excluding curtailment costs)							0.5	–
Operating loss							(2.7)	(9.0)
Profit/(loss) on closure of associate							0.5	(1.6)
Net financing costs							(1.1)	(1.2)
Taxation							(0.7)	0.8
Loss for the period							(4.0)	(11.0)
Segment net assets	36.2	44.9	11.2	10.2	15.5	15.2	62.9	70.3
Unallocated net liabilities							(33.0)	(41.1)
Total net assets							29.9	29.2
Capital expenditure (including development expenditure)	0.7	2.9	0.9	1.1	1.3	1.0	2.9	5.0
Depreciation	1.5	1.7	0.6	0.6	0.6	0.6	2.7	2.9
Amortisation	0.2	0.3	0.3	0.2	0.4	0.3	0.9	0.8

Geographical segments

	Revenue (by destination of goods)				Segment net assets (by location of assets)		Capital expenditure (including development expenditure)	
	2005 £m	2005 %	2004 £m	2004 %	2005 £m	2004 £m	2005 £m	2004 £m
United Kingdom	13.9	11	18.5	15	43.9	45.4	1.8	1.5
Continental Europe	22.4	18	21.8	18	6.3	12.0	0.5	2.2
North America	31.0	26	34.1	28	10.9	11.6	0.5	1.2
Asia	26.6	22	27.9	23	0.5	0.8	–	–
Africa	18.4	15	13.4	11	–	–	–	–
Rest of the world	9.1	8	7.2	5	1.3	0.5	0.1	0.1
	121.4	100	122.9	100	62.9	70.3	2.9	5.0

2. Other operating income

	2005 £m	2004 £m
Property rental income	0.2	0.1
Profit on sale of plant and equipment	0.1	–
	0.3	0.1

3. Other operating expenses

	2005 £m	2004 £m
Research and development costs (expensed as incurred)	1.2	1.6
Goodwill impairment	6.7	–
Curtailment costs on pension schemes (included in reorganisation costs)	0.4	1.4
Curtailment costs on other employee entitlements (included in reorganisation costs)	0.1	–
	8.4	3.0

4. Operating profit/(loss)

	2005 £m	2004 £m
Operating profit/(loss) is arrived at after charging:		
Amortisation of capitalised development costs	0.9	0.8
Depreciation of owned assets	2.7	2.9
Operating leases:		
– land and buildings	1.4	1.7
– other	0.7	0.8
Remuneration of the auditor and its associates:		
– audit services (the Company £0.1m; 2004: £0.1m)	0.3	0.3
– non-audit services (the Company £0.1m; 2004: £0.1m)	0.1	0.1
Equity-settled share-based transactions (LTIP)	0.3	0.2

5. Reorganisation costs

The reorganisation costs of £2.2m (2004: £11.3m) (before profit/(loss) on closure of associate) relate to the restructuring of the Tobacco Machinery division and comprise costs of £1.5m (2004: £6.8m) relating to redundancy costs, including related pension costs, in the UK and Brazil, other reorganisation costs of £0.3m, an additional £0.4m (2004: £1.7m) relating to inventory provisions, and in 2004, £2.8m relating to the suspension of the development of the Sasib Fenix packing machine.

The profit/(loss) on closure of associate relates to the net write off of the investment in the Kunming Molins company in China in 2004 and receipt of loan/capital repayments in 2004 and 2005, following its closure and subsequent liquidation.

6. Employee information

	Period end		Average	
	2005	2004	2005	2004
The number of persons employed by the Group were:				
Tobacco Machinery – MTM	568	704	627	804
– Sasib	151	197	166	215
Packaging Machinery	398	388	396	385
Scientific Services	135	124	132	131
	1,252	1,413	1,321	1,535

The number of persons employed by the Company at 31 December 2005 was 513 (2004: 605) and the average number employed in 2005 was 543 (2004: 682).

		Group		Company	
	Note	2005 £m	2004 £m	2005 £m	2004 £m
Employment costs/(credits) were:					
Wages and salaries		32.0	36.0	16.7	20.0
Social security costs		4.6	5.4	1.4	1.7
Employee benefits – defined benefit schemes	23	(0.5)	–	(0.6)	(0.1)
– defined contribution schemes		0.2	0.2	–	–
– other employee entitlements	23	0.3	0.4	–	–
		36.6	42.0	17.5	21.6

In addition to the above employment costs there were curtailment costs on the pension scheme for the Group and Company of £0.4m (2004: £1.4m), and on other employee entitlements for the Group of £0.1m (2004: £nil) (see notes 3 and 23).

Notes to the accounts continued

7. Emoluments of directors and interests in shares

Information on the emoluments of the directors, together with information regarding the beneficial interests of the directors and persons connected with them in the ordinary shares of the Company, is included in the Remuneration report on pages 16 to 20.

8. Net financing costs

	2005 £m	2004 £m
Financial income:		
Cash at bank	0.4	0.3
	0.4	0.3
Financial expenses:		
Amounts payable on bank loans and overdrafts	(1.4)	(1.4)
Preference dividend paid	(0.1)	(0.1)
	(1.5)	(1.5)
Net financing costs	(1.1)	(1.2)

9. Taxation

	2005 £m	2004 £m
Current tax (expense)/credit:		
Current year	(1.1)	0.2
Adjustments for prior years	0.2	0.7
Less double tax relief	–	0.2
	(0.9)	1.1
Deferred tax credit/(expense):		
Origination and reversal of temporary differences	0.2	(0.3)
	0.2	(0.3)
Total taxation	(0.7)	0.8

Included within the total taxation charge in 2005 is £0.5m (2004: £1.5m) of tax credits attributable to the reorganisation costs set out in note 5.

Reconciliation of effective tax rate

	2005		2004	
	%	£m	%	£m
Loss before tax		3.3		11.8
Income tax using the domestic corporation tax rate	30.0	1.0	30.0	3.5
Increase in rate resulting from non-deductible expenses	(54.2)	(1.8)	(11.9)	(1.4)
Effect of brought forward losses utilised	3.0	0.1	0.8	0.1
Foreign tax charged at higher and lower rates than UK statutory rate	(6.1)	(0.2)	(18.0)	(2.1)
Prior year adjustments	6.1	0.2	5.9	0.7
	(21.2)	(0.7)	6.8	0.8

Deferred tax charge recognised directly in equity

	2005 £m	2004 £m
Actuarial gains	(1.0)	(1.0)
Foreign currency investments	(0.2)	–

10. Current tax assets and liabilities

The current tax asset of £0.2m (2004: £1.9m) and the current tax liability of £0.9m (2004: £0.9m) represent the amount of income taxes recoverable and payable in respect of current and prior periods.

11. Earnings per share

Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per ordinary share is based upon the loss for the period of £4.0m (2004: £11.0m) and the weighted average number of ordinary shares in issue during the year ended 31 December 2005 of 18,429,551 (2004: 18,023,181). The weighted average number of shares excludes shares held by the LTIP trust.

11. Earnings per share continued

Diluted earnings/(loss) per share

The calculation of diluted earnings/(loss) per ordinary share is based upon loss for the period of £4.0m (2004: £11.0m) and the weighted average number of ordinary shares in issue during the year ended 31 December 2005 of 19,841,232 (2004: 19,212,153), calculated as follows:

Weighted average number of ordinary shares (diluted)

	2005 £m	2004 £m
Weighted average number of ordinary shares at 31 December	18,429,551	18,023,181
Effect of share options	2,260	52,952
Effect of own shares (LTIP)	1,409,421	1,136,020
Weighted average number of ordinary shares (diluted) at 31 December	19,841,232	19,212,153

Underlying earnings per share

Underlying earnings per ordinary share, which is calculated before net pension credit, reorganisation costs and goodwill impairment, was 19.1p for the year ended 31 December 2005 (2004: 1.9p). The calculation of underlying earnings per ordinary share is based upon an underlying profit for the period of £3.5m (2004: £0.4m) and is calculated as follows:

	2005 £m	2004 £m
Basic loss for the period	(4.0)	(11.0)
Net pension credit (net of tax)	(0.4)	–
Reorganisation costs	1.2	11.4
Goodwill impairment	6.7	–
Underlying earnings for the period	3.5	0.4

