Twyford Bathrooms

Directors' report and financial statements

Registered number 00546129

31 December 2007

Contents

Directors' report

The directors present their directors' report and financial statements for the year ended 31 December 2007

Principal activities

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 declined year on year in 2007 primarily in the UK which is reflective of a downturn in the market as reflected in the latest industry indicators and are expected to prevail for the foreseeable future In addition to the market impact there are several other key impacts in the year

- Ongoing focus on working capital and subsequent de-stocking of key customers
- The retail sector continues to perform below expectations reflecting a difficult market

Key sales initiatives have been established to counter the downturn in the marketplace, which include growing the mid-range ceramic suites through Retail Showrooms and Regional Developers and growth in the Showering business

In order to improve financial returns, significant changes to the UK manufacturing operations were completed during 2007 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 This has led to improved profits of £1 5m after allowing for additional leaseback costs of the buildings of £2 3m per year

In addition, reported gross profit cash and % significantly improves during 2007, due to the fact that in 2006 the profits were severely 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

Operating Profit, before exceptional items, increased by £4 8m 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 in 2006, which do not repeat

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 2007 are shown in the table below, along with prior year comparatives

	2007	2006	Change in year
	£000	£000	%
Revenue	**73,684**	75,195	(2 0)
Operating profit (before exceptional items)	**7,608**	2,459	195 7
Operating profit (excluding asset write off)	**7,608**	6,299	15 5
Operating profit (%)	**10.3**	8 3	
Working capital (excluding intra group cash balances)	**2,185**	1,014	(168 2)

Proposed dividend

Dividends paid during the year comprise a final dividend in respect of the year ended 31 December 2006 of £8,294,000

Directors' report *(continued)*

Research and development

The company commits sufficient resources to research and development so as to ensure that it maintains its competitive position in the market

Policy and practice on payment of creditors

The company is responsible for agreeing terms and conditions under which business transactions with suppliers are conducted It is the company's policy that payments to suppliers are made in accordance with these terms, provided that the supplier is also complying with all the relevant terms and conditions The number of days that the company takes to settle supplier invoices is 60 days (*2006 56 days*)

Directors

The directors who held office during the year were as follows

A D Brown
M G Conlon

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 £3,700

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

M G Conlon
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

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 2007 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains 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 3

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 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 2007 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

24th October 2008

Profit and Loss Account

for the year ended 31 December 2007

	Note	Before exceptional items 2007 £000	Exceptional items 2007 £000	Total 2007 £000	Before exceptional items 2006 £000	Exceptional items 2006 £000	Total 2006 £000
Turnover – continuing operations	2	73,684	-	73,684	75,195	-	75,195
Cost of sales		(50,163)	(1,945)	(52,108)	(57,542)	(7,420)	(64,962)
Gross profit/(loss)		23,521	(1,945)	21,576	17,653	(7,420)	10,233
Distribution costs		(11,722)	-	(11,722)	(11,407)	(194)	(11,601)
Administrative expenses		(3,308)	-	(3,308)	(2,954)	-	(2,954)
Other operating costs		(883)	-	(883)	(833)	-	(833)
Operating profit/(loss) – continuing operations		7,608	(1,945)	5,663	2,459	(7,614)	(5,155)
Profit on sale of fixed assets				68			15,289
Other interest receivable and similar income	6			2,230			81
Other finance income	7			180			91
Profit on ordinary activities before taxation				8,141			10,306
Tax on profit on ordinary activities	8			(1,060)			2,718
Profit for the financial year	18			7,081			13,024

Details of exceptional items are shown in note 3

Balance Sheet
at 31 December 2007

	Note	**2007**	**2007**	2006	2006
		£000	**£000**	£000	£000
Fixed assets					
Intangible assets	*10*		**790**		840
Tangible assets	*11*		**8,342**		6,326
Investments	*12*		**3,527**		3,527
			12,659		10,693
Current assets					
Stocks	*13*	**13,513**		11,736	
Debtors	*14*	**41,490**		16,927	
Cash at bank and in hand		**6,784**		43,005	
		61,787		71,668	
Creditors amounts falling due within one year	*15*	**(21,929)**		(25,103)	
Net current assets			**39,858**		46,565
Total assets less current liabilities			**52,517**		57,258
Provisions for liabilities	*16*		**(1,355)**		(4,654)
Net assets excluding pension liabilities			**51,162**		52,604
Pension liabilities	*20*		**(179)**		(433)
Net assets including pension liabilities			**50,983**		52,171
Capital and reserves					
Called up share capital	*17*		**13,509**		13,509
Share premium account	*18*		**31,159**		31,159
Profit and loss account	*18*		**6,315**		7,503
Shareholders' funds			**50,983**		52,171

