SHL GROUP LIMITED
ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2006

Registered Number: 1328744

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REGISTERED OFFICE. The Pavilion, 1 Atwell Place, Thames Ditton, Surrey, KT7 0NE

DIRECTORS' REPORT

The directors present their annual report and the audited consolidated financial statements of SHL Group Limited for the year ended 31 December 2006 The principal activity of the Group is the development, implementation and sale of objective assessment products (delivered by both Internet and paper and pencil) and services which allow our clients to measure and predict behaviours of our client workforce Objective assessment ensures that our customers recruit better people and develop them more effectively to increase productivity and organisational performance

CASH OFFER FOR SHL GROUP PLC

On 13 September 2006, the independent directors of SHL Group plc (David Best, George Battersby and Stephen Puckett) announced that they had reached agreement with the Board of SHL Group Holdings 4 Limited on the terms of a recommended cash offer for SHL The offer was for 180 pence per share and valued SHL Group plc at approximately £100 million SHL Group Holdings 4 Limited is ultimately owned by SHL Group Holdings 1 Limited which in turn in owned by Hg Capital, and certain members of the existing SHL management team including John Bateson (Chief Executive Officer), Emma Lancaster (Group Finance Director) and Kevin Kerrigan (Managing Director of Meridian and North America regions) The offer was unconditionally accepted by the shareholders on 18 October 2006 The independent directors resigned from the Board on 19 October 2006 As a consequence of the change in ownership, SHL Group plc de-listed from the London Stock Exchange on 16 November 2006

BUSINESS REVIEW

SHL Group Limited had a strong year with revenues growing by 6% to £72 0m (2005 £68 2m), driven largely by growth in product revenues which grew by 12% Within that, in line with the Group's strategy, our web-based revenues grew by 39% (2005 40%), continuing the trend we have enjoyed over the last few years The Group's Assessment Services business had a strong second half growing by 9% in the period 1 July to 31 December 2006

Operating profits were not as strong as revenue growth, as declining paper and pencil sales drove a review of our stock balances across the Group, which resulted in a write off of £0 3m In addition, we have reviewed our fixed assets across the Group and taken an impairment change of £0 3m

Profit before tax, transition costs and management buy-out related costs of the Group grew to £7 8m (2005 £7 6m) There were significant costs related to the management buy-out (£2 3m) and Project Transition (£0 7m) Project Transition relates to one-off costs associated with shaping the business of the future, discussed further below It is anticipated that there will be further substantial costs in 2007

The market place remains competitive and customers are continually demanding greater value The Group's management team are pleased that they have continued to deliver good service while maintaining effective control over costs

SHL ended the year with 670 members in its SHL partner network (SPN), representing a 225% increase in membership from the same time last year We also increased our sales force with the number of product sales personnel closing at 100, an increase of 17% Return on sales for the year finished at 11%, in line with the 11% budgeted growth for the period

Shaping The Business For The Future

The Group is in the middle of a challenging and exciting phase in its history The management buy-out in November last year has provided an opportunity for a review of the organisational structure as well as substantial investment in our sales and technology capabilities This will cause some dilution of profits in 2007, but it is intended to secure our goal of being the dominant player in assessment management systems Capital expenditure in 2007 is also expected to be significantly above the spend in 2006 as we invest in improved online capability As referred to above, we have also begun to incur costs on Project Transition which is focussed on investing for future growth

Financial Key Performance Indicators

The financial key performance indicators used in the business are return on sales, product sales people, number of partners, and capital expenditure The performance of the business in terms of these indicators is described above

Disposal Of Operations

On 30 June 2006, the Group disposed of SHL Polska sp Z o o A profit on sale of £0 1m has been recognised in these financial statements

PRINCIPAL RISKS AND UNCERTAINTIES

Business Risks

SHL's principal activity is the provision of web-based psychometric assessment, of which a substantial proportion is delivered online The key risk associated with this is continuity of web service

We are currently undertaking a detailed review of our business continuity planning to ensure it is robust and focuses on the continuance of service to customers, our own business processes and the security of candidates The management team are committed to ensuring the plan is first class

PRINCIPAL RISKS AND UNCERTIANTIES (continued)