12. Intangible assets

	Group			Company		
	Goodwill £m	Development costs £m	Total £m	Goodwill £m	Development costs £m	Total £m
Cost:						
Balance at 1 January 2004	16.5	4.2	20.7	7.2	3.7	10.9
Adjustments to provisional fair values	1.7	–	1.7	–	–	–
Additions	–	1.2	1.2	–	1.1	1.1
Retranslation	(0.1)	–	(0.1)	–	–	–
Balance at 31 December 2004	18.1	5.4	23.5	7.2	4.8	12.0
Balance at 1 January 2005	18.1	5.4	23.5	7.2	4.8	12.0
Additions	–	1.5	1.5	–	1.3	1.3
Retranslation	0.1	–	0.1	–	–	–
Balance at 31 December 2005	18.2	6.9	25.1	7.2	6.1	13.3
Amortisation and impairment losses:						
Balance at 1 January 2004	1.6	1.5	3.1	1.1	1.3	2.4
Amortisation for the period	–	0.8	0.8	–	0.8	0.8
Balance at 31 December 2004	1.6	2.3	3.9	1.1	2.1	3.2
Balance at 1 January 2005	1.6	2.3	3.9	1.1	2.1	3.2
Amortisation for the period	–	0.9	0.9	–	0.8	0.8
Impairment charge	6.7	–	6.7	–	–	–
Retranslation	–	0.1	0.1	–	–	–
Balance at 31 December 2005	8.3	3.3	11.6	1.1	2.9	4.0
Carrying amounts:						
At 1 January 2004	14.9	2.7	17.6	6.1	2.4	8.5
At 31 December 2004	16.5	3.1	19.6	6.1	2.7	8.8
At 31 December 2005	9.9	3.6	13.5	6.1	3.2	9.3

Notes to the accounts continued

12. Intangible assets continued

Adjustments to provisional fair values

Post acquisition fair value adjustments were made in 2004 in respect of Sasib S.p.A., which was acquired on 29 August 2003. These relate to the write down of the Fenix packing machine included in stocks of £1.4m, the development of which was suspended due to insufficient market opportunities, and additional stock provisions of £0.3m required to realign Sasib's provisioning policy within that of the Molins Group. Consequently goodwill increased by £1.7m.

Amortisation charge

The amortisation charge is included in cost of sales in the income statement.

Impairment charge

The impairment charge of £6.7m for the period relates to the impairment in full of the carrying value of purchased goodwill of Sasib S.p.A. It was made following a review of Sasib's order prospects at December 2005 and its continued difficulties in achieving profitability. The impairment charge is included in other operating expenses in the income statement (note 3).

Impairment reviews are undertaken of goodwill and are based on assessments of budgeted cash flow projections of the businesses to which the goodwill relates, discounted using a Group determined weighted average cost of capital of 10%.

Goodwill

The carrying amount of goodwill at 31 December 2005 relates to the acquisitions of the Cerulean and Arista Laboratories businesses.

13. Property, plant and equipment

	Group				Company			
	Land and buildings £m	Plant and machinery £m	Fixtures, fittings and vehicles £m	Total £m	Land and buildings £m	Plant and machinery £m	Fixtures, fittings and vehicles £m	Total £m
Cost:								
Balance at 1 January 2004	21.0	21.5	16.3	58.8	17.2	11.8	11.3	40.3
Additions	0.7	2.4	0.7	3.8	0.3	0.1	–	0.4
Disposals	(0.1)	(3.0)	(0.8)	(3.9)	(0.1)	(1.9)	(0.7)	(2.7)
Retranslation	–	0.1	(0.1)	–	–	–	–	–
Balance at 31 December 2004	21.6	21.0	16.1	58.7	17.4	10.0	10.6	38.0
Balance at 1 January 2005	21.6	21.0	16.1	58.7	17.4	10.0	10.6	38.0
Additions	0.2	0.4	0.8	1.4	–	0.1	0.4	0.5
Disposals	–	(3.1)	(0.5)	(3.6)	–	(2.8)	(0.1)	(2.9)
Retranslation	0.3	0.8	0.6	1.7	–	–	–	–
Balance at 31 December 2005	22.1	19.1	17.0	58.2	17.4	7.3	10.9	35.6
Depreciation:								
Balance at 1 January 2004	0.8	16.7	12.0	29.5	0.6	10.0	8.1	18.7
Depreciation charge for the period	0.6	1.3	1.0	2.9	0.5	0.5	0.5	1.5
Disposals	(0.1)	(2.4)	(0.8)	(3.3)	(0.1)	(1.9)	(0.7)	(2.7)
Retranslation	–	–	(0.1)	(0.1)	–	–	–	–
Balance at 31 December 2004	1.3	15.6	12.1	29.0	1.0	8.6	7.9	17.5
Balance at 1 January 2005	1.3	15.6	12.1	29.0	1.0	8.6	7.9	17.5
Depreciation charge for the period	0.5	1.3	0.9	2.7	0.4	0.5	0.4	1.3
Disposals	–	(3.0)	(0.3)	(3.3)	–	(2.7)	(0.1)	(2.8)
Retranslation	0.1	0.7	0.3	1.1	–	–	–	–
Balance at 31 December 2005	1.9	14.6	13.0	29.5	1.4	6.4	8.2	16.0
Carrying amounts:								
At 1 January 2004	20.2	4.8	4.3	29.3	16.6	1.8	3.2	21.6
At 31 December 2004	20.3	5.4	4.0	29.7	16.4	1.4	2.7	20.5
At 31 December 2005	20.2	4.5	4.0	28.7	16.0	0.9	2.7	19.6

The carrying value of property, plant and equipment includes £nil (2004: £0.1m) in respect of assets held under finance leases.

At 31 December 2005, properties with a carrying value of £15.9m (2004: £16.0m) were used as security for bank loans.

14. Investments

	Investment in associate			
	Cost of shares £m	Provisions £m	Loans £m	Total £m
Group				
Balance at 1 January 2004	2.1	(0.8)	0.5	1.8
Repayments	–	–	(0.4)	(0.4)
Closure of associate	(2.1)	0.8	(0.1)	(1.4)
Balance at 31 December 2004	–	–	–	–

The non-operating reorganisation cost arose on the closure and subsequent liquidation of the Kunming Molins company (see note 5).

	Investments in subsidiaries		Investment in associate			
	Cost of shares £m	Loans £m	Cost of shares £m	Provisions £m	Loans £m	Total £m
Company						
Balance at 1 January 2004	16.0	38.5	2.1	(0.8)	0.5	56.3
Additions	–	12.8	–	–	–	12.8
Repayments	–	(18.5)	–	–	(0.4)	(18.9)
Closure of associate	–	–	(2.1)	0.8	(0.1)	(1.4)
Retranslation	–	0.2	–	–	–	0.2
Balance at 31 December 2004	16.0	33.0	–	–	–	49.0
Balance at 1 January 2005	16.0	33.0	–	–	–	49.0
Additions	–	2.2	–	–	–	2.2
Repayments	–	(1.9)	–	–	–	(1.9)
Retranslation	–	(0.4)	–	–	–	(0.4)
Balance at 31 December 2005	16.0	32.9	–	–	–	48.9

The Company's principal subsidiaries and divisions are listed on pages 58 to 59.

Notes to the accounts continued

15. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
Group	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m
Intangible assets	–	–	(1.0)	(0.9)	(1.0)	(0.9)
Property, plant and equipment	0.3	0.2	(3.5)	(3.5)	(3.2)	(3.3)
Employee benefits	4.4	5.9	–	(0.5)	4.4	5.4
Inventories	0.4	0.5	–	–	0.4	0.5
Provisions	0.7	0.4	–	–	0.7	0.4
Foreign currency investments	–	–	(0.2)	–	(0.2)	–
Own shares (LTIP)	0.2	0.1	–	–	0.2	0.1
Deferred tax assets/(liabilities)	6.0	7.1	(4.7)	(4.9)	1.3	2.2
Offset of tax	(0.6)	(0.3)	0.6	0.3	–	–
Net tax assets/(liabilities)	5.4	6.8	(4.1)	(4.6)	1.3	2.2

	Assets		Liabilities		Net	
Company	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m
Intangible assets	–	–	(1.0)	(0.8)	(1.0)	(0.8)
Property, plant and equipment	–	–	(3.3)	(3.5)	(3.3)	(3.5)
Employee benefits	4.3	5.9	–	–	4.3	5.9
Provisions	0.2	0.2	–	–	0.2	0.2
Own shares (LTIP)	0.2	0.1	–	–	0.2	0.1
Deferred tax assets/(liabilities)	4.7	6.2	(4.3)	(4.3)	0.4	1.9
Offset of tax	(0.4)	(0.3)	0.4	0.3	–	–
Net tax assets/(liabilities)	4.3	5.9	(3.9)	(4.0)	0.4	1.9

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries and associates. As the earnings are continually reinvested by the Group, no tax is expected to be payable on them in the foreseeable future.

