MELROSE PLC

MELROSE

INTERIM STATEMENT TO 30 JUNE 2005

CHAIRMAN'S STATEMENT

I am pleased to report Melrose's first set of interim results after our acquisitions of the Dynacast Group and the McKechnie Group on 26 May 2005.

The consideration of £429m was satisfied by an issue of ordinary shares to investors, including the vendors, and bank debt.

In line with our objectives these businesses have good cash generating characteristics, strong market shares and a global presence. They also present opportunities for improvements in performance which play to our traditional management strengths. Post acquisition reviews are largely complete and, although it is still early days, a number of actions have already been taken. Our view remains that we will be able to create substantial shareholder value from these businesses over the next few years. More detail is provided in the Chief Executive's Review

RESULTS

The accounts for the six months to 30 June include the results of the Dynacast and McKechnie businesses from the date of acquisition of 26 May 2005. The comparative numbers for the first six months of 2004 are for Melrose PLC prior to the acquisitions.

Turnover for the period was £43.1m. (2004 - nil)

Profit before tax was £4.6m (2004 – loss £(0.2)m) and earnings per share were 4.8p (2004 – loss per share (1.6)p).

DIVIDENDS

In view of the short period of ownership of these businesses the board is not proposing to pay an interim dividend. However in the absence of unforeseen circumstances, we intend as indicated to pay a dividend of 3p per share next year following our AGM.

BOARD APPOINTMENTS

We were delighted to appoint Geoff Martin to the board as Finance Director in July. He will be a key member of our team as we develop our businesses. We were equally pleased to welcome Perry Crosthwaite as a non-executive director also in July. He brings with him a wealth of City experience. We are expecting to appoint a third non-executive director in the near future.

MOVE TO FULL LISTING

As indicated at the time of flotation, we are now in the process of applying for full listing on the London Stock Exchange. The new regulatory environment and the timing of completion as compared to the differing year ends of our acquisitions are making the preparation of historic financial information for irregular periods a time consuming process. However, we hope to achieve a full listing as soon as possible.

STRATEGY

Our stated aim at flotation was to acquire appropriate businesses, improve their performance, create value and return this to shareholders over time. This strategy remains very much in place and our management, both centrally and in our companies, is extremely focused in putting it into practice. Melrose does not intend to make further acquisitions which are unrelated to its existing businesses.

Christopher Miller
27th September 2005

CHIEF EXECUTIVE'S REVIEW

I would like to remind readers that the results below include the Dynacast and McKechnie businesses from the date of acquisition of 26th May 2005.

DYNACAST

	30 June 2005
Turnover	£16.2m
Operating profit	£2.2m

Dynacast is a global manufacturer of precision engineered, diecast metal components. The products are manufactured using proprietary die-casting technology and are supplied to a wide range of end markets, including automotive, telecommunications and consumer electronics.

Dynacast has benefited in the past from its flexible manufacturing approach by responding to the threats, and therefore opportunities, resulting from the well known movement of industrial production to 'low cost' countries. We are working closely with Dynacast management to optimise the location of its production facilities to best suit the requirements of its customers.

In this context, Dynacast has, since acquisition, announced the closure of its production facility in the UK. We are encouraging management to maximise opportunities arising from this trend, not only to contain costs but to exploit the growth opportunities, particularly in the East.

Against this backdrop of encouraging demand in the 'newer economy' countries (supported by strong sales of tools to customers), trading conditions in Continental Europe and the US are slow. Although Dynacast is generally able to recover raw material cost increases in its selling prices, when these input costs rise quickly and significantly, as they have recently, Dynacast suffers from a timing lag. However, we are encouraged by new product initiatives which will bear fruit in 2006.

Overall, this is a very strong engineering business with a major market presence and good long term growth prospects. Management are heavily focused on realising the potential this business has to offer.

AEROSPACE ORIGINAL EQUIPMENT MANUFACTURE ("AEROSPACE OEM")

	30 June 2005
Turnover	£10.6m
Operating profit	£2.6m

Aerospace OEM supplies safety critical components to the global aerospace industry and is based in the US and Europe. The business has excellent engineering skills producing value added products selling into niche markets in which it has strong market shares.