Exchange Rate And Interest Rate Risk

The Group is exposed to exchange rate and interest rate risk through its regular trading activity Details of these risks and its policies for mitigating them are disclosed in note 20

PROPOSED DIVIDEND

An interim dividend of 1 1p (2005 1 1p) per share amounting to £0 6m (2005 £0 6m) was paid during the year The directors do not recommend the payment of a final dividend (2005 £1 9m)

POLICY ON PAYMENT TO SUPPLIERS

Where the supply of goods and services is satisfactory and in the absence of any dispute, the Group's policy is to pay suppliers in accordance with the terms agreed prior to the supply of goods and services Where no such agreement exists the Group's policy is to pay suppliers in accordance with the terms contained in the invoice The Group seeks to treat all its suppliers fairly, but does not follow any published code or standard on payment practice The amount of trade creditors shown in the consolidated balance sheet at 31 December 2006 represents 31 days (2005 48 days) of average purchases (based on the aggregate amounts invoiced by suppliers during the year) for the Group The Company had no trade creditors at 31 December 2006 or 31 December 2005

DIRECTORS AND DIRECTORS' INTERESTS

The directors who held office during the year were as follows

E V Lancaster	
J E G Bateson	
G Battersby	Resigned on 19 October 2006
D G Best	Resigned on 19 October 2006
S R Puckett	Resigned on 19 October 2006

Subsequent to the year end, on 12 February 2007, S Barrett was appointed to the Board and J E G Bateson resigned from the Board

The directors who held office at the end of the financial year had the following interests in the ordinary shares of group companies according to the register of directors' interests

	Company	Class of share or debenture	Interest at end of year	Interest at start of year
J E G Bateson	SHL Group Limited	10p Ordinary shares	Nil	84,150
	SHL Group Holdings 1 Limited	Ordinary 'A' shares	187,500	Nil
E V Lancaster	SHL Group Limited	10p Ordinary shares	Nil	19,200
	SHL Group Holdings 1 Limited	Ordinary 'A' shares	93,750	Nil

EMPLOYEES

The Group continues to place a high emphasis on mutually beneficial relationships with its employees whom it regards as essential to the Group's future prosperity Employees are provided with information on matters of interest to them and are kept appraised of the financial and operational progress of the Group by face-to-face presentations by the management team, and of other relevant matters through the Company's intranet and by holding presentations over the internet The Annual Report is made available to all staff

SHL Group Limited has always recognised that the training and development of its employees is key to ensuring the achievement of the Group's objectives To ensure the continued development of the Group's employees, the Group is committed to the principles of The National Standard for Investors in People SHL UK Limited has held the Investors in People certificate since July 1995 and was re-accredited in January 2005 The Group puts great emphasis on providing equality of opportunity for employees and in particular ensures that fair selection and development procedures apply The aim of our policy is to ensure that no job applicant or employee receives less favourable treatment on the grounds of age, sex, sexual orientation, disability, marital status, colour, religion, race or ethnic origin, or is disadvantaged by conditions or requirements which can not be shown to be justifiable In the event of an employee becoming disabled whilst in the Group's employment, we will work to ensure that they can continue in their employment as far as is practicable

POLITICAL AND CHARITABLE CONTRIBUTIONS

Neither the Company nor any of its subsidiaries made any political donations or incurred any political expenditure during the year The Company and its subsidiaries made charitable donations amounting to £3,340 during the year

DISCLOSURE OF INFORMATION

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 she ought to have taken as a director to make herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

AUDITORS

KPMG LLP have indicated their willingness to continue in office as auditors and a resolution is to be proposed at the forthcoming Annual General Meeting for their reappointment

By Order of the Board

SUZANNA BARRETT
Company Secretary and Director
6 March 2007

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare group and parent company financial statements for each financial year Under that law they have elected to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The group financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and the performance of the group, the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation

The parent company financial statements are required by law to give a true and fair view of the state of affairs of the parent company

In preparing each of the group and parent company financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- for the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU,
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business

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

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

KPMG

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF SHL GROUP LIMITED

We have audited the group and parent company financial statements (the "financial statements") of SHL Group Limited for the year ended 31 December 2006 which comprise the Consolidated Income Statement, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Recognised Income and Expense 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 Directors' Report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU, and for preparing the parent company 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 6