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of certain subsidiary tax losses. These assets are only recognised to the extent that their recovery is reasonably certain. At the year end the Group had £10.0m of unprovided deferred tax assets (2004: £8.8m) relating to tax losses which would become recoverable if the relevant companies were to make sufficient profits in the future. Under current tax legislation these tax losses expire as follows:

	Tax losses	
Year of expiry	2005 £m	2004 £m
2006	0.4	0.3
2007	3.8	3.3
2008	2.1	2.1
2009	1.5	1.5
2010	0.1	0.1
2012	0.2	–
No expiry date	1.9	1.5
	10.0	8.8

15. Deferred tax assets and liabilities continued

Movement in temporary differences during the year

Group	Balance at 1 January 2005 £m	Recognised in income £m	Recognised in equity £m	Retranslation £m	Balance at 31 December 2005 £m
Intangible assets	(0.9)	(0.1)	–	–	(1.0)
Property, plant and equipment	(3.3)	0.1	–	–	(3.2)
Employee benefits	5.4	–	(1.0)	–	4.4
Inventories	0.5	(0.1)	–	–	0.4
Provisions	0.4	0.2	–	0.1	0.7
Foreign currency investments	–	–	(0.2)	–	(0.2)
Own shares (LTIP)	0.1	0.1	–	–	0.2
	2.2	0.2	(1.2)	0.1	1.3

	Balance at 1 January 2004 £m	Recognised in income £m	Recognised in equity £m	Retranslation £m	Balance at 31 December 2004 £m
Intangible assets	(0.8)	(0.1)	–	–	(0.9)
Property, plant and equipment	(3.2)	(0.1)	–	–	(3.3)
Employee benefits	5.8	0.4	(1.0)	0.2	5.4
Inventories	0.6	(0.1)	–	–	0.5
Provisions	0.8	(0.4)	–	–	0.4
Own shares (LTIP)	0.1	–	–	–	0.1
	3.3	(0.3)	(1.0)	0.2	2.2

Company	Balance at 1 January 2005 £m	Recognised in income £m	Recognised in equity £m	Balance at 31 December 2005 £m
Intangible assets	(0.8)	(0.2)	–	(1.0)
Property, plant and equipment	(3.5)	0.2	–	(3.3)
Employee benefits	5.9	–	(1.6)	4.3
Provisions	0.2	–	–	0.2
Own shares (LTIP)	0.1	0.1	–	0.2
	1.9	0.1	(1.6)	0.4

	Balance at 1 January 2004 £m	Recognised in income £m	Recognised in equity £m	Balance at 31 December 2004 £m
Intangible assets	(0.7)	(0.1)	–	(0.8)
Property, plant and equipment	(3.5)	–	–	(3.5)
Employee benefits	7.0	0.4	(1.5)	5.9
Provisions	0.3	(0.1)	–	0.2
Own shares (LTIP)	0.1	–	–	0.1
	3.2	0.2	(1.5)	1.9

16. Inventories

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Raw materials and consumables	4.3	4.7	2.8	3.3
Work in progress	8.5	11.6	3.7	4.2
Finished goods	14.4	18.9	6.6	8.8
	27.2	35.2	13.1	16.3

Notes to the accounts continued

17. Trade and other receivables

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Non-current assets:				
Trade receivables	0.7	0.2	–	–
Other receivables	0.5	0.8	0.5	0.5
	1.2	1.0	0.5	0.5
Current assets:				
Trade receivables	18.4	20.7	6.7	8.5
Amounts owed by Group undertakings	–	–	8.4	9.3
Other receivables	1.6	1.5	1.2	1.1
Prepayments and accrued income	2.6	3.3	1.2	0.7
	22.6	25.5	17.5	19.6

18. Cash and cash equivalents

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Cash and cash equivalents	2.8	5.1	0.1	1.1
Bank overdrafts	(1.9)	(0.9)	(0.9)	–
Cash and cash equivalents in the statement of cash flows	0.9	4.2	(0.8)	1.1

19. Interest-bearing loans and borrowings

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Current liabilities:				
Current portion of bank borrowings	2.4	0.7	2.0	–
Current portion of finance lease liabilities	–	0.1	–	–
	2.4	0.8	2.0	–
Non-current liabilities:				
Bank borrowings	16.4	28.2	15.1	24.1
Fixed cumulative preference shares	0.9	0.9	0.9	0.9
Mortgage (secured on property)	0.2	0.3	–	–
	17.5	29.4	16.0	25.0
Non-current liabilities:				
Repayable between one and two years	3.7	0.4	3.0	–
Between two and five years	12.8	27.9	12.1	24.1
More than five years	1.0	1.1	0.9	0.9
	17.5	29.4	16.0	25.0

Preference shares

The preference shares carry a fixed cumulative preferential dividend at the rate of 6% per annum and on a winding up entitle the holders to repayment of the capital paid up thereon (together with a sum equal to any arrears or deficiency of the fixed dividend calculated to the date of the return of capital and to be payable irrespective of whether such dividend has been declared or earned or not) in priority to any payment to the holders of the ordinary shares. The preference shares do not entitle the holders to any further participation in the profits or assets of the Company.

The preference shareholders are not entitled to receive notice of or to attend or vote at any general meeting unless either:

a at the date of the notice convening the meeting, the dividend on the preference shares is six months in arrears (for this purpose the dividend on the preference shares is deemed to be payable half yearly on 30 June and 31 December; or

b the business of the meeting includes the consideration of a resolution for the winding up of the Company, or for reducing its share capital or for sanctioning a sale of the undertaking, or any resolution directly and adversely affecting any of the special rights or privileges attached to the preference shares.

20. Reconciliation of net cash flow to movement in net debt

	Group		Company	
Year ended 31 December	2005 £m	2004 £m	2005 £m	2004 £m
(Decrease)/increase in cash and cash equivalents	(3.4)	(0.7)	(1.9)	1.9
Cash inflow/(outflow) from movement in borrowings and finance leases	10.2	(2.9)	6.7	(5.2)
Change in net debt resulting from cash flows	6.8	(3.6)	4.8	(3.3)
Translation movements	0.2	–	0.3	(0.2)
Movement in net debt in the period	7.0	(3.6)	5.1	(3.5)
Opening net debt	(26.0)	(22.4)	(23.9)	(20.4)
Closing net debt	(19.0)	(26.0)	(18.8)	(23.9)
Analysis of net debt				
Cash and cash equivalents – current assets	2.8	5.1	0.1	1.1
Bank overdrafts – current liabilities	(1.9)	(0.9)	(0.9)	–
Interest-bearing loans and borrowings – current liabilities	(2.4)	(0.8)	(2.0)	–
Interest-bearing loans and borrowings – non-current liabilities	(17.5)	(29.4)	(16.0)	(25.0)
Closing net debt	(19.0)	(26.0)	(18.8)	(23.9)

21. Trade and other payables

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Current liabilities:				
Deposits received on account	6.2	7.1	3.7	2.2
Trade payables	7.4	12.3	4.2	6.5
Amounts owed to Group undertakings	–	–	11.7	13.3
Other taxes and social security	1.3	1.7	0.5	0.6
Other payables	5.0	6.4	3.0	3.4
Accruals and deferred income	5.7	4.9	3.0	3.1
	25.6	32.4	26.1	29.1
Non-current liabilities:				
Other payables	0.1	–	0.1	–
Accruals and deferred income	0.1	–	0.1	–
	0.2	–	0.2	–

22. Provisions

Group	Warranty and after-sales service provisions £m	Reorganisation provisions £m	Total £m
At 1 January 2005	2.2	3.2	5.4
Provisions created in the year	1.1	1.4	2.5
Utilised during the year	(1.5)	(4.1)	(5.6)
Retranslation	–	(0.1)	(0.1)
At 31 December 2005	1.8	0.4	2.2

All balances are current.

Notes to the accounts continued

22. Provisions continued

Company	Warranty and after-sales service provisions £m	Reorganisation provisions £m	Total £m
At 1 January 2005	1.7	1.9	3.6
Provisions created in the year	0.9	1.4	2.3
Utilised during the year	(1.2)	(3.0)	(4.2)
At 31 December 2005	1.4	0.3	1.7

All balances are current.

23. Employee benefits

The Group operates defined benefit pension schemes in the UK and USA. The schemes are funded by contributions partly from employees and partly from Group companies as necessary, at rates determined by independent actuaries. In addition there are certain employee entitlements (TFR) provided at Sasib S.p.A. in Italy.

Pensions

UK pension scheme

The Group operated one pension scheme in the UK through the year, the trustee of which is independent. It is a defined benefit scheme, the assets of which are held separately from those of the Company and it is funded by means of contributions paid by members and the Company as necessary in order to ensure that the fund can meet the expected benefit obligations. The funding policy is to ensure that the assets held by the fund in the future are adequate to meet expected liabilities allowing for future increases in pay and pensions. None of the assets of the fund are invested in the Company except for an interest in the cumulative preference shares of the Company with an estimated current market value of £0.2m.

The most recent formal funding valuation was carried out as at 30 June 2003 by independent actuaries using the projected unit method. The market value of the scheme assets at that date was £274m and the funding level was 103%. Following discussions between the Company and the trustee, it was agreed that the Company would not make employer's contributions until the next triennial valuation in 2006. The estimated contributions by the Company to the UK pension fund in the year to 31 December 2006, which are expected to commence from 1 July 2006, are £1.0m, subject to the results of the actuarial valuation as at 30 June 2006, the results of which are expected to be known towards the end of the year.

The Company accounts for pension costs under IAS 19 (revised) Employee benefits and the valuation used has been based on the most recent actuarial valuation at 30 June 2003, updated by the Company's actuary to assess the value of the liabilities of the scheme at 31 December 2005. Scheme assets are stated at their market value at 31 December 2005.