It is generally recognised that the aerospace industry is benefiting from a strong cyclical upturn and this division has experienced a significant increase in its sales and its order book. This in turn provides challenges in terms of meeting the delivery requirements of customers, particularly in the light of shortages of raw materials such as titanium. We are working closely with the management of this division to improve the operational performance of the business and to this end a new divisional finance director and a new vice president of operations for the largest subsidiary have been recruited in the US since acquisition.

The division is well represented on the major commercial airline platforms and this provides good future earnings visibility. Depending on the product being supplied the company will usually either have patent protection or be the sole supplier, which affords a degree of pricing protection. At present management are concentrating on managing the increases in the costs of raw materials and the shortages in the supplies of these items.

These businesses are operating in fast growing markets and a motivated management team is working hard to maximise profit and cash.

AEROSPACE AFTERMARKET

	30 June 2005
Turnover	£2.5m
Operating profit	nil

Aerospace Aftermarket provides a 24 hours-a-day, seven days-a-week specialised distribution service offering a range of components, related systems and engineering services to the aerospace aftermarket.

The aerospace aftermarket cycle, while flatter, typically lags the aerospace original equipment market by a year to eighteen months. In line with this we are seeing a few early signs of an upturn in activity, having been through a very difficult period since 2001.

Since acquisition a restructured management team has embarked on a cost cutting programme and is focusing on introducing a more disciplined approach to running the business with a view to achieving operational efficiencies and maximising sales opportunities.

With continuing hard work, this new management team should be able to benefit from a recovery in this market.

MCKECHNIE VEHICLE COMPONENTS ("MVC")

	30 June 2005
Turnover	£5.4m
Operating profit	£0.4m

MVC manufactures decorated exterior trim products for the US automotive industry, principally coated metal and plastic wheel trims.

Although the competitive conditions in the US automotive industry are challenging at present, the overall demand for cars and trucks is reasonably good. As such, demand for this division's products is favourable and with a strong order book this is likely to continue. However, in common with most manufacturing businesses, recovery of the significant raw material price increases is a major issue. Whilst 2005 is difficult we expect some recovery in this business in 2006.

Management are working closely with customers to improve and develop the product range, whilst at the same time focusing on minimising costs wherever possible.

MCKECHNIE PLASTIC COMPONENTS ("MPC")

	30 June 2005
Turnover	£5.1m
Operating profit	£0.3m

MPC is a UK producer of engineered plastic and plastic injection moulded components for products used in a variety of industries, including power tools, IT hardware, food packaging, personal care and automotive.

This division operates in a highly competitive environment and is currently experiencing raw material cost increases. However, the specialised nature of this division's technology and its skill base has enabled it to recover a large part of these cost increases, albeit with a time lag.

The highly experienced management team at MPC is continuously seeking to maintain its competitive advantage, in terms of new products and imaginative engineering solutions for customers, as an increasing share of commodity business moves to lower cost countries.

MCKECHNIE PSM ("PSM")

	30 June 2005
Turnover	£3.3m
Operating profit	£0.1m

PSM manufacturers and distributes specialised fasteners and joining systems.

Sales of product manufactured in China continue to be profitable, whereas product manufactured in Europe is struggling to cope with a relatively high cost base. The move of production from the UK to the Czech Republic, prior to our acquisition, has proved fraught and, while recent performance has been better, this is likely to result in a poor 2005. However, we believe there will be an improvement in 2006. We are working with the management of PSM to address this by means of a series of initiatives which are being explored.

OUTLOOK

The global reach of these businesses exposes us to varying economic conditions around the world. With the outstanding exception of our Aerospace companies, we are finding trading somewhat slow in Europe, particularly for Dynacast, and to a lesser extent in the USA. The Far East, however, continues to perform well. We are in the process of getting to grips with our businesses and fully understanding their investment needs. We will take into account the likely demand scenario for their products, as well as changes in trends, in assessing where production capacity should be most efficiently located. Some restructuring has been put into place and it is likely that more will follow.