These financial statements were approved by the board of directors on 24th October 2008 and were signed on its behalf by

M G Conlon
Director

Statement of Total Recognised Gains and Losses
for the year ended 31 December 2007

	2007 £000	2006 £000
Profit for the financial year	**7,081**	13,024
Actuarial gain recognised in the pension scheme	**35**	382
Deferred tax arising on gains in the pension scheme	**(10)**	(115)
Total recognised gains and losses relating to the financial year	**7,106**	**13,291**

Reconciliation of Movements in Shareholders' Funds
for the year ended 31 December 2007

	2007 £000	2006 £000
Profit for the financial year	**7,081**	13,024
Dividends on shares classified in shareholders' funds	**(8,294)**	(6,665)
Other recognised gains and losses relating to the year (net)	**25**	267
Net (reduction in)/addition to shareholders' funds	**(1,188)**	6,626
Opening shareholders' funds	**52,171**	45,545
Closing shareholders' funds	**50,983**	52,171

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

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 financial statements 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's included, can be obtained from the address given in note 22

Classification of financial instruments issued by the Company

Following the adoption of FRS 25, financial instruments issued by the Company are treated as equity (i e forming part of shareholders' funds) only to the extent that they meet the following two conditions

a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company, and

b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges Finance payments associated with financial instruments that are classified as part of shareholders' funds (see dividends policy), are dealt with as appropriations in the reconciliation of movements in shareholders' funds

Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements

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

Notes *(continued)*

1 Accounting policies *(continued)*

Tangible fixed assets and depreciation

Depreciation is provided to write off the cost 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

Investments

Fixed asset investments are stated 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 For quoted securities the current bid price is taken as market value 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 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 is recognised when ownership transfers to the customer through sale

Taxation

The charge for taxation is based on the profit 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

	2007	2006
	£000	£000
United Kingdom	**58,626**	61,329
Continental Europe	**5,910**	5,401
Rest of World	**9,148**	8,465
	73,684	75,195

3 Notes to the profit and loss account

	2007	2006
	£000	£000
Profit on ordinary activities before taxation is stated		
After charging,		
Depreciation and other amounts written off owned tangible and intangible fixed assets	**1,325**	6,420
Hire of plant and machinery – rentals payable under operating leases	**343**	44
Research and development expenditure	**54**	18
	1,723	6,482
Auditors' remuneration		
Audit of these financial statements	**51**	63
Amounts receivable by the auditors and their associates in respect of other services relating to taxation	**36**	26

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

Notes *(continued)*

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

These write-offs and costs principally consisted of

	2007 £000	2006 £000
Redundancy costs	**(258)**	3,718
SGA restructure	-	73
Bains Consultants	-	121
Stock write off	**216**	3,033
Other consultancy	**131**	-
Legal consultancy	-	50
Environmental studies	-	157
Production inefficiencies	-	446
Decommissioning costs	**1,579**	16
Sales fees additional provision	**277**	-
	1,945	7,614

4 Remuneration of directors

	2007 £000	2006 £000
Directors' emoluments	**337**	245
Contributions to defined benefit pension schemes	**52**	57

The aggregate emoluments of the highest paid director was £184,832 (*2006 £131,950*) He is a member of a defined benefit pension scheme under which his accrued pension at the year end was £38,182 *(2006 £29,466)*

	Number of directors 2007	2006
Retirement benefits are accruing to the following number of directors under Defined benefit schemes	**2**	2

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 2007	2006
Manufacturing	**207**	371
Distribution	**6**	6
Administration	**151**	143
	364	520

Notes *(continued)*

5 Staff numbers and costs *(continued)*

The aggregate payroll costs of these persons were as follows

	2007 £000	2006 £000
Wages and salaries	**10,180**	13,482
Social security costs	**801**	1,067
Other pension costs (see note 20)	**867**	1,212
	11,848	15,761

6 Other interest receivable and similar income

	2007 £000	2006 £000
Receivable from group undertakings	**2,230**	81

7 Other finance income

	2007 £000	2006 £000
Expected return on pension scheme assets	**821**	632
Interest on pension scheme liabilities	**(641)**	(541)
	180	91