US pension scheme

In the USA, the Group has one scheme offering defined benefits to members. During 2004 Sasib Corporation of America's pension scheme was merged with the Molins USA scheme. A formal independent actuarial valuation of the US pension scheme was carried out as at 1 January 2006 using the projected unit method.

23. Employee benefits continued

Assumptions

The financial assumptions used to calculate scheme liabilities at 31 December are as follows:

	UK (Company)		US	
	2005 £m	2004 £m	2005 £m	2004 £m
Discount rate	4.75%	5.30%	5.50%	5.80%
Inflation rate	2.80%	2.80%	3.00%	3.00%
Increases to pensions in payment and deferred pensioners	2.80%	2.80%	n/a	n/a
Salary increases	4.30%	4.30%	5.00%	3.80%
Expected return on plan assets	6.30%	6.90%	5.25%	5.25%

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables, and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65-year old to live for a number of years as follows:

- Current pensioner aged 65: male – 18 years, female – 21 years;
- Future retirees upon reaching age 65: male – 20 years, female – 23 years.

The expected return on assets has been derived as the weighted average of the expected returns from each of the main asset classes. The expected return for each asset class reflects a combination of historical performance analysis, the forward looking views of the financial markets (as suggested by the yields available) and the views of investment organisations.

A discount rate of 4.75% has been used in evaluating the value of the liabilities of the UK pension fund at 31 December 2005. A 0.1% change to this rate would have changed the value of the pension fund liabilities at that date by £5m before deferred tax.

In valuing the liabilities of the UK pension fund at 31 December 2005, mortality assumptions have been assumed as indicated above. If life expectancy had been changed to assume that all members of the fund live for one year longer an average, the value of the reported liabilities at 31 December 2005 would have increased by £13m before deferred tax.

Categories of assets and funded status

The assets in the schemes and their expected rates of return, together with their funded status, were as follows:

	UK (Company)			US			Group	
	Expected rate of return 2005	Value 2005 £m	Value 2004 £m	Expected rate of return 2005	Value 2005 £m	Value 2004 £m	Value 2005 £m	Value 2004 £m
Equities	7.7%	169.3	167.9	8.5%	3.3	2.8	172.6	170.7
Bonds	4.4%	119.5	97.0	6.0%	4.6	7.1	124.1	104.1
Properties	6.2%	39.8	33.5	–	–	–	39.8	33.5
Other	3.8%	6.0	2.0	3.2%	6.7	3.5	12.7	5.5
Total fair (bid) value of assets	6.3%	334.6	300.4	5.3%	14.6	13.4	349.2	313.8
Present value of defined benefit obligations		(348.9)	(320.1)		(14.9)	(12.0)	(363.8)	(332.1)
Defined benefit (liability)/asset		(14.3)	(19.7)		(0.3)	1.4	(14.6)	(18.3)

Notes to the accounts continued

23. Employee benefits continued

Disclosed pension expense for financial year

a Components of pension expense

Pension (credit)/cost recognised in the income statement

	UK (Company)		US		Group	
	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m
Current service costs	2.9	3.4	0.2	0.2	3.1	3.6
Interest on obligations	16.5	16.3	0.7	0.6	17.2	16.9
Expected return on assets	(20.0)	(19.8)	(0.8)	(0.7)	(20.8)	(20.5)
Net pension (credit)/cost before curtailment costs	(0.6)	(0.1)	0.1	0.1	(0.5)	–
Curtailment costs	0.4	1.4	–	–	0.4	1.4
Net pensions (credit)/cost	(0.2)	1.3	0.1	0.1	(0.1)	1.4

b Statement of recognised income and expense (SORIE)

The actuarial gain recognised in the statement of recognised income and expense (SORIE) in respect to pensions was £3.5m (2004: £3.6m), comprising an actuarial gain of £5.2m (2004: £4.8m) for the UK pension fund and an actuarial loss of £1.7m (2004: £1.2m) for the US scheme, all figures being before deferred tax.

The cumulative amount of actuarial gains before deferred tax recognised in the SORIE in respect to pensions was £7.1m (2004: £3.6m).

Reconciliation of present value of defined benefit obligations

	UK (Company)		US		Group	
	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m
Present value of defined benefit obligations at 1 January	320.1	310.6	12.0	9.8	332.1	320.4
Service cost	2.9	3.4	0.2	0.2	3.1	3.6
Interest cost	16.5	16.3	0.7	0.6	17.2	16.9
Employee contributions	0.6	0.7	–	–	0.6	0.7
Actuarial loss	25.8	4.8	1.3	0.8	27.1	5.6
Benefit payments	(17.4)	(17.1)	(0.8)	(0.7)	(18.2)	(17.8)
Curtailment costs	0.4	1.4	–	–	0.4	1.4
Merger of Sasib Corporation of America scheme	–	–	–	2.0	–	2.0
Retranslation	–	–	1.5	(0.7)	1.5	(0.7)
Present value of defined benefit obligations at 31 December	348.9	320.1	14.9	12.0	363.8	332.1

Reconciliation of the fair value of fund assets

	UK (Company)		US		Group	
	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m
Fair value of fund assets at 1 January	300.4	287.4	13.4	12.6	313.8	300.0
Expected return on fund assets	20.0	19.8	0.8	0.7	20.8	20.5
Actuarial gain/(loss)	31.0	9.6	(0.4)	(0.4)	30.6	9.2
Employee contributions	0.6	0.7	–	–	0.6	0.7
Benefit payments	(17.4)	(17.1)	(0.8)	(0.7)	(18.2)	(17.8)
Merger of Sasib Corporation of America scheme	–	–	–	2.0	–	2.0
Retranslation	–	–	1.6	(0.8)	1.6	(0.8)
Fair value of fund assets at 31 December	334.6	300.4	14.6	13.4	349.2	313.8

23. Employee benefits continued

Experience gains and losses for the year

	UK (Company)		US		Group	
	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m
Fair value of fund assets	334.6	300.4	14.6	13.4	349.2	313.8
Defined benefit obligations	(348.9)	(320.1)	(14.9)	(12.0)	(363.8)	(332.1)
(Deficit)/surplus	(14.3)	(19.7)	(0.3)	1.4	(14.6)	(18.3)
Experience loss on defined benefit obligations	(25.8)	(4.8)	(1.3)	(0.8)	(27.1)	(5.6)
Experience gain/(loss) on fund assets	31.0	9.6	(0.4)	(0.4)	30.6	9.2
Total gain/(loss) recognised in the SORIE during the year	5.2	4.8	(1.7)	(1.2)	3.5	3.6

Other employee entitlements

These relate to 'TFR', provided to Group employees working in Italy for Sasib. This is a post employment, termination and long-term service benefit plan, which is governed by the Italian civil code. The plan is funded by the Group company (Sasib) only; there are no plan assets.

A valuation was carried out at 31 December 2005 by an independent actuary using the projected unit method to assess the plan's liabilities. The financial assumptions used to calculate the liabilities at this date were a discount rate of 4.3%, inflation of 2% and expected salary increase of 2.5%. The charge to the income statement in the year was £0.4m (2004: £0.4m) and included £0.1m in respect of related curtailment costs (2004: £nil). The net liability of the scheme at December 2005 was £2.3m (2004: £2.9m).

Movements in the net liability/(asset) of employee benefits recognised in the balance sheet

	UK (Company)		US		Italy		Group	
	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m
Net liability/(asset) for employee benefits at 1 January	19.7	23.2	(1.4)	(2.8)	2.9	3.1	21.2	23.5
(Income)/expenses recognised in the income statement (see below)	(0.2)	1.3	0.1	0.1	0.4	0.4	0.3	1.8
Contributions paid	–	–	–	–	(1.0)	(0.7)	(1.0)	(0.7)
Actuarial (gains)/losses recognised in the SORIE	(5.2)	(4.8)	1.7	1.2	0.1	0.1	(3.4)	(3.5)
Retranslation	–	–	(0.1)	0.1	(0.1)	–	(0.2)	0.1
Net liability/(asset) for employee benefits at 31 December	14.3	19.7	0.3	(1.4)	2.3	2.9	16.9	21.2
Disclosed as:								
Non-current assets	–	–	–	1.4	–	–	–	1.4
Non-current liabilities	14.3	19.7	0.3	–	2.3	2.9	16.9	22.6

Employee benefit expenses recognised in the income statement

The expense is recognised in the following line items in the income statement:

	UK (Company)		US		Italy		Group	
	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m	2005 £m	2004 £m
Cost of sales	(0.4)	–	0.1	–	0.2	0.2	(0.1)	0.2
Distribution expenses	(0.1)	–	–	–	–	0.1	(0.1)	0.1
Administrative expenses	(0.1)	(0.1)	–	0.1	0.1	–	–	–
Other operating expenses	0.4	1.4	–	–	0.1	0.1	0.5	1.5
Net pensions cost/(credit)	(0.2)	1.3	0.1	0.1	0.4	0.4	0.3	1.8

The curtailment costs in other operating expenses are included in reorganisation costs in the income statement.