It is early days yet to confidently predict the outlook for 2006. We have owned these businesses for four months and budgets for next year are only now being finalised. However we can confirm that we are very pleased with the opportunities these acquisitions offer to us and our shareholders and fully expect a good performance in 2006 and beyond.

David Roper
27th September 2005

Consolidated income statement

Continuing operations	Notes	*6 months ended 30 June 2005* *£m*	*6 months ended 30 June 2004* *£m*	*Year ended 31 December 2004* *£m*
Revenue	3	43.1	-	-
Cost of sales		(32.2)	-	-
Gross profit		10.9	-	-
Selling and distribution costs		(2.2)	-	-
Administration expenses		(3.2)	(0.4)	(0.9)
Share of joint ventures operating profits		0.1	-	-
Exceptional items – abortive acquisition costs		-	-	(3.8)
Operating profit/(loss)	3	5.6	(0.4)	(4.7)
Finance costs		(1.0)	-	-
Finance income		-	0.2	0.5
Profit/(loss) on ordinary activities before tax		4.6	(0.2)	(4.2)
Taxation	4	(1.6)	-	-
Profit/(loss) for the period from continuing operations		3.0	(0.2)	(4.2)
Attributable to:				
Equity holders of the parent		3.0	(0.2)	(4.2)
Minority interests		-	-	-
		3.0	(0.2)	(4.2)
Earnings/(loss) per share	5			
- Basic		4.8p	(1.6)p	(32.3)p
- Diluted		4.7p	(1.6)p	(32.3)p

Consolidated balance sheet

	Notes	*30 June 2005 £m*	*30 June 2004 £m*	*31 December 2004 £m*
Non-current assets				
Intangible assets		400.6	-	-
Property, plant & equipment		93.8	-	-
Interests in joint ventures		2.6	-	-
		497.0	-	-
Current assets				
Inventories		50.4	-	-
Trade and other receivables		84.7	-	0.2
Cash and short term deposits		17.5	12.6	11.7
		152.6	12.6	11.9
Total assets		649.6	12.6	11.9
Current liabilities				
Trade and other payables		94.8	-	3.4
Interest bearing loans and borrowings		5.3	-	-
Income tax payable		10.9	-	-
Provisions		2.6	-	-
		113.6	-	3.4
Non-current liabilities				
Interest-bearing loans and borrowings		204.2	-	-
Deferred tax liabilities		2.6	-	-
Retirement benefit obligations		60.6	-	-
Provisions		13.6	-	-
		281.0	-	-
Total liabilities		394.6	-	3.4
Net assets		255.0	12.6	8.5
Equity				
Issued share capital	7	0.3	0.1	0.1
Share premium account	7	256.6	12.8	12.8
Foreign currency translation reserve	7	1.4	-	-
Accumulated losses	7	(4.1)	(0.3)	(4.4)
Equity attributable to holders of the parent		254.2	12.6	8.5
Minority interest		0.8	-	-
Total equity		255.0	12.6	8.5

Consolidated cash flow statement

	Notes	6 months ended 30 June 2005 £m	6 months ended 30 June 2004 £m	Year ended 31 December 2004 £m
Cash flows from operating activities				
Profit/(loss) from continuing operations before interest and taxation		5.6	(0.4)	(4.7)
Depreciation		1.3	-	-
Amortisation of intangible fixed assets		0.2	-	-
Increase in stock		(1.6)	-	-
Increase in debtors		(2.3)	-	(0.2)
(Decrease)/Increase in creditors		(7.2)	-	3.3
Pension contributions paid		(5.1)	-	-
Borrowing costs		(0.5)	-	-
Income tax paid		(0.4)	-	-
Non-cash items		0.5	-	-
Net cash flows from operating activities		(9.5)	(0.4)	(1.6)
Cash flows from investing activities				
Purchase of property, plant and equipment		(1.5)	-	-
Acquisition of subsidiaries	6	(433.2)	-	-
Interest received		-	0.2	0.5
Net cash flows from investing activities		(434.7)	0.2	0.5
Cash flows from financing activities				
Finance leases repaid		(0.3)	-	-
Repayment of loan notes		(0.3)	-	-
New bank loans		200.0	-	-
Proceeds on issue of shares		244.0	-	-
Increase in overdrafts		4.8	-	-
Overdrafts acquired	6	(9.4)	-	-
Net cash flows used in financing activities		438.8	-	-
Decrease in cash and cash equivalents		(5.4)	(0.2)	(1.1)
Exchange		1.6	-	-
Cash and cash equivalents at beginning of period/year		11.7	12.8	12.8
Cash acquired		9.6	-	-
Cash and cash equivalents at end of period/year		17.5	12.6	11.7

