Twyford Bathrooms

Directors' report and financial statements

Registered number 00546129

31 December 2006

Contents

Directors' report

The directors present their directors' report and financial statements for the year ended 31 December 2006

Principal activity

The company's principal activity is the manufacture and sale of bathrooms and ancillary fittings for the UK and overseas markets

Business review

Review of the development and performance of the business

- Sales growth in 2006 was achieved across the spectrum of distribution channels in mainland UK, Ireland, Europe and Exports outside Europe This represented a significant improvement in revenues over the previous year despite difficult market conditions that, according to leading industry indicators are, expected to prevail for the foreseeable future

- In order to improve financial returns, significant changes to the UK manufacturing operations were commenced during 2006 This has resulted in a permanent reduction in volumes produced in the UK manufacturing facilities and production volumes switched to other companies within the Sanitec group A lease and leaseback agreement was completed in 2006 and has generated £33 6m cash and ongoing supply cost reduction of £4 1m per year by 2008 The implementation cash costs are predicted to be £7 4m with additional leaseback costs of £2 35m per year The transition to the revised operating facilities will be completed by the end of 2007

- A Bath and Shower expansion programme was launched in the final quarter of 2006 This programme is anticipated to yield additional sales revenues of £1m in 2007 Initial investments in selling costs of £0 7m are budgeted in 2007 relating to the project

- Reported gross profit cash and % has been significantly impacted by the accounting treatment regarding the impairment of plant & machinery assets in relation to the reduced operations at the Alsager plant of £4m and the treatment of one off relocation costs £0 2m relating to the transfer of assets to the reduced facility

- Selling, General and Administration costs are considerably lower than the previous year, including the Bath & Shower initial investment costs, following a headcount reduction programme implemented towards the end of 2005 and further cost reduction programmes enacted during 2006

- Operating Profit, before exceptional items, decreases by £2 2m year on year following the plant and machinery asset impairment of £4m and the relocation costs incurred due to the reduced manufacturing operations at the Alsager site

Key Performance Indicators

- Management use a range of performance measures to monitor and manage the business The KPIs measure past performance and also provide information to allow us to manage the business into the future

- Revenue, Operating Profit and Working Capital are the key measures used to indicate the level of profitability and the efficiency with which operating profits have been turned into cash KPIs for 2006 are shown in the table below, along with prior year comparatives

Directors' report *(contınued)*

Fınancıal Measures	2006	2005	% change ın year
	£'000	£'000	
Revenue	75,195	71,325	+5 4%
Operatıng profit (before exceptıonal ıtems)	2,459	4,627	-46 8%
Operatıng profit (excludıng asset wrıte off)	6,299	4,627	+36 1%
Operatıng profit %	8 3%	6 5%	+1 8%
Workıng capıtal	3,560	10,795	+67%

Proposed dıvıdend

Dıvıdends paıd durıng the year comprıse an ınterım dıvıdend ın respect of the year ended 31 December 2006 of £6,665,000

Research and development

The company commıts suffıcıent resources to research and development so as to ensure that ıt maıntaıns ıts competıtıve posıtıon ın the market

Polıcy and practice on payment of credıtors

The company ıs responsıble for agreeıng terms and condıtıons under whıch busıness transactıons wıth supplıers are conducted It ıs the company's polıcy that payments to supplıers are made ın accordance wıth these terms, provıded that the supplıer ıs also complyıng wıth all the relevant terms and condıtıons The number of days that the company takes to settle supplıer ınvoıces ıs 56 days (*2005* 72 days)

Dırectors and dırectors' ınterests

The dırectors who held office durıng the year were as follows

AD Brown
MG Conlon

Directors' report *(continued)*

Employees

The company is committed to employee involvement and encourages the development of co-operation with employees To this end, the company's policy is to ensure that employees are kept informed on matters, which affect them, through direct communication and established procedures for joint consultation

Disabled persons

The company has continued to examine ways and means of providing employment for disabled employees, under normal terms and conditions, with opportunities for training, career development and promotion as appropriate The company's policy on the employment of disabled persons has been applied as sympathetically as possible

Political and charitable contributions

The company made no political contributions during the year Donations to UK charities amounted to £3,000