Notes to the accounts continued

23. Employee benefits continued

Share-based payments

The Company operates a long-term incentive plan (LTIP). Own shares are held in trust and granted to plan participants when certain conditions are met. The principles in IFRS 2 Share-based payments, have only been applied to LTIPs granted after 7 November 2002. The transitional provisions of IFRS 1 First-time adoption of International Financial Reporting Standards, and IFRS 2 have been applied for any LTIPs granted before 7 November 2002. Further details of the LTIP are on pages 16 to 17 in the Remuneration report and note 24 to the accounts.

Additionally, two other share option arrangements granted before 7 November 2002 exist. The recognition and measurement principles in IFRS 2 have not been applied to these grants in accordance with the transitional provisions in IFRS 1. Further details of these share option arrangements, the savings-related and executive schemes, can be found in note 24 to the accounts.

24. Capital and reserves

	Group					
	Share capital £m	Share premium £m	Translation reserve £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2004	5.0	25.9	–	3.9	5.1	39.9
Total recognised income and expense for the period	–	–	(1.0)	–	(8.5)	(9.5)
Equity-settled share-based transactions (LTIP)	–	–	–	–	0.2	0.2
Dividends to shareholders	–	–	–	–	(1.4)	(1.4)
Balance at 31 December 2004	5.0	25.9	(1.0)	3.9	(4.6)	29.2
Balance at 1 January 2005	5.0	25.9	(1.0)	3.9	(4.6)	29.2
Total recognised income and expense for the period	–	–	1.9	–	(1.6)	0.3
Issue of new shares	–	0.1	–	–	–	0.1
Equity-settled share-based transactions (LTIP)	–	–	–	–	0.3	0.3
Balance at 31 December 2005	5.0	26.0	0.9	3.9	(5.9)	29.9

	Company					
	Share capital £m	Share premium £m	Translation reserve £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2004	5.0	25.9	–	3.9	8.3	43.1
Total recognised income and expense for the period	–	–	–	–	(0.1)	(0.1)
Equity-settled share-based transactions (LTIP)	–	–	–	–	0.2	0.2
Dividends to shareholders	–	–	–	–	(1.4)	(1.4)
Balance at 31 December 2004	5.0	25.9	–	3.9	7.0	41.8
Balance at 1 January 2005	5.0	25.9	–	3.9	7.0	41.8
Total recognised income and expense for the period	–	–	–	–	6.2	6.2
Issue of new shares	–	0.1	–	–	–	0.1
Equity-settled share-based transactions (LTIP)	–	–	–	–	0.3	0.3
Balance at 31 December 2005	5.0	26.0	–	3.9	13.5	48.4

24. Capital and reserves continued

Share capital

	2005 Authorised £m	2004 Authorised £m	2005 Allotted, called up and fully paid £m	2004 Allotted, called up and fully paid £m
Ordinary shares of 25p each	10.1	10.1	5.0	5.0

There were 20,166,540 (2004: 20,089,588) ordinary shares in issue at the year end. The Company also has in issue 6% fixed cumulative preference shares (see note 19); these are classified as borrowings.

Share-based payments

During the year the Company issued 76,952 shares with a nominal value of £19,238 to employees exercising employee share option plans, for total proceeds of £68,487.

Options held over Molins PLC ordinary shares were as follows:	Savings-related schemes	Executive schemes
At 1 January 2005	80,134	98,700
Exercised	(76,952)	–
Lapsed	(3,182)	(49,100)
At 31 December 2005	–	49,600
Option price per share	n/a	112p–895p
Exercise dates	n/a	2005–2009

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations that are not integral to the operations of the Company, as well as from the translation of liabilities that hedge the Company's net investment in a foreign subsidiary.

Investment in own shares

Included within retained earnings is the carrying value of own shares held in trust for the Company's long-term incentive plan (LTIP). Further details of the LTIP can be found on pages 16 to 17 in the Remuneration report.

At the year end the LTIP trust held 1,623,978 (2004: 2,054,342) ordinary shares of 25p each, representing 8.1% of the issued shares at 31 December 2005 (2004: 10.2%) of which 1,402,262 shares were subject to conditional grants (2004: 1,384,476). These shares were purchased at an aggregate of £2.5m (2004: £3.0m) and during the year 430,364 shares vested with plan participants. The market value of the shares held in trust at 31 December 2005 was £2.0m (2004: £2.9m).

25. Financial Instruments

The Group's treasury policies are explained on page 11 in the Financial review. Exposure to interest rate and currency risks arises in the normal course of the Group's business.

Interest rate risk

Cash and cash equivalents

The cash profile at 31 December was:

	2005			2004		
Currency	Cash at floating rates £m	Cash on which no interest received £m	Total £m	Cash at floating rates £m	Cash on which no interest received £m	Total £m
Sterling	0.4	–	0.4	1.4	–	1.4
Euro	1.0	–	1.0	2.4	–	2.4
US dollar	0.4	0.2	0.6	0.1	0.1	0.2
Canadian dollar	0.3	–	0.3	0.8	–	0.8
Other	0.3	0.2	0.5	0.1	0.2	0.3
	2.4	0.4	2.8	4.8	0.3	5.1

Interest rates are based on LIBID and relevant national equivalents. All cash surplus to immediate operational requirements is placed on deposit at floating rates of interest.

Notes to the accounts continued

25. Financial Instruments continued

Interest rate risk

Interest-bearing loans and borrowings

The profile of interest-bearing loans and borrowings (including overdrafts) at 31 December was:

	2005			2004		
Currency	Borrowings at floating rates £m	Borrowings at fixed rates £m	Total £m	Borrowings at floating rates £m	Borrowings at fixed rates £m	Total £m
Sterling	8.4	0.9	9.3	3.5	0.9	4.4
Euro	8.7	1.4	10.1	18.3	2.1	20.4
US dollar	0.8	–	0.8	5.0	–	5.0
Canadian dollar	1.5	–	1.5	1.3	–	1.3
Other	0.1	–	0.1	–	–	–
	19.5	2.3	21.8	28.1	3.0	31.1

The borrowings at fixed rates in sterling are the fixed cumulative preference shares which are explained in more detail in note 19.

The euro borrowings at fixed rates were at a weighted average interest rate of 1.0%, the weighted average period for which the rates are fixed being five years. The floating rate borrowings are based on interest rates at UK base rate, UK LIBOR and relevant national equivalents.

Foreign currency risk

As explained on page 11 in the Financial review, the Group enters into forward foreign exchange contracts solely for the purposes of minimising currency exposures on sale and purchase transactions.

The Group classifies its forward foreign exchange contracts used for hedging as either fair value or cash flow hedges and states them at fair value. A separate hedging reserve has not been shown within reserves as the changes in the fair value of forward foreign exchange contracts at the balance sheet date were negligible.

Fair values

There are no significant differences between book and fair value for any of the assets or liabilities included in the balance sheet.

26. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Less than one year	1.8	1.8	0.7	0.6
Between one and five years	5.4	5.1	1.6	1.7
More than five years	3.3	4.6	0.5	0.8
	10.5	11.5	2.8	3.1

The Group leases a number of manufacturing and service facilities under operating leases. The lease terms vary in length and some have the option to renew at the end of the lease term.

During the year ended 31 December 2005, £2.1m was recognised as an expense in the income statement in respect of operating leases (2004: £2.5m).

27. Capital commitments

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Capital investment contracted but not provided for	0.2	0.7	0.2	0.5

28. Contingent liabilities

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Contingent liabilities in respect of indemnities on sales and other contracts	10.5	14.7	4.6	4.1

Contingent liabilities include £2.7m in respect of non-cancellable operating lease commitments indicated in note 26 above.

29. Related parties

Identity of related parties

The Group has a related party relationship with its subsidiaries (see note 30), directors and the UK and US pension schemes.

Details regarding transactions involving the directors and their remuneration can be found on pages 16 to 20 in the Remuneration report.

The Group recharges the UK pension scheme with the costs of administration incurred by the Group. The total amount recharged in the year to 31 December 2005 was £0.2m (2004: £0.2m).

30. Group entities

All intragroup related party transactions and outstanding balances are eliminated in the preparation of the consolidated financial statements of the Group and therefore in accordance with IAS 24 Related party disclosures, are not disclosed.

Subsidiary undertakings

Details of the principle subsidiary undertakings are shown on pages 58 to 59.

During the year ended 31 December 2005 the Company made sales of £15.2m (2004: £15.4m) and purchased goods totalling £5.7m (2004: £6.5m) to and from other Group undertakings.

During the year ended 31 December 2005 the Company received interest income from subsidiary undertakings of £0.3m (2004: £0.3m), Group recharges of £0.8m (2004: £1.0m) and dividends of £nil (2004: £0.6m).