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 whether the financial statements have been 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 group's and company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements 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

OPINION

In our opinion

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the group's affairs as at 31 December 2006 and of its profit for the year then ended,
- the parent company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 December 2006,
- 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
8 Salisbury Square
LONDON EC4Y 8BB

6 March 2007

CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2006

	Notes	2006 £m	2005 £m
Revenue	**2**	**72 0**	**68.2**
Cost of sales		(29 9)	(28 4)
Gross profit		**42.1**	**39 8**
Other operating income	3	1 0	0 7
Administrative expenses		(35 6)	(33 0)
Management buy out costs	5	(2 3)	-
Transition costs	5	(0 7)	-
Total administrative expenses		(38 6)	(33 0)
Operating profit	**2,5**	**4.5**	**7.5**
Financial income		0 1	0 1
Financial expense		(0 3)	(0 2)
Net financing costs	6	(0 2)	(0 1)
Share of profit of associate		0 4	0 4
Profit on disposal/(loss on closure) of operations	22	0 1	(0 2)
Profit before tax		**4.8**	**7.6**
Income tax expense	7	(2 5)	(2 8)
Profit for the period		**2.3**	**4 8**

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED INCOME AND EXPENSE
Year ended 31 December 2006

	2006 £m	2005 £m
Exchange adjustments on foreign currency net investments	(0 7)	(0 2)
Income and expense recognised directly in equity	(0 7)	(0 2)
Profit for the period	2 3	4 8
Total recognised income and expense relating to the period	**1.6**	**4 6**

CONSOLIDATED BALANCE SHEET
As at 31 December 2006

	Notes	2006 £m	2005 £m
Assets			
Property, plant and equipment	8	9 6	10 8
Intangible assets	9	6 3	6 6
Investment in associate	10	1 9	2 0
Deferred tax assets	11	0 9	1 4
Total non-current assets		**18.7**	**20.8**
Inventories	12	0 4	0 7
Income tax receivable		2 6	1 4
Trade and other receivables	13	20 6	16 3
Cash and cash equivalents	14	5 9	4 5
Assets classified as held for sale	15	3 3	-
Total current assets		**32.8**	**22.9**
Total assets		**51.5**	**43.7**
Equity			
Issued capital	16	5 5	5 5
Share premium	16	12 1	12 1
Reserves	16	2 8	5 7
Total equity		**20.4**	**23.3**
Liabilities			
Interest-bearing loans and borrowings	17	-	0 1
Trade and other payables	18	1 0	-
Employee benefits		0 3	0 3
Provisions	19	0 1	0 3
Deferred tax liabilities	11	0 2	0 6
Total non-current liabilities		**1.6**	**1.3**
Interest-bearing loans and borrowings	17	3 5	0 3
Trade and other payables	18	21 9	16 5
Tax payables		4 0	1 9
Provisions	19	0 1	0 4
Total current liabilities		**29.5**	**19.1**
Total liabilities		**31.1**	**20.4**
Total equity and liabilities		**51.5**	**43.7**

The accounts on pages 8 to 28 were approved by the Board on 6 March 2007 and signed on its behalf by

Emma Lancaster

Suzanna Barrett

CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2006

	2006 £m	2005 £m
Cash flows from operating activities		
Profit for the period	2 3	4 8
Adjustments for		
Depreciation and amortisation	3 0	2 6
Foreign exchange loss	0 2	-
Share of profit of associates	(0 4)	(0 4)
(Profit on sale)/loss on closure of operations	(0 1)	0 2
Loss on sale of property, plant and equipment	0 1	-
Impairment of property, plant & equipment	0 3	-
Equity-settled share-based payment expenses	0 5	0 6
Income tax expense	2 5	2 8
Operating cash flow before working capital	**8.4**	**10 6**
Increase in trade and other receivables	(4 3)	(0 7)
Decrease in inventories	0 3	0 3
Increase/(decrease) in trade and other payables	6 1	(2 6)
Decrease in provisions and employee benefits	(0 5)	(0 1)
Cash generated from operations	**10.0**	**7.5**
Income taxes paid	(1 5)	(2 5)
Interest received	0 1	0 1
Interest paid	(0 3)	(0 2)
Net cash from operating activities	**8.3**	**4.9**
Cash flows from investing activities		
Proceeds from sale of plant and equipment	0 1	-
Dividends received	0 2	0 2
Acquisition of property, plant and equipment	(4 9)	(4 2)
Acquisition of intangible assets	(0 6)	-
Net cash from investing activities	**(5.2)**	**(4 0)**
Cash flows from financing activities		
Draw-down of short term borrowings	3 3	0 3
Dividends paid	(2 5)	(2 1)
Payment on cancellation of share options	(2 5)	-
Purchase of shares for ESOP trust	-	(0 5)
Net cash from financing activities	**(1.7)**	**(2.3)**
Net increase/(decrease) in cash and cash equivalents	1 4	(1 4)
Cash and cash equivalents at 1 January	4 5	5 9
Cash and cash equivalents at 31 December 2006	**5.9**	**4.5**