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting

By order of the board

AD Brown
Director

Lawton Road
Alsager
Stoke-on-Trent
ST7 2DF

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period

In preparing these financial statements, the directors are required to

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities

KPMG LLP

St James' Square
Manchester
M2 6DS
United Kingdom

Independent auditors' report to the members of Twyford Bathrooms

We have audited the financial statements of Twyford Bathrooms for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Note of Historical cost profits and losses, the reconciliation of movements in shareholders funds and the related notes These financial statements have been prepared under the accounting policies set out therein

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 financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 4

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements

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

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it

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 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 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 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

Independent auditors' report to the members of Twyford Bathrooms *(continued)*

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

28th September 2007

Profit and loss account
for the year ended 31 December 2006

	Note	**Before exceptional items 2006 £000**	**Exceptional items 2006 £000**	**Total 2006 £000**	Before exceptional items 2005 £000	Exceptional items 2005 £000	Total 2005 £000
Turnover – continuing operations	*2*	**75,195**	**-**	**75,195**	71,325	-	71,325
Cost of sales		**(57,542)**	**(7,420)**	**(64,962)**	(48,866)	(1,296)	(50,162)
Gross profit		**17,653**	**(7,420)**	**10,233**	22,459	(1,296)	21,163
Distribution costs		**(11,407)**	**(194)**	**(11,601)**	(12,163)	(1,631)	(13,794)
Administrative expenses		**(2,954)**	**-**	**(2,954)**	(4,733)	(408)	(5,141)
Other operating costs		**(833)**	**-**	**(833)**	(936)	(28)	(964)
Operating profit/(loss) – continuing operations		**2,459**	**(7,614)**	**(5,155)**	4,627	(3,363)	1,264
Profit on sale of fixed assets				**15,289**			-
Other interest receivable and similar income	*6*			**81**			-
Other finance income	*7*			**91**			68
Profit on ordinary activities before taxation				**10,306**			1,332
Tax on profit on ordinary activities	*8*			**2,718**			(429)
Profit for the financial year				**13,024**			903

Details of exceptional items are shown in note 3

Balance sheet
at 31 December 2006

	Note	2006		2005	
		£000	£000	£000	£000
Fixed assets					
Intangible assets	*10*		840		890
Tangible assets	*11*		6,326		26,215
Investments	*12*		3,527		3,527
			10,693		30,632
Current assets					
Stocks	*13*	11,736		15,771	
Debtors	*14*	16,927		14,798	
Cash at bank and in hand		43,005		5,948	
		71,668		36 517	
Creditors amounts falling due within one year	*15*	(25,103)		(19 774)	
Net current assets			46,565		16,743
Total assets less current liabilities			57,258		47,375
Provisions for liabilities and charges	*16*		(4,654)		(895)
Net assets excluding pension liabilities			52,604		46,480
Pension liabilities	*20*		(433)		(935)
Net assets including pension liabilities			52,171		45,545
Capital and reserves					
Called up share capital	*17*		13,509		13,509
Share premium account	*18*		31,159		31,159
Revaluation reserve	*18*		-		3,005
Profit and loss account	*18*		7,503		(2,128)
Shareholders' funds			52,171		45,545

These financial statements were approved by the board of directors on 21/9/2007 and were signed on its behalf by

AD Brown

AD Brown
Director

Statement of total recognised gains and losses
for the year ended 31 December 2006

	2006 £000	2005 £000
Profit for the financial year	**13,024**	903
Actuarial (loss)/gain recognised in the pension scheme	**382**	(537)
Deferred tax arising on gains/(losses) in the pension scheme	**(115)**	161
Total recognised gains and losses relating to the financial year	**13,291**	527

Note of historical cost profits and losses
for the year ended 31 December 2006

	2006 £000	2005 £000
Reported profit on ordinary activities before taxation	**10,306**	1,332
Difference between a historical cost depreciation charge and the actual depreciation charge calculated on the revalued amount	-	21
Historical cost profit on ordinary activities before taxation	**10,306**	1,353
Historical cost profit for the year after taxation	**13,024**	924

Reconciliation of movements in shareholder's funds
for the year ended 31 December 2006