Consolidated statement of recognised income and expense

	6 months ended 30 June 2005 £m	*6 months ended 30 June 2004 £m*	*Year ended 31 December 2004 £m*
Currency translation on net investments in subsidiary undertakings	1.4	-	-
Actuarial adjustments on pension liabilities	(2.7)	-	-
Net expense recognised directly in equity	(1.3)	-	-
Profit/(loss) for the period/year	3.0	(0.2)	(4.2)
Total recognised income and expense for the period/year	1.7	(0.2)	(4.2)
Attributable to:			
Equity holders of the parent	1.7	(0.2)	(4.2)
Minority interests	-	-	-
	1.7	(0.2)	(4.2)

NOTES TO THE FINANCIAL INFORMATION

1. Corporate information

The consolidated financial statements of Melrose for the period ended 30 June 2005 were authorised in accordance with a resolution of the directors of Melrose PLC on 27 September 2005.

The figures for the year ended 31 December 2004 do not constitute the Company's accounts for that period but have been extracted from the statutory accounts which have been filed with the Registrar of Companies. The auditors' report on those accounts was unqualified and did not contain statements under section 237(2) or (3) of the Companies Act 1985. The interim results for the six months ended 30 June 2005 are consistent with audited non-statutory accounts for that period.

The principal activities of the Melrose Group are described in note 3.

2. Summary of significant accounting policies

Details of the Group's significant accounting policies are available from the Registered Office or at www.melroseplc.net.

3. Segment information

The Group's primary reporting format is business segments and its secondary format is geographical segments. The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. All reported turnover is derived from one activity, the sale of goods.

The Dynacast segment is a supplier of diecast parts and components to a range of industries.

The Aerospace OEM segment is a supplier of specialised quality components to the Aerospace industry, the Aerospace Aftermarket segment is a supplier of replacement parts to the world's leading airlines and McKechnie Vehicle Components ("MVC") supplies exterior trim products to major vehicle manufacturers in the USA. McKechnie Plastic Components ("MPC") is a UK supplier of plastic injection moulded and extruded components to the automotive, consumer durable, IT and other industries. The Fastener segment manufacturers and distributes specialised fasteners globally to automotive and other industries.

Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties.

The Group's geographical segments are determined by the location of the Group's assets and operations.

3. Segment information (continued)

Business segments

The following table presents revenue and profit information and certain asset and liability information regarding the Group's business segments for the period ended 30 June 2005:

Business segment	*Dynacast £m*	*OEM £m*	*Aftermarket £m*	*MPC £m*	*MVC £m*	*Fasteners £m*	*Total £m*
Turnover							
Segment revenue	16.2	10.6	2.5	5.1	5.4	3.3	43.1
Result							
Segment result	2.2	2.6	-	0.3	0.4	0.1	5.6
Assets and liabilities							
Segment assets	89.7	55.6	8.3	31.3	22.2	26.0	233.1
Liabilities	(38.0)	(18.4)	(3.4)	(8.7)	(8.5)	(22.8)	(99.8)
Unallocated corporate assets/liabilities*							121.7
							255.0
Other segment information							
Capital expenditure	1.0	0.2	-	0.1	-	0.2	1.5
Depreciation and amortisation of intangibles	0.6	0.3	-	0.2	0.2	0.2	1.5