NOTES TO THE CONSOLIDATED ACCOUNTS

1 ACCOUNTING POLICIES

SHL Group Limited (the "Company") is a company domiciled in the United Kingdom The consolidated financial statements of the Company for the year ended 31 December 2006 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and jointly controlled entities The parent company financial statements present information about the Company as a separate entity and not about its group

The financial statements were authorised for issuance on 6 March 2007

Statement of compliance

The Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU ('Adopted IFRSs') The Company has elected to prepare its parent Company financial statements in accordance with UK GAAP and these are presented on pages 29 to 33

(A) BASIS OF PREPARATION

The financial statements are presented in pounds sterling, rounded to the nearest £0 1m They have been prepared in accordance with applicable accounting standards under the historical cost convention

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources Actual results may differ from these estimates

The estimates and underlying assumptions are reviewed on an ongoing basis Revisions to accounting estimates are recognised in the period in which the estimates is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods In these financial statements, estimates have been applied to the provisions made for onerous leases The assumption is that these can be let at a market value but will remain vacant from between one and five years beforehand, depending on the property and current market conditions

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements The accounting policies have been applied consistently by Group entities

(B) BASIS OF CONSOLIDATION

The Group financial statements for the year to 31 December 2006 include the accounts of SHL Group Limited and all of its subsidiary undertakings and its interests in associated undertakings Subsidiaries are entities controlled by the Company Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities An associate is an undertaking in which the Group has an interest, usually from 20% to 50% of the equity voting rights, and over which it exercises significant influence The Group's share of the profits, less losses, of associates is included in the consolidated income statement and its interest in their net assets (other than goodwill) is included in investments in the consolidated balance sheet

Unless otherwise stated, the acquisition method of accounting has been adopted Under this method, the results of subsidiary and associated undertakings acquired or disposed of during the year are included in the consolidated income statement from the date of acquisition (or the date control or significant influence commences) or up to the date of disposal (or the date control or significant influence ceases)

Goodwill Arising On Consolidation

Purchased goodwill represents amounts arising on acquisition of subsidiaries, joint ventures and associates Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired In respect of acquisitions prior to 1 January 2004, goodwill is included on the basis of its deemed cost which represents the carrying amount (net of accumulated amortisation) as recorded previously under UK GAAP The Group's policy prior to 1998 was to eliminate goodwill arising upon acquisitions against reserves Under IFRS 1 and IFRS 3, such goodwill remains eliminated against reserves

Goodwill is stated at cost less any accumulated impairment losses Goodwill is allocated to cash generating units and is not amortised but is tested annually for impairment Negative goodwill arising on acquisition is recognised directly in the income statement

Transactions Eliminated On Consolidation

Intra-group balances, and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements

1. ACCOUNTING POLICIES (CONTINUED)

(C) PROPERTY, PLANT AND EQUIPMENT

Items of property, plant and equipment are stated at cost less accumulated depreciation

Depreciation is provided at rates calculated to write off the cost of each asset less its estimated residual value over its estimated useful life The principal annual rates used are

Freehold land	Nil
Freehold buildings	2% straight line
Leasehold property	Over period of lease
Equipment, furniture and fittings	25% straight line
Motor vehicles	25% reducing balance
Computer equipment	20% to 33% straight line

(D) INTANGIBLE ASSETS

The external cost of computer software development is capitalised as part of the related computer hardware where it is directly attributable to bringing an IT system into working condition for its intended use, and can be separately identified