	2006 £000	2005 £000
Profit for the financial year	**13,024**	903
Dividends	**(6,665)**	(189)
Retained profit	**6,359**	714
Other recognised gains and losses relating to the year (net)	**267**	(376)
Net addition to/(reduction in) shareholders' funds	**6,626**	338
Opening shareholders' funds	**45,545**	45,207
Closing shareholders' funds	**52,171**	45,545

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules, modified to include the revaluation of freehold land and buildings The company has applied the transitional rules contained in Financial Reporting Standard 15, *Tangible Fixed Assets*, to retain previous valuations as the basis on which these assets are held

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements

The company is exempt by virtue of s228 of the Companies Act 1985 from the requirement to prepare group accounts These financial statements present information about the company as an individual undertaking and not about its group

As 100% of the company's voting rights are controlled within the group headed by Sanitec Oy, the company has taken advantage of the exemption contained in Financial Reporting Standard 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties) The consolidated financial statements of Sanitec Oy within which this company is included, can be obtained from the address given in note 21

Goodwill

Purchased Goodwill (representing the excess of the fair value of the consideration given over the separable net assets acquired) arising on business combinations in respect of acquisitions since 1 January 1998 is capitalised Positive goodwill is amortised to nil by equal annual instalments over its estimated useful economic life

Fixed assets and depreciation

Tangible fixed assets are stated at cost with the exception of freehold land and buildings which are stated at valuation Depreciation is provided to write off the cost or valuation less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives at the following rates

Freehold buildings	-	3% - 10% per annum
Plant and machinery	-	3% - 20% per annum
Motor vehicles	-	20% - 33% per annum
Fixtures and fittings	-	10% - 33% per annum

No depreciation is provided on freehold land

Notes *(continued)*

1 Accounting policies *(continued)*

Investments

Fixed asset investments are shown at cost

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account

Leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease

Post-retirement benefits

The Company operates a pension scheme providing benefits based on final pensionable pay The assets of the scheme are held separately from those of the Company

Pension scheme assets are measured using market values Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability

The pension scheme deficit is recognised in full The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses

Research and development expenditure

Expenditure on research and development is written off to the profit and loss account in the year in which it is incurred

Stocks

Stocks are stated at the lower of cost and net realisable value In determining the cost of raw materials, consumable and goods for resale, the weighted average purchase price is used For work in progress and finished goods cost is taken as production cost, which includes an appropriate proportion of attributable overheads

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers

Taxation

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by Financial Reporting Standard 19

Notes *(continued)*

2 Analysis of turnover and profit on ordinary activities before taxation

The turnover and profit on ordinary activities before taxation is derived solely from the company's principal activity Analysis of turnover by geographical market is as follows

	2006 £000	2005 £000
United Kingdom	**61,329**	59,830
Continental Europe	**5,401**	4,129
Rest of the World	**8,465**	7,366
	75,195	71,325

3 Notes to the profit and loss account

	2006 £000	2005 £000
Profit on ordinary activities before taxation is stated after charging·		
Depreciation and other amounts written off owned tangible and intangible fixed assets	**6,420**	2,476
Hire of plant and machinery – rentals payable under operating leases	**44**	55
Research and development expenditure	**18**	25

Auditors' remuneration

	2006 £000	2005 £000
Audit of these financial statements	**63**	69
Amounts receivable by the auditors and their associates in respect of		
Other services relating to taxation	**26**	28

Profit on sale of fixed assets

During the year the company entered into a lease and leaseback arrangement for its property A net profit after deducting associated costs, of £15,289,000 was recorded

Notes *(continued)*

3 Notes to the profit and loss account *(continued)*

During the year the company has also incurred certain exceptional write-offs and costs following the acquisition by, and subsequent integration with, its ultimate parent company, Sanitec Oy

These write-offs and costs principally consisted of

	2006	2005
	£000	£000
Redundancy costs	-	932
Financial assistance	-	68
Royal Doulton write off	-	1,059
SGA Restructure	73	-
Bain Consultants	121	-
Sphinx reorganisation	-	290
Product rationalisation	-	939
LLP	-	75
Stock Write Off	3,033	-
Redundancy Costs	3,718	-
Environmental Studies	157	-
Production Inefficiencies	446	-
Decommissioning Costs	16	-
Legal Consultancy	50	-
	7,614	3,363