Geographical Area	*North America £m*	*Europe £m*	*Asia £m*	*Total £m*
Turnover				
Segment revenue	20.9	18.4	3.8	43.1
Result				
Segment result	2.9	1.9	0.8	5.6
Assets and liabilities				
Segment assets	96.5	110.0	26.6	233.1
Liabilities	(37.3)	(53.1)	(9.4)	(99.8)
Unallocated corporate assets/ liabilities*				121.7
				255.0
Other segment information				
Capital expenditure	0.4	0.8	0.3	1.5
Depreciation and amortisation of intangibles	0.6	0.7	0.2	1.5

* Unallocated corporate assets largely represent goodwill net of the group's borrowings. Due to the proximity of the acquisition to the reporting date, goodwill has not yet been allocated to the relevant business segments. This will be completed prior to 31 December 2005.

4. Income Tax

Analysis of charge in period:

	6 months ended 30 June 2005 £m	*6 months ended 30 June 2004 £m*	*Year ended 31 December 2004 £m*
Current tax	1.6	-	-
Deferred tax	-	-	-
Total income tax expense	1.6	-	-

The income tax charge for the period ended 30 June 2005 is based on the estimated effective tax rate for the full year to 31 December 2005.

The tax for the period is higher than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	6 months ended 30 June 2005 £m	*6 months ended 30 June 2004 £m*	*Year ended 31 December 2004 £m*
Profit/(loss) on ordinary activities before tax	4.6	(0.2)	(4.2)
Tax on profit/(loss) on ordinary activities at UK corporate tax rate (30%)	1.4	-	(1.3)
Expenses not deductible for tax purposes	0.3	-	-
Adjustment in respect of foreign tax rates	0.2	-	-
Excess losses not utilised	0.1	-	1.1
Withholding taxes on remittances from overseas	0.1	-	-
Deductible items not in profit and loss account	(0.5)	-	0.2
Total tax charge for the period	1.6	-	-

Deferred tax

There is no deferred tax charge in the period.

5. Earnings per share

Earnings	*6 months ended 30 June 2005 £m*	*6 months ended 30 June 2004 £m*	*Year ended 31 December 2004 £m*
Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent	3.0	(0.2)	(4.2)
	Number	*Number*	*Number*
Number of shares			
Weighted average number of ordinary shares for the purposes of basic earnings per share	61,650,385	13,120,000	13,120,000
Earnings/(loss) per share	4.8p	(1.6)p	(32.3)p
Further shares for the purposes of fully diluted earnings per share	1,271,504	-	-
Fully diluted earnings/(loss) per share	4.7p	(1.6)p	(32.3)p

6. Acquisition of subsidiaries

On 26 May 2005, the Group acquired 100% of the issued share capital of the McKechnie Group and the Dynacast Group.

McKechnie	*Acquiree's carrying amount* £m	*Fair value adjustments* £m	*Fair value* £m	
Property, plant and equipment	43.8	8.8	52.6	
Intangible assets	2.4	-	2.4	
Joint ventures	2.7	-	2.7	
Inventories	36.4	-	36.4	
Trade receivables	49.7	(1.4)	48.3	
Trade payables	(46.2)	-	(46.2)	
Other creditors	-	(3.0)	(3.0)	
Provisions	(16.1)	-	(16.1)	
Retirement benefit obligation	(54.2)	-	(54.2)	
Current tax	(2.7)	-	(2.7)	
Bank and cash balances	1.9	-	1.9	
Loan notes	(0.8)	-	(0.8)	
Overdraft	(5.4)	-	(5.4)	
Finance leases	(1.5)	-	(1.5)	
	10.0	4.4		14.4
Dynacast				
Property, plant and equipment	39.7	0.5	40.2	
Intangible assets	0.2	-	0.2	
Inventories	12.4	-	12.4	
Trade receivables	39.7	(2.8)	36.9	
Trade payables	(37.7)	-	(37.7)	
Other creditors	-	(1.6)	(1.6)	
Provisions	-	(0.6)	(0.6)	
Retirement benefit obligation	(7.9)	-	(7.9)	
Minority interest	(0.9)	-	(0.9)	
Current tax	(7.0)	-	(7.0)	
Deferred tax	(2.6)	-	(2.6)	
Bank and cash balances	7.7	-	7.7	
Overdraft	(4.0)	-	(4.0)	
Finance leases	(0.1)	-	(0.1)	
	39.5	(4.5)		35.0
				49.4
Goodwill				394.2
Total consideration (including acquisition costs of £14.6m)				443.6
Satisfied by:				
Shares issued				244.0
Cash consideration				199.6
				443.6
Net cash outflow in the period:				
Cash/overdrafts acquired				0.2
Acquisition expenses paid				(4.9)
Proceeds of share issue applied				(244.0)
Cash consideration paid				(184.5)
				(433.2)