Computer software is amortised on a straight line basis to write the cost down to nil over three to five years

(E) INVENTORIES

Inventories mainly comprise questionnaires and associated materials for resale and are valued at the lower of cost and estimated net realisable value, after making due allowance for obsolete and slow moving items

(F) TAXATION

Current tax is the expected tax payable on the taxable income for the year, and any adjustments to tax payable in respect of previous years

Deferred tax is calculated using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefits will be realised

(G) 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 consolidated income statement

For consolidation purposes, the assets and liabilities of overseas subsidiary and associated undertakings are translated at the closing rate of exchange The income statements and cash flows of overseas subsidiary and associated undertakings are translated at the average rate of exchange ruling during the year

Foreign exchange differences arising from the translation of the net investment of foreign operations, and of related hedges, are recognised directly in the translation reserve, a separate component of equity They are recycled and recognised in the income statement upon disposal of the operation In respect of all foreign operations, any differences that arose prior to 1 January 2004, the date of transition to IFRS, are deemed to be zero

(H) NET FINANCING COSTS

Net financing costs comprise interest payable on borrowings, interest receivable on funds invested, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognised in the income statement

(I) REVENUE

Revenue in the income statement represents the value of goods and services provided to external clients net of VAT The underlying principle is to recognise revenue when the significant risks and rewards of ownership have been transferred to the client

Revenues for physical product (Paper & Pencil, and PC) are recognised on delivery Web-based revenues are separated into three elements implementation revenues are recognised at the point at which a website has been installed and accepted by the client, the product element of annuities is recognised at the point they are made available for the client's use, and the service element of annuities is recognised over the contractual support period

Assessment Services revenue is recognised in the income statement over the life of the project, in proportion to the stage of completion of the transaction at the balance sheet date Revenue on 'time and materials' contracts is recognised based on the number of days completed and the agreed daily rate Revenue on fixed price contracts is recognised following prudent assessment of services delivered

1. ACCOUNTING POLICIES (CONTINUED)

(J) LEASES

Operating Leases

Rentals under operating leases are recognised in the income statement on a straight line basis over the lease term Lease incentives received are recognised as an integral part of the total lease expense, over the full term of the lease

Finance Leases

Leases in which substantially all the risks and benefits associated with the ownership of the asset are transferred to the Group, are classified as finance leases Assets held under finance leases are capitalised at a cost equal to the lower of the fair value of the asset or the present value of the minimum lease payments, including any guaranteed residual value Lease payments are allocated between the lease liability and the lease interest expense so as to produce a constant rate of interest over the period of the lease

(K) PENSION SCHEMES

The Group operates a number of defined contribution pension schemes The amount charged against profits represents the contributions payable to the schemes in respect of the accounting year The assets of the schemes are held separately from those of the Group in independently administered funds

(L) RESEARCH AND DEVELOPMENT

Research expenditure is charged to the income statement as it is incurred

Expenditure on development activities, whereby research findings are applied to the production of new or substantially improved products, is capitalised if the costs meet the recognition criteria set out in IAS 38 *Intangible Assets* Other development expenditure is recognised in the income statement as the expense is incurred Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses

(M) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprises cash balances and short term deposits with an original maturity of three months or less Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows

(N) SHARE-BASED PAYMENT

The Group issues cash-settled and equity-settled share-based payments to certain employees and directors The fair value at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity The amount recognised as an expense is adjusted to reflect the actual number of shares and share options that vest, except where forfeiture is only due to share prices not achieving the threshold for vesting

Fair value at the date of the grant is measured by use of a Stochastic valuation model The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations

(O) IMPAIRMENT

The carrying amounts of the Group's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment If any such indication exists, the asset's recoverable amount is estimated

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount Impairment losses are recognised in the income statement Goodwill is tested for impairment on an annual basis

NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED)

2. SEGMENTAL INFORMATION

Segment information is presented in respect of the Group's geographical segments Inter-segment pricing is determined on an arm's length basis Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis

The Group comprises the following geographical segments

- Meridian UK, Ireland and South Africa
- Continental Europe, including Belgium, Denmark, Finland, France, Netherlands, Norway, Sweden, Germany, Italy, Poland (sold in June 2006) and Switzerland
- North America, comprising USA and Canada
- Asia Pacific, including Australia, New Zealand, Hong Kong, Singapore, India and an associate, Japan