4 Remuneration of directors

	2006	2005
	£000	£000
Directors' emoluments	245	255
Contributions to defined benefit pension schemes	57	48

The aggregate emoluments of the highest paid director was £131,950 *(2005 £182,730)* He is a member of a defined benefit pension scheme, under which his accrued pension at the year end was £29,466 (*2005 £25,128)*

	Number of directors	
	2006	2005
Retirement benefits are accruing to the following number of directors under		
Defined benefit schemes	2	2

Notes *(continued)*

5 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows

	Number of employees	
	2006	2005
Manufacturing	**371**	387
Distribution	**6**	8
Administration	**143**	145
	520	540

The aggregate payroll costs of these persons were as follows

	2006	2005
	£000	£000
Wages and salaries	**13,482**	15,237
Social security costs	**1,067**	1,144
Other pension costs (see note 20)	**1,212**	1,201
	15,761	17,582

6 Other interest receivable and similar income

	2006	2005
	£000	£000
Receivable from group undertakings	**81**	-

7 Other finance income

	2006	2005
	£000	£000
Expected return on pension scheme assets	**632**	479
Interest on pension scheme liabilities	**(541)**	(411)
	91	68

Notes *(continued)*

8 Taxation

Analysis of charge in period

	2006 £000	2005 £000
UK Corporation tax		
Current tax on income for the period	-	-
Total current tax	-	-
Deferred tax (see note 14)		
(Reversal)/origination of timing differences	**(2,966)**	472
Adjustment in respect of FRS17 pensions	**100**	(43)
Adjustments in respect of prior years	**148**	-
Tax on profit on ordinary activities	**(2,718)**	429

Factors affecting the tax charge for the current period

The current tax charge for the period is lower (2005 lower) than the standard rate of corporation tax in the UK (30%, 2005 30%) The differences are explained below

	2006 £000	2005 £000
Current tax reconciliation		
Profit on ordinary activities before tax	**10,306**	1,332
Current tax at 30% (2005 30%)	**3,092**	400
Effects of		
Expenses not deductible for tax purposes	**206**	59
Depreciation for period in excess of capital allowances	**580**	684
Group relief	**(987)**	(1,177)
Other short term timing differences	**90**	(4)
Utilisation of tax losses	-	(5)
Non qualifying profit on disposal of fixed assets	**(2,881)**	-
Adjustment in respect of FRS17 pensions	**(100)**	43
Total current tax charge (see above)	-	-

9 Dividends

	2006 £000	2005 £000
Interim dividends paid in respect of the current year	**6,665**	189

Notes *(continued)*

10 Intangible fixed assets

	Goodwill £000
Cost	
As at beginning and end of year	989
Amortisation	
At beginning of year	99
Charge for year	50
At end of year	149
Net book value	
At 31 December 2006	**840**
At 31 December 2005	890

The directors consider each acquisition separately for the purpose of determining the amortisation period of any goodwill that arises Goodwill is being amortised over 20 years, being the Directors estimate of the useful economic life of the acquisitions

Notes *(continued)*

11 Tangible fixed assets

	Freehold land and buildings £000	Fixtures and fittings £000	Plant and machinery £000	Motor vehicles £000	Total £000
Cost or valuation					
At 1 January 2006	17,195	11,478	49,729	685	79,087
Additions	7	49	1,330	16	1,402
Disposals	(17,136)	(108)	(101)	(37)	(17,382)
At 31 December 2006	' 66	11,419	50,958	664	63,107
Depreciation					
At 1 January 2006	2,008	10,940	39,338	586	52,872
Charge for year	290	252	5,824	4	6,370
Disposals	(2,288)	(108)	(28)	(37)	(2,461)
At 31 December 2006	10	11,084	45,134	553	56,781
Net book value					
At 31 December 2006	**56**	**335**	**5,824**	**111**	**6,326**
At 31 December 2005	15,187	538	10,391	99	26,215

Freehold land and buildings were valued as at 31 December 1997 by Healey & Baker, International Surveyors & Valuers, on the basis of open market values for existing use This valuation has been retained under the transitional provisions as set out in Financial Reporting Standard 15, *Tangible Fixed Assets* The following information relates to these assets