8 Taxation

Analysis of charge in period

	2007 £000	2006 £000
UK corporation tax		
Current tax on income for the period	**-**	-
Total current tax	**-**	-
Deferred tax (see note 14)		
Origination/(reversal) of timing differences	**1,566**	(2,966)
Adjustment in respect of FRS 17 pensions	**101**	100
Adjustments in respect of prior years	**(764)**	148
Effect of increased/decreased tax rate	**157**	-
Tax on profit on ordinary activities	**1,060**	(2,718)

Notes *(continued)*

8 Taxation *(continued)*

Factors affecting the tax charge for the current period

The current tax charge for the period is lower (*2006 lower*) than the standard rate of corporation tax in the UK (30%, 2006 30%) The differences are explained below

	2007 £000	2006 £000
Current tax reconciliation		
Profit on ordinary activities before tax	**8,141**	10,306
Current tax at 30% (*2006 30%*)	**2,442**	3,092
Effects of		
Brought forward unrecognised losses utilised	**(22)**	-
Expenses not deductible for tax purposes	**642**	206
Capital allowances for period in excess of depreciation	**(1,466)**	580
Group relief	**(2,454)**	(987)
Other short term timing differences	**(251)**	90
Utilisation of tax losses	**(119)**	-
Write off of deferred tax on IBAs	**1,177**	-
Non qualifying profit on disposal of fixed assets	**-**	(2,881)
Effect of reduction in tax rate on deferred tax balances	**157**	-
Adjustment in respect of FRS 17 pensions	**(101)**	(100)
Total current tax charge (see above)	**-**	-

9 Dividends

	2007 £000	2006 £000
Interim dividends paid in respect of the current year	**8,294**	6,665

10 Intangible fixed assets

	Goodwill £000
Cost	
At beginning and end of year	989
Amortisation	
At beginning of year	149
Charge for year	50
At end of year	199
Net book value	
At 31 December 2007	**790**
At 31 December 2006	840

Notes *(continued)*

10 Intangible fixed assets *(continued)*

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

11 Tangible fixed assets

	Freehold land and buildings £000	Fixtures and fittings £000	Plant and machinery £000	Motor vehicles £000	Total £000
Cost					
At 1 January 2007	66	11,419	50,958	664	63,107
Additions	-	632	2,659	-	3,291
Disposals	-	(41)	-	-	(41)
At 31 December 2007	66	12,010	53,617	664	66,357
Depreciation					
At 1 January 2007	10	11,084	45,134	553	56,781
Charge for year	(8)	140	1,141	2	1,275
On disposals	-	(41)	-	-	(41)
At 31 December 2007	2	11,183	46,275	555	58,015
Net book value					
At 31 December 2007	**64**	**827**	**7,342**	**109**	**8,342**
At 31 December 2006	56	335	5,824	111	6,326

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%

Notes *(continued)*

13 Stocks

	2007 £000	2006 £000
Raw materials and consumables	**1,871**	1,722
Work in progress	**927**	495
Finished goods and goods for resale	**10,715**	9,519
	13,513	11,736

14 Debtors

	2007 £000	2006 £000
Trade debtors	**6,949**	9,956
Amounts owed by group undertakings	**30,889**	2,546
Prepayments and accrued income	**1,549**	1,369
Deferred tax assets	**2,103**	3,056
	41,490	16,927

	Deferred taxation £000
Assets at 1 January 2007	3,056
Charge to the profit and loss account for the year (see note 8)	(953)
Assets at 31 December 2007 (see above)	**2,103**

The elements of deferred taxation are as follows

	2007 £000	2006 £000
Difference between accumulated depreciation and amortisation and capital allowances	**1,974**	2,941
Other timing differences	**129**	115
Undiscounted asset	**2,103**	3,056
Deferred tax asset	**2,103**	3,056

Notes *(continued)*

15 Creditors: amounts falling due within one year

	2007 £000	2006 £000
Trade creditors	**10,309**	8,639
Amounts owed to group undertakings	**7,170**	5,547
Corporation tax	**2,163**	2,163
Taxation and social security	**1,467**	8,170
Accruals and deferred income	**820**	584
	21,929	25,103

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

16 Provisions for liabilities

	Property sale costs £000	Redundancy £000	Total £000
As at 1 January 2007	(3,454)	(1,200)	(4,654)
Release to the profit and loss for the year	2,488	811	3,299
At 13 December 2007	(966)	(389)	(1,355)