Geographic Segments

	Revenue		Profit for the period	
	2006 £m	2005 £m	2006 £m	2005 £m
Meridian	30 7	29 1	12 6	11 7
Continental Europe	24 1	21 7	6 5	5 2
North America	7 1	7 7	2 1	1 8
Asia Pacific	10 1	9 7	1 7	1 8
Internet Hosting and R&D	-	-	(7 0)	(5 1)
Other central costs	-	-	(8 4)	(7 9)
Management buy out costs	-	-	(2 3)	-
Transition costs	-	-	(0 7)	-
	72 0	68 2	4 5	7 5
Net financing costs			(0 2)	(0 1)
Share of profit of associate			0 4	0 4
Income tax expense			(2 5)	(2 8)
Profit on sale/(loss on closure) of businesses			0 1	(0 2)
Profit for the period			2 3	4 8

3. OTHER OPERATING INCOME

	2006 £m	2005 £m
Licence fee from associate	0 2	0 2
Royalty income due from distributors	0 6	0 5
Other operating income	0 2	-
	1 0	0 7

4. STAFF COSTS AND PENSION SCHEMES

	2006	2005
The average weekly number of employees during the period was as follows		
Managers	34	43
Consultants	239	250
Sales and marketing	141	133
Finance & accounting	58	51
IT support	45	43
Administration	115	108
Other	25	17
	657	645

4. STAFF COSTS AND PENSION SCHEMES (CONTINUED)

	2006 £m	2005 £m
The aggregate payroll costs of these persons were as follows		
Wages and salaries	28 6	28 9
Social security costs	3 6	3 3
Pension and other costs	3 6	3 6
Redundancy costs	0 3	0 3
	36 1	36 1

The Group operates a number of defined contribution pension schemes The cost of the schemes for the year ended 31 December 2006 was £1 1m (2005 £1 3m) At 31 December 2006, there was an accrual of £0 1m (2005 £0 2m) in respect of pension contributions

Directors' Remuneration

The remuneration of the directors of the Company was as follows

Executive directors and Non-executive directors	2006 £m	2005 £m
Salary & fees	0 6	0 6
Bonus	0 1	0 1
Compensation for loss of office	0 1	-
	0 8	0 7

Emoluments disclosed above do not include any amounts for the value of options or performance share awards to acquire ordinary shares in the Company granted to or held by the directors Details for these are shown in the Directors' Report

Pension contributions for directors during the year amounted to £99,000 (2005 £50,000) The non-executive directors were not entitled to any pension contributions Aggregate emoluments of directors and key management personnel in respect of qualifying services amounted to £1,123,000 (2005 £719,000) The highest paid director was paid £464,000 including pension contributions of £82,000

5 OPERATING PROFIT

	2006 £m	2005 £m
Operating profit is stated after charging		
Depreciation	2 1	2 1
Amortisation	0 9	0 6
Loss on sale of tangible fixed assets	0 1	-
Impairment of tangible fixed assets	0 3	-
Write down of inventory to net realisable value	0 3	-
Operating lease rentals	2 4	3 7
Management buy-out costs (see below)	2 3	-
Restructuring costs (see below)	0 7	-
Research and development expensed as incurred	3 9	3 0

	2006 £m	2005 £m
Fees payable to the company's auditor for the audit of the company annual accounts	0 1	0 2
Fees payable to the company's auditor and its associates for other services		
The audit of the company's subsidiaries, pursuant to legislation	0 2	0 1
Services relating to the management buy out	0 2	-
Tax services	0 1	0 1
	0 6	0 4

Amounts paid to the Company's auditors in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed as the information is disclosed on a consolidated basis

The management buy-out costs were incurred when SHL Group Holdings 1 Limited acquired the Group and primarily include professional advisors' fees The restructuring costs include redundancy and consultancy fees and relate to the reorganisation of business activities following the management buy-out

6. FINANCE INCOME AND EXPENSE

Financial income of £0 1m (2005 £0 1m) consists entirely of interest income

Financial expenses of £0 3m (2005 £0 2m) consists entirely of interest expenses on borrowings

7. INCOME TAX EXPENSE