	2006 £000	2005 £000
At valuation	-	16,754
Aggregate depreciation thereon	-	(1,741)
Net book value	-	15,013
Historic cost of revalued assets	-	14,201
Aggregate depreciation based on historical cost	-	(2,193)
Historical cost net book value	-	12,008

Freehold land and buildings includes freehold land not subject to depreciation amounting to £nil (31 December 2006 £7,187,000) Other tangible fixed assets, including additions subsequent to the revaluation of land and buildings, are valued at cost

Notes *(continued)*

12 Fixed asset investments

	Shares in group undertakings £000
Cost and net book value	
At beginning and end of year	**3,527**

The companies in which the company's interest at the year end is more than 20% are as follows

	Country of incorporation	Principal activity	Class and percentage of shares held
Subsidiary undertakings			
Twyfords Limited	England and Wales	Dormant	Ordinary 100%
Twyford Limited	England and Wales	Dormant	Ordinary 100%
Twyford Plumbing Solutions Limited	England and Wales	Dormant	Ordinary 100%
Sphinx Bathrooms Limited	England and Wales	Dormant	Ordinary 100%

13 Stocks

	2006 £000	2005 £000
Raw materials and consumables	**1,722**	2,854
Work in progress	**495**	1,278
Finished goods and goods for resale	**9,519**	11,639
	11,736	15,771

14 Debtors

	2006 £000	2005 £000
Trade debtors	**9,956**	11,386
Amounts owed by group undertakings	**2,546**	2,383
Other debtors	**-**	47
Prepayments and accrued income	**1,369**	744
Deferred tax asset	**3,056**	238
	16,927	14,798

Notes *(continued)*

14 Debtors *(continued)*

	Deferred taxation £000
Asset as at 1 January 2006	238
Credit to the profit and loss account for the year (see note 8)	2,818
Asset as at 31 December 2006 (see above)	**3 056**

The elements of deferred taxation are as follows

	2006 £000	2005 £000
Difference between accumulated depreciation and amortisation and capital allowances	**2,941**	200
Other timing differences	**115**	38
Undiscounted asset	**3,056**	238
Deferred tax asset	**3,056**	238

Notes *(continued)*

15 Creditors: amounts falling due within one year

	2006 £000	2005 £000
Trade creditors	**8,639**	9,792
Amounts owed to group undertakings	**5,547**	5,473
Corporation tax	**2,163**	2,163
Taxation and social security	**8,170**	1,584
Accruals and deferred income	**584**	762
	25,103	19,774

The amounts owed to group undertakings are interest free and repayable on demand

16 Provisions for liabilities and charges

	Property sale costs £000	Redundancy £000	Royalty agreement termination costs £000	Total £000
As at 1 January 2006	-	-	(895)	(895)
(Charge)/credit to the profit and loss for the year	(3,454)	(1,200)	895	(3,759)
As at 31 December 2006	(3,454)	(1,200)	-	**(4,654)**

17 Called up share capital

	2006 £000	2005 £000
Authorised		
Equity 37,465,116 ordinary shares of 36 05784p each	**13,509**	13,509
Allotted, called up and fully paid		
Equity 37,465,116 ordinary shares of 36 05784p each	**13,509**	13,509

Notes *(continued)*

18 Share premium and reserves

	Share premium account £000	Revaluation reserve £000	Profit and loss account £000
At beginning of year	31,159	3,005	(2,128)
Retained profit for the year	-	-	13,024
Dividends			(6,665)
Actuarial loss recognised in the pension scheme	-	-	382
Deferred tax arising on losses in the pension scheme	-	-	(115)
Transfers	-	(3,005)	3,005
At end of year	**31,159**	-	**7,503**

19 Commitments

Annual commitments under non-cancellable operating leases are as follows

	2006 Land and buildings £000	**2006 Other £000**	2005 Land and buildings £000	2005 Other £000
Operating leases which expire				
Within one year	-	**44**	-	96
In the second to fifth years inclusive	**2,340**	**375**	-	427
	2,340	**419**	-	523

20 Pension scheme

The company operates a pension scheme providing benefits based on final pensionable pay The latest full actuarial valuation was carried out at 1 September 2001 and was updated for FRS 17 purposes to 31 December 2006 and 31 December 2005 by a qualified independent actuary