17 Called up share capital

	2007 £000	2006 £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

18 Share premium and reserves

	Share premium account £000	Profit and loss account £000
At beginning of year	31,159	7,503
Profit for the year	-	7,081
Dividends on shares classified in shareholders' funds	-	(8,294)
Actuarial gain recognised in the pension scheme	-	35
Deferred tax arising on losses in the pension scheme	-	(10)
At end of year	**31,159**	**6,315**

Notes *(continued)*

19 Commitments

Annual commitments under non-cancellable operating leases are as follows

	2007 Land and buildings £000	2007 Other £000	2006 Land and buildings £000	2006 Other £000
Operating leases which expire				
Within one year	2,340	351	2,340	44
In the second to fifth years inclusive	7,020	427	9,360	375
	9,360	778	11,700	419

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 31st December 2006 and was updated for FRS 17 purposes to 31 December 2007 by a qualified independent actuary

The major assumptions used in this valuation were

	2007	2006	2005
Rate of increase in salaries	4.45%	4 00%	3 75%
Rate of increase in pensions in payment			
Service pre 1 January 2006	3 45%	3 00%	2 75%
Service post 1 January 2006	2.40%	2 25%	2 00%
Discount rate applied to scheme liabilities	5 50%	5 10%	4 75%
Inflation assumption	3 45%	3 00%	2 75%

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 in line with the 'medium cohort' projections The assumptions are equivalent to expecting a 65-year old to live for a number of years as follows

- Current pensioner aged 65 20 2 years (male), 23 0 years (female)
- Future retiree, currently aged 49, upon reaching 65 21 1 years (male), 23 9 years (female)

If life expectancy had been changed to assume that all members of the fund lived for one year longer, the value of the reported liabilities at 31 December 2007 would have increased by £0 4m before deferred tax

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 2007 £000	Value at 2006 £000	Value at 2005 £000
Equities	**11,229**	9,679	7,714
Bonds	**1,860**	1,694	1,330
Other – Cash	**218**	48	180
Total market value of assets	**13,307**	11,421	9,224
Present value of scheme liabilities	**(13,555)**	(12,040)	(10,560)
Deficit in the scheme – pension liability	**(248)**	(619)	(1,336)
Related deferred tax asset	**69**	186	401
Net pension liability	**(179)**	(433)	(935)

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

	Long term rate of return 2007	Long term rate of return 2006	Long term rate of return 2005
Equities	**7 00%**	7 25%	6 75%
Bonds	**4 30%**	4 50%	4 25%
Other – Property	**5.50%**	5 00%	4 25%

Movement in deficit during the year

	2007 £000	2006 £000
Deficit in scheme at beginning of year	**(619)**	(1,336)
Current service cost	**(867)**	(1,212)
Contributions paid	**1,023**	1,039
Past service cost	**-**	417
Other finance income	**180**	91
Actuarial gain	**35**	382
Deficit in the scheme – pension liability	**(248)**	**(619)**

Notes *(continued)*

20 Pension scheme *(continued)*

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

	2007 £000	2006 £000
Current service cost	**867**	1,212

Analysis of amounts included in other finance income

	2007 £000	2006 £000
Expected return on pension scheme assets	**821**	632
Interest on pension scheme liabilities	**(641)**	(541)
	180	91

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

	2007 £000	2006 £000
Actual return less expected return on scheme assets	**(139)**	80
Experience gains and losses arising on scheme liabilities	**309**	-
Changes in assumptions underlying the present value of scheme liabilities	**(135)**	302
Actuarial gain recognised in statement of total recognised gains and losses	**35**	**382**

History of experience gains and losses

	2007	2006	2005	2004	2003
Difference between the expected and actual return on scheme assets					
Amount (£000)	**(139)**	80	982	(37)	209
Percentage of year end scheme assets (%)	**(1)**	1	11	(1)	5
Experience gains and losses on scheme liabilities					
Amount (£000)	**309**	-	(392)	(138)	399
Percentage of year end present value of scheme liabilities (%)	**2**	-	(4)	(2)	8
Total amount recognised in statement of total recognised gains and losses					
Amount (£000)	**35**	382	(537)	168	55
Percentage of year end present value of scheme liabilities (%)	**-**	3	(5)	2	1

21 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

Notes *(continued)*

22 Ultimate parent company and parent undertaking of a 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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