At 31 December 2005 amounts owed by subsidiary undertakings to the Company were £8.4m (2004: £9.3m) and amounts owed by the Company to subsidiary undertakings were £11.7m (2004: £13.3m).

At 31 December 2005 loans by the Company to subsidiary undertakings were £32.9m (2004: £33.0m).

Associates

During 2004 the Kunming Molins company in China, which had been accounted for as an associate, was closed (see notes 5 and 14).

31. Accounting estimates and judgements

The development, selection and disclosure of the Group's critical accounting policies and estimates, and the application of these policies and estimates, are considered as part of the remit of the Audit Committee.

Goodwill impairment

Note 12 contains information about the key factors considered relating to impairment of goodwill in Sasib.

Pension accounting

Note 23 sets out the key assumptions used in estimating the net pension liability for the Group. The note also includes an analysis of the change to the value of the UK Pension Fund if different assumptions had been used in respect of discount rate and mortality.

32. Explanation of transition to IFRS

As stated in the accounting policies set out on pages 30 to 33, these are the Group's first consolidated financial statements prepared in accordance with IFRS.

The accounting policies have been applied in preparing the financial statements for the year ended 31 December 2005, the comparative information presented in these financial statements for the year ended 31 December 2004 and in the preparation of the opening IFRS balance sheet at 1 January 2004 (the Group's date of transition).

In preparing its opening IFRS balance sheet, the Group has adjusted amounts previously reported in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to IFRS has affected the Group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Notes to the accounts continued

32. Explanation of transition to IFRS continued

Reconciliations of equity

		Group					
		At 1 January 2004			At 31 December 2004		
	Notes	UK GAAP £m	Effect of transition to IFRS £m	IFRS £m	UK GAAP £m	Effect of transition to IFRS £m	IFRS £m
Non-current assets							
Intangible assets	a, b	14.8	2.8	17.6	15.4	4.2	19.6
Property, plant and equipment	c	22.1	7.2	29.3	22.4	7.3	29.7
Investment in associate		1.8	–	1.8	–	–	–
Trade and other receivables		4.2	–	4.2	1.0	–	1.0
Employee benefits	d	24.4	(21.6)	2.8	24.3	(22.9)	1.4
Deferred tax assets	g	0.9	7.1	8.0	0.7	6.1	6.8
		68.2	(4.5)	63.7	63.8	(5.3)	58.5
Current assets							
Inventories		40.3	–	40.3	35.2	–	35.2
Trade and other receivables		0.3	–	0.3	25.5	–	25.5
Taxation receivable		36.7	–	36.7	1.9	–	1.9
Cash and cash equivalents		7.0	–	7.0	5.1	–	5.1
		84.3	–	84.3	67.7	–	67.7
Current liabilities							
Bank overdrafts		(2.1)	–	(2.1)	(0.9)	–	(0.9)
Interest-bearing loans and borrowings		(1.9)	–	(1.9)	(0.8)	–	(0.8)
Trade and other payables		(44.9)	–	(44.9)	(32.4)	–	(32.4)
Taxation payable		(1.1)	–	(1.1)	(0.9)	–	(0.9)
Provisions		(1.7)	–	(1.7)	(5.4)	–	(5.4)
Dividends payable	e	(1.4)	1.4	–	–	–	–
		(53.1)	1.4	(51.7)	(40.4)	–	(40.4)
Net current assets		31.2	1.4	32.6	27.3	–	27.3
Total assets less current liabilities		99.4	(3.1)	96.3	91.1	(5.3)	85.8
Non-current liabilities							
Interest-bearing loans and borrowings	f	(24.5)	(0.9)	(25.4)	(28.5)	(0.9)	(29.4)
Employee benefits	d	(3.4)	(22.9)	(26.3)	(3.2)	(19.4)	(22.6)
Deferred tax liabilities	g	(7.5)	2.8	(4.7)	(7.9)	3.3	(4.6)
		(35.4)	(21.0)	(56.4)	(39.6)	(17.0)	(56.6)
Net assets		64.0	(24.1)	39.9	51.5	(22.3)	29.2
Equity							
Issued capital	f	5.9	(0.9)	5.0	5.9	(0.9)	5.0
Share premium		25.9	–	25.9	25.9	–	25.9
Reserves	h	9.5	(5.6)	3.9	8.3	(5.4)	2.9
Retained earnings	i	22.7	(17.6)	5.1	11.4	(16.0)	(4.6)
Total equity		64.0	(24.1)	39.9	51.5	(22.3)	29.2

32. Explanation of transition to IFRS continued

Reconciliations of equity continued

		Company					
		At 1 January 2004			At 31 December 2004		
	Notes	UK GAAP £m	Effect of transition to IFRS £m	IFRS £m	UK GAAP £m	Effect of transition to IFRS £m	IFRS £m
Non-current assets							
Intangible assets	a, b	6.1	2.4	8.5	5.8	3.0	8.8
Property, plant and equipment	c	13.5	8.1	21.6	12.4	8.1	20.5
Investment in associate		1.8	–	1.8	–	–	–
Investments		54.5	–	54.5	49.0	–	49.0
Trade and other receivables		0.5	–	0.5	0.5	–	0.5
Employee benefits	d	21.8	(21.8)	–	21.8	(21.8)	–
Deferred tax assets	g	–	7.1	7.1	–	5.9	5.9
		98.2	(4.2)	94.0	89.5	(4.8)	84.7
Current assets							
Inventories		21.3	–	21.3	16.3	–	16.3
Trade and other receivables		29.9	–	29.9	19.6	–	19.6
Taxation receivable		–	–	–	1.5	–	1.5
Cash and cash equivalents		0.1	–	0.1	1.1	–	1.1
		51.3	–	51.3	38.5	–	38.5
Current liabilities							
Bank overdrafts		(0.9)	–	(0.9)	–	–	–
Interest-bearing loans and borrowings		(1.0)	–	(1.0)	–	–	–
Trade and other payables		(53.4)	–	(53.4)	(29.1)	–	(29.1)
Provisions		(1.2)	–	(1.2)	(3.6)	–	(3.6)
Dividends payable	e	(1.4)	1.4	–	–	–	–
		(57.9)	1.4	(56.5)	(32.7)	–	(32.7)
Net current assets		(6.6)	1.4	(5.2)	5.8	–	5.8
Total assets less current liabilities		91.6	(2.8)	88.8	95.3	(4.8)	90.5
Non-current liabilities							
Interest-bearing loans and borrowings	f	(17.7)	(0.9)	(18.6)	(24.1)	(0.9)	(25.0)
Employee benefits	d	–	(23.2)	(23.2)	–	(19.7)	(19.7)
Deferred tax liabilities	g	(6.5)	2.6	(3.9)	(6.7)	2.7	(4.0)
		(24.2)	(21.5)	(45.7)	(30.8)	(17.9)	(48.7)
Net assets		67.4	(24.3)	43.1	64.5	(22.7)	41.8
Equity							
Issued capital	f	5.9	(0.9)	5.0	5.9	(0.9)	5.0
Share premium		25.9	–	25.9	25.9	–	25.9
Reserves	h	8.3	(4.4)	3.9	8.3	(4.4)	3.9
Retained earnings	i	27.3	(19.0)	8.3	24.4	(17.4)	7.0
Total equity		67.4	(24.3)	43.1	64.5	(22.7)	41.8

Notes to the accounts continued

32. Explanation of transition to IFRS continued

Reconciliation of profit/(loss) for 2004

For the year ended 31 December 2004	Notes	Group UK GAAP £m	Effect of transition to IFRS £m	IFRS £m
Revenue		122.9	–	122.9
Cost of sales	a	(98.9)	(0.8)	(99.7)
Gross profit		24.0	(0.8)	23.2
Other operating income		0.1	–	0.1
Distribution expenses		(8.7)	–	(8.7)
Administrative expenses	b, d, j	(21.4)	0.8	(20.6)
Other operating expenses	a, d	(2.8)	(0.2)	(3.0)
Operating loss		(8.8)	(0.2)	(9.0)
Loss on closure of associate		(1.6)	–	(1.6)
Loss before financing costs		(10.4)	(0.2)	(10.6)
Financial income		0.3	–	0.3
Financial expenses	f	(1.4)	(0.1)	(1.5)
Net financing costs		(1.1)	(0.1)	(1.2)
Loss before tax		(11.5)	(0.3)	(11.8)
Taxation	g	0.4	0.4	0.8
Profit/(loss) for the period		(11.1)	0.1	(11.0)
Basic earnings/(loss) per ordinary share		(62.1)p	1.0p	(61.1)p
Diluted earnings/(loss) per ordinary share		(62.1)p	1.0p	(61.1)p

The effect of the transition to IFRS on the loss of the Company in 2004 was to increase the loss by £0.8m to £3.4m under IFRS.