The major assumptions used in this valuation were

	2006	2005	2004
Rate of increase in salaries	**4 00%**	3 75%	4 25%
Rate of increase in pensions in payment and deferred pensions			
Service pre 1 January 2006	**3 00%**	2 75%	2 75%
Service post 1 January 2006	**2 25%**	2 00%	2 00%
Discount rate applied to scheme liabilities	**5 10%**	4 75%	5 30%
Inflation assumption	**3 00%**	2 75%	2 75%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice

Notes *(continued)*

20 Pension Scheme *(continued)*

Scheme assets

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were

	Value at 2006 £000	Value at 2005 £000	Value at 2004 £000
Equities	**9,679**	7,714	5,267
Bonds	**1,694**	1,330	896
Other – Cash	**48**	180	70
Total market value of assets	**11,421**	9,224	6,233
Present value of scheme liabilities	**(12,040)**	(10,560)	(6,891)
Deficit in the scheme – Pension liability	**(619)**	(1,336)	(658)
Related deferred tax asset	**186**	401	197
Net pension liability	**(433)**	(935)	(461)

The expected rates of return on the assets in the scheme were

	Long term rate of return 2006	Long term rate of return 2005	Long term rate of return 2004
Equities	**7 25%**	6 75%	7 25%
Bonds	**4 50%**	4 25%	4 65%
Other – Property	**5 00%**	4 25%	4 50%

Movement in deficit during the year

	2006 £000	2005 £000
Deficit in scheme at beginning of year	**(1,336)**	(658)
Current service cost	**(1,212)**	(1,201)
Contributions paid	**1,039**	992
Past service cost	**417**	-
Other finance income	**91**	68
Actuarial gain/(loss)	**382**	(537)
Deficit in the scheme – Pension liability	**(619)**	(1,336)

Notes *(continued)*

20 Pension Scheme *(continued)*

Analysis of other pension costs charged in arriving at operating profit/loss

	2006 £000	2005 £000
Current service cost	**1,212**	1,201

Analysis of amounts included in other finance income

	2006 £000	2005 £000
Expected return on pension scheme assets	**632**	479
Interest on pension scheme liabilities	**(541)**	(411)
	91	68

Analysis of amount recognised in statement of total recognised gains and losses

	2006 £000	2005 £000
Actual return less expected return on scheme assets	**80**	982
Experience gains and losses arising on scheme liabilities	**-**	(392)
Changes in assumptions underlying the present value of scheme liabilities	**302**	(1,127)
Actuarial gain recognised in statement of total recognised gains and losses	**382**	(537)

History of experience gains and losses

	2006	2005	2004	2003	2002
Difference between the expected and actual return on scheme assets					
Amount (£000)	**80**	982	(37)	209	(248)
Percentage of year end scheme assets	**1%**	11%	(1%)	5%	(9%)
Experience gains and losses on scheme liabilities					
Amount (£000)	**-**	(392)	(138)	399	(237)
Percentage of year end present value of scheme liabilities	**-%**	(4%)	(2%)	8%	8%
Total amount recognised in statement of total recognised gains and losses					
Amount (£000)	**382**	(537)	168	55	(671)
Percentage of year end present value of scheme liabilities	**3%**	(5%)	2%	1%	(22%)

Notes *(continued)*

21 Ultimate parent company and parent undertaking of larger group of which the company is a member

The company is a subsidiary undertaking of Sanitec Oy which is the ultimate parent company incorporated in Finland

The largest group in which the results of the company are consolidated is that headed by Sanitec Oy incorporated in Finland The consolidated accounts of Sanitec Oy are available to the public and may be obtained from the registered office

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22 Post balance sheet events

It has been announced that the corporation tax rate applicable to the company is expected to change from 30% to 28% from 1 April 2008 The deferred tax asset has been calculated at 30% in accordance with FRS 19 Any timing differences which reverse before 1 April 2008 will be relieved at 30%, any timing differences which exist at 1 April 2008 will reverse at 28% and, because of the uncertainty of the when the deferred tax liability will reverse, it is not possible to calculate the full financial impact of this change