Approximately £10 million of acquisition costs remain to be paid.

The fair value adjustments to property, plant and equipment relate to property valuations at the date of acquisition. The fair value adjustment to trade receivables to the write off of bank fees not amortised on repayment of debt on acquisition. The fair value adjustment to provisions relates to an onerous lease. The fair value adjustments are provisional as at the balance sheet date.

Due to the proximity of the acquisition to the reporting date it has not been possible to complete the allocation of goodwill between separable intangible assets such as customer relationships, proprietary technology and brands. The provisional allocation to such intangibles is £nil, however, this will be reviewed and the results of the review reported in the accounts to 31 December 2005. In the opinion of the directors, the amortisation of any value to be ascribed to such intangibles would be immaterial in relation to the profit for the period.

7. Issued capital and reserves

Share Capital

	30 June 2005 £m	*30 June 2004 £m*	*31 December 2004 £m*
Authorised			
342,830,000 0.1p ordinary shares (2004 : 17,000,000)	0.3	-	-
59,170 £1 convertible B shares (incentive shares)	0.1	0.1	0.1
	0.4	0.1	0.1
Allotted, called up and fully paid			
257,119,989 ordinary shares of 0.1p	0.2	-	-
59,170 convertible B shares of £1 each	0.1	0.1	0.1
	0.3	0.1	0.1

243,999,989 shares were issued on 26 May 2005 in connection with the acquisition of McKechnie and Dynacast (see note 6). The shares were issued at a premium of 99.9p.

The convertible B shares are non-voting and not entitled to any dividends. Under these arrangements the directors and employees hold convertible B shares ("incentive shares") which convert shortly after 31 May 2009 or, if earlier, on a takeover of the company, into ordinary shares with an aggregate value on conversion equal to 10 per cent of the increase in shareholder value. The number of ordinary shares arising on conversion will be determined by reference to the average market price of an ordinary share for forty business days prior to conversion or the takeover offer price (as the case may be).

The increase in shareholder value is calculated as the difference between the market capitalisation of the company at conversion (determined by reference to the average market price of an ordinary share for forty business days prior to conversion, or the offer price (as the case may be)), and the net invested capital in the company, being the aggregate of the amounts paid on the ordinary shares up to conversion less all amounts paid by the company by way of dividends or other distributions in respect of those shares, where each such amounts shall be adjusted in line with the movement in the RPI (plus 2 per cent, per annum).

Share Premium

	Share premium account £m
At 31 December 2004	12.8
Premium arising on issue of equity shares	243.8
At 30 June 2005	256.6

Reserves	*Foreign currency translation reserve £m*	*Accumulated losses £m*	*Total £m*
At 31 December 2004	-	(4.4)	(4.4)
Currency translation adjustments	1.4	-	1.4
Profit for the period	-	3.0	3.0
Actuarial adjustments on pension liabilities	-	(2.7)	(2.7)
Total recognised income and expense for the period	1.4	0.3	1.7
At 30 June 2005	1.4	(4.1)	(2.7)

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries. It is also used to record the net investments hedged in these subsidiaries.