Reconciliation of cash flows for 2004

There is no overall net effect on Group cash flows from adopting IFRS, only changes in presentation. Under UK GAAP, the Company was not required to and did not prepare a cash flow statement.

a Intangible assets – development costs

Under UK GAAP all development costs were charged against profits as incurred, unless specifically chargeable to and recoverable from customers under agreed contract terms. Under IFRS all development costs that meet the criteria for capitalisation set out in IAS 38 Intangible assets are capitalised and amortised over their useful economic lives.

The effect (including amortisation) was to increase the carrying value of intangible assets for the Group by £2.7m (£2.4m for the Company) at 1 January 2004 and by £3.1m (£2.7m for the Company) at 31 December 2004 as well as to increase cost of sales for the Group by £0.8m (the amortisation charge) and decrease other operating expenses for the Group by £1.2m (development costs previously expensed under UK GAAP) in the income statement for the year ended 31 December 2004.

b Intangible assets – goodwill

The Group has applied the provisions of IFRS 3 Business combinations from 1 January 2004 and the net carrying value of goodwill at 31 December 2003 under the previous accounting policies has been deemed to be the cost at 1 January 2004. From 1 January 2004 goodwill is no longer amortised under IFRS, but is tested annually for impairment. In addition, foreign denominated goodwill that was held in sterling under UK GAAP has been restated in foreign denominated currency at 1 January 2004 and is now retranslated at each balance sheet date in accordance with IAS 21 The effects of foreign exchange rates.

The effect of retranslating foreign denominated goodwill was to increase the carrying value of intangible assets for the Group by £0.1m at 1 January 2004 and £0.2m at 31 December 2004. The effect of no longer amortising goodwill has decreased administrative expenses for the Group by £0.9m for the year ended 31 December 2004. The net effect of all of these changes has been to increase the carrying value of goodwill for the Group by £0.1m at 1 January 2004 and by £1.1m (£0.3m for the Company) at 31 December 2004.

c Property, plant and equipment

Where assets have previously been revalued, the revalued amount at 1 January 2004 has been deemed to be the cost at 1 January 2004, except for certain properties where their open market value has been used as their deemed cost.

The effect of using the open market value as the deemed cost for certain properties has been to increase the carrying value of property, plant and equipment for the Group by £7.2m (£8.1m for the Company) at 1 January 2004 and by £7.3m (£8.1m for the Company) at 31 December 2004.

32. Explanation of transition to IFRS continued

d Employee benefits

Pensions and other post-retirement benefits

Under UK GAAP the costs of providing pensions were charged to the income statement based on a percentage of employees' pay, with any variations in regular costs, interest and changes to actuarial gains and losses amortised over the expected average remaining service lives of current employees. Any differences between the amounts charged to the income statement and cash payments made to the pension schemes were recognised in the balance sheet.

Under IFRS, current and past service costs of the Group's pension schemes, the expected return on the schemes' assets and any interest costs relating to the present value of the schemes' liabilities are charged to the income statement, with any actuarial gains and losses being recognised through the statement of recognised income and expense (SORIE). Any surplus in the fair value of the pension scheme's assets over the present value of the liabilities is recorded as an asset in the balance sheet and any deficit as a liability.

The effect of the above has been to decrease employee benefits for the Group by £44.8m (£45.0m for the Company) at 1 January 2004 (£21.6m decrease in non-current assets and £23.2m increase in non-current liabilities for the Group and for the Company £21.8m decrease in non-current assets and £23.2m increase in non-current liabilities) and by £42.6m (£41.5m for the Company) at 31 December 2004 (£22.9m decrease in non-current assets and £19.7m increase in non-current liabilities for the Group and for the Company £21.8m decrease in non-current assets and £19.7m increase in non-current liabilities), as well as an increase in other operating expenses for the Group of £1.4m in the income statement for the year ended 31 December 2004.

Other employee entitlements

In accordance with IAS 19 (revised) certain other employee entitlements have also been valued at fair value in the balance sheet. These other employee benefits relate to a statutory provision under Italian law for certain employee entitlements (TFR) at Sasib S.p.A. The effect of this has been to decrease the employee benefit liability for the Group by £0.3m at 1 January 2004 and by £0.3m at 31 December 2004 as well as to decrease administrative expenses for the Group by £0.2m in the income statement for the year ended 31 December 2004.

e Dividends payable

Under UK GAAP proposed dividends were recognised on an accruals basis, whereas under IFRS dividends are only recognised as a liability in the period in which they are declared.

The effect of this was to decrease dividends payable at 1 January 2004 by £1.4m for both the Group and the Company.

f Preference shares

Under UK GAAP preference shares were treated as capital and associated servicing charges were treated as dividends.

Under IFRS preference shares with an obligation to transfer economic benefits are treated as financial liabilities (debt) and not capital. The costs of servicing preference shares are disclosed as interest.

The effect of this was to increase interest-bearing loans and borrowings and decrease issued capital for the Group and the Company by £0.9m at 1 January 2004 and 31 December 2004 as well as to increase financial expenses by £0.1m for the year ended 31 December 2004.

g Deferred tax assets and liabilities

The above changes (increased)/decreased the net deferred tax liability reported under UK GAAP as follows:

	Group		Company	
	At 1 January 2004 £m	At 31 December 2004 £m	At 1 January 2004 £m	At 31 December 2004 £m
Intangible assets – development costs	(0.8)	(0.9)	(0.7)	(0.8)
Property, plant and equipment	(2.8)	(2.7)	(3.2)	(3.1)
Employee benefits	13.4	12.8	13.5	12.4
Other adjustments under IAS 12 Income taxes	0.1	0.2	0.1	0.1
Net decrease in deferred tax liability	9.9	9.4	9.7	8.6
Under UK GAAP	(6.6)	(7.2)	(6.5)	(6.7)
Under IFRS – net deferred tax asset	3.3	2.2	3.2	1.9

The other adjustments related to a decrease in the deferred tax liability under IFRS from that reported under UK GAAP, relating to share-based payments and provision for unrealised profit in stock for the Group and share-based payments for the Company.

The effect on the Group income statement for the year ended 31 December 2004 was to increase the previously reported taxation credit by £0.4m.

Notes to the accounts continued

32. Explanation of transition to IFRS continued

h Reserves

At 1 January 2004 and 31 December 2004 an amount of £5.6m for the Group (£4.4m for the Company) has been reclassified from a revaluation reserve recognised under UK GAAP to retained earnings. The amount represented the balance on the revaluation reserve at 1 January 2004 in respect of assets that were measured on the basis of deemed cost under IFRS.

Cumulative translation differences arising on consolidation of subsidiaries are held in a separate translation reserve under IFRS, rather than included as part of retained earnings as they were under UK GAAP. In accordance with the optional exemption provided by IFRS 1, the translation reserve was deemed to be £nil on 1 January 2004. The effect of all of the above adjustments has been to increase the translation reserve at 31 December 2004 for the Group by £0.2m under IFRS.

i Retained earnings

The above changes increase/(decrease) retained earnings as follows:

	Group		Company	
	At 1 January 2004 £m	At 31 December 2004 £m	At 1 January 2004 £m	At 31 December 2004 £m
Intangible assets – development costs	2.7	3.1	2.4	2.7
Intangible assets – goodwill	0.1	1.1	–	0.3
Property, plant and equipment	7.2	7.3	8.1	8.1
Pensions and other post-retirement benefits	(44.8)	(42.6)	(45.0)	(41.5)
Other employee benefits	0.3	0.3	–	–
Dividends payable	1.4	–	1.4	–
Deferred tax (net)	9.9	9.4	9.7	8.6
Reclassified revaluation reserve	5.6	5.6	4.4	4.4
Reclassified as translation reserve	–	(0.2)	–	–
Net decrease in retained earnings	(17.6)	(16.0)	(19.0)	(17.4)
Under UK GAAP	25.8	14.4	30.4	27.4
Under IFRS – Retained earnings	8.2	(1.6)	11.4	10.0

j Share-based payments

Under UK GAAP the charge to the income statement of the Group's long-term incentive plan (LTIP) was based on the market value of the shares at the date of grant, with the charge recognised over the life of the award and adjusted where achievement of the performance criteria varied from the plan.

Under IFRS the charge to the income statement is based on the fair value to the employee of the option granted, calculated using an option pricing model. In addition, performance criteria based on "market conditions", such as a total shareholder return measure, are not adjusted for when performance outcome differs from the plan. In accordance with the IFRS transitional arrangements the provisions of IFRS 2 have not been applied to equity instruments that were granted on or before 7 November 2002.

The effect of this has been to increase administration expenses for the Group by £0.3m for the year ended 31 December 2004.

Five year record

The financial data for 2005 and 2004 has been reported under IFRS. The financial data for 2003, 2002 and 2001 has been restated to comply with IFRS classifications but are unadjusted for changes in accounting bases and is still reported under UK GAAP as permitted by IFRS 1 First-time adoption of International Financial Reporting Standards.

An explanation of how the transition from UK GAAP to IFRS has affected the Group's financial performance during the year ended 31 December 2004 as well as the financial position at 31 December 2004 and 1 January 2004 is set out in note 32.

	2005 IFRS £m	2004 IFRS £m	2003 UK GAAP £m	2002 UK GAAP £m	2001 UK GAAP £m
Revenue	121.4	122.9	121.8	106.0	111.3
Underlying operating profit*	5.7	2.3	12.1	10.5	6.7
Operating profit (before reorganisation costs and goodwill impairment)	6.2	2.3	11.4	13.0	9.0
Net financing costs	(1.1)	(1.2)	(0.5)	(0.3)	(0.8)
Profit before taxation (before reorganisation costs and goodwill impairment)	5.1	1.1	10.9	12.7	8.2
Goodwill impairment	(6.7)	–	–	–	–
Reorganisation costs	(1.7)	(12.9)	–	–	–
(Loss)/profit before tax	(3.3)	(11.8)	10.9	12.7	8.2
Tax	(0.7)	0.8	(3.6)	(4.1)	(2.7)
(Loss)/profit for the period	(4.0)	(11.0)	7.3	8.6	5.5
Underlying operating profit return on sales*	4.7%	1.9%	9.9%	9.9%	6.0%
Underlying earnings per ordinary share*	19.1p	1.9p	43.6p	38.0p	21.0p
Basic (loss)/earnings per ordinary share	(21.9)p	(61.1)p	39.9p	46.8p	29.1p

	£m	£m	£m	£m	£m
Intangible assets	13.5	19.6	14.8	10.7	8.3
Property, plant and equipment	28.7	29.7	22.6	19.9	20.9
Investments	–	–	1.8	2.1	2.3
Inventories	27.2	35.2	40.3	24.0	23.1
Trade and other receivables (including taxation)	29.4	35.2	40.7	22.7	22.9
Employee benefits	(16.9)	(21.2)	24.4	24.7	21.9
Trade and other payables (including taxation and provisions)	(33.0)	(43.3)	(59.1)	(39.7)	(41.1)
	48.9	55.2	85.5	64.4	58.3
Net debt	(19.0)	(26.0)	(21.5)	(4.7)	(2.7)
Net assets	29.9	29.2	64.0	59.7	55.6
Net assets per ordinary share	148p	145p	314p	295p	275p
Ordinary shares in issue (000's)	20,167	20,090	20,085	19,960	19,875

*Underlying figures reported under IFRS and UK GAAP are stated before net pension credit, goodwill impairment/amortisation and reorganisation costs.

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The subsidiary undertakings shown include those which principally affect the profits and assets of the Group as at the date of this report. Overseas companies operate and are incorporated in the countries in which they are based. In all cases the class of shares held is ordinary equity shares and the proportion held is 100% unless otherwise indicated. Shares in the UK, Russian and Czech Republic companies are held directly by Molins PLC and those in the other overseas subsidiaries by intermediate holding companies. A full list of subsidiaries will be included in the next annual return filed at Companies House.

Notice of meeting

The ninety-fourth Annual General Meeting of Molins PLC will be held at 11 Tanners Drive, Blakelands, Milton Keynes MK14 5LU on 24 April 2006 at 2 p.m. for the following purposes:

1. To receive the Directors' report and audited accounts for the year ended 31 December 2005. (Resolution number 1)

2. To re-appoint Mr D J Cowen, a director retiring by rotation. (Resolution number 2)

3. To re-appoint Mr J Wilson, a director retiring by rotation. (Resolution number 3)

4. To re-appoint KPMG Audit Plc as auditor and to authorise the directors to determine its remuneration. (Resolution number 4)

5. To approve the Remuneration report. (Resolution number 5)

As special business:

6. To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

   Ordinary resolution
   Power to allot securities

   THAT

   The directors be and are hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985) up to an aggregate nominal amount of £1,512,490 (representing 30% of the total ordinary share capital at 28 February 2006) provided that this authority shall expire on the day five years after the passing of this resolution save that the Company may, before such expiry, make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired. (Resolution number 6)

7. To consider and, if thought fit, to pass the following resolution as a special resolution:

   Special resolution
   Disapplication of pre-emption rights

   THAT

   a The directors be and are hereby empowered pursuant to section 95 of the Companies Act 1985 (the Act) to allot equity securities for cash, pursuant to the general authority conferred upon them by the resolution passed under item number 6 in the notice of the Annual General Meeting of the Company dated 1 March 2006, for the period ending on the date of the next Annual General Meeting following the passing of this resolution or at the end of fifteen months, following the passing of this resolution whichever is the earlier (unless previously revoked or varied) as if section 89(1) of the Act did not apply to any such allotment and so that the power conferred by this resolution shall enable the Company to make any offer or agreement before the expiry of this power (unless previously revoked or varied by the Company in general meeting), which would or might require equity securities to be allotted after such expiry and so that notwithstanding such expiry the directors may allot equity securities pursuant to any such offer or agreement previously made by the Company as if the power conferred hereby had not expired PROVIDED however that the power conferred by this resolution shall be limited:

      i to the allotment of equity securities in connection with or pursuant to any arrangement whereby the holders of ordinary shares at a record date or dates adopted for the purposes of the arrangement are entitled to acquire any equity securities of the Company issued for cash pursuant to such arrangement, in the proportion (as nearly as may be) to such holders' holdings of shares (or, as appropriate, to the numbers of ordinary shares which such holders are for the purpose deemed to hold) subject to such exclusions or other arrangements as the directors may consider necessary or expedient to deal with fractional entitlements or legal or practical problems under or resulting from the application of the laws of any territory or the requirements of any recognised regulatory body or stock exchange in any territory; and

      ii to the allotment (otherwise than pursuant to sub-paragraph i above) of equity securities having an aggregate nominal value not exceeding £252,081 (representing 5% of the total ordinary share capital in issue as at 28 February 2006); and

   b Words and expressions defined in or for the purposes of the Act shall bear the same meanings in this resolution. (Resolution number 7)

As special business: continued

8. To consider and, if thought fit, to pass the following resolution as a special resolution:

Special resolution
Purchase of own shares

THAT

The directors be empowered in the terms of Article 39 of the Company's articles of association and pursuant to section 166 of the Companies Act 1985 to make market purchases (as defined in section 163(3) of that Act) of ordinary shares of 25p each in the capital of the Company, provided that:

a the maximum aggregate number of shares which may be so purchased shall be 3,000,000 ordinary shares (representing approximately 15% of the Company's issued ordinary share capital at the date of the notice convening the meeting at which this resolution is to be proposed);

b the maximum price (excluding expenses) which may be paid for an ordinary share shall be an amount equal to 105% of the average middle market quotations taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the shares in question are to be purchased;

c the minimum price which may be paid for an ordinary share shall be 25p (exclusive of expenses); and

d this authority shall expire, unless previously revoked or varied, at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or twelve months from the date of the resolution (whichever is the earlier) provided that the Company may before this authority expires make contracts for purchases of ordinary shares under this authority which would or might be executed wholly or partly after this authority expires and may make a purchase of ordinary shares pursuant to any such contract. (Resolution number 8)

By order of the Board

J. Messent.

J Messent
Secretary
1 March 2006

Note
A member entitled to attend and vote may appoint one or more proxies to attend and, on a poll, vote instead of the member.

A proxy need not be a member.

Corporate information

Registered office
Molins PLC
11 Tanners Drive, Blakelands,
Milton Keynes MK14 5LU
Tel: +44 (0)1908 219000
Fax: +44 (0)1908 216499
E-mail: molins.ho@molins.com

Secretary
J Messent LLB
Solicitor

Registered number
124855

Auditor
KPMG Audit Plc
Altius House, One North Fourth Street,
Milton Keynes MK9 1NE

Stockbrokers
JPMorgan Cazenove Limited
20 Moorgate, London EC2R 6DA

Registrars
Capita Registrars
The Registry, 34 Beckenham Road,
Beckenham, Kent BR3 4TU

Share price
Available from:
Teletext – page 524
FT Cityline – tel: 0906 843 0000 code: 3398
Selected national newspapers

Website
Further information is available at
www.molins.com

Timetable
AGM
24 April 2006

Payment dates for preference dividend
30 June 2006 and 31 December 2006

Interim statement of half year results
September 2006

MOLINS PLC
Income statement
for the year ended 31 December 2005

	2005	2004
	£000	£000
Revenue	**68,000**	**77,700**
Cost of sales	(48,500)	(63,750)
Gross profit	**19,500**	**13,950**
Other operating income	200	100
Distribution costs	(4,100)	(2,850)
Administrative expenses	(11,000)	(11,350)
Other operating expenses	(1,600)	(3,450)
Operating profit/(loss)	**3,000**	**(3,600)**
Profit/(loss) on closure of associate	550	(1,550)
Profit/(loss) before financing costs	**3,550**	**(5,150)**
Net financing costs	(750)	(50)
Profit/(loss) before tax	**2,800**	**(5,200)**
Taxation	(200)	1,800
Profit(loss) for the period	**2,600**	**(3,400)**

Approved by the directors on 1 March 2006, and signed on their behalf by:

Director ....

Director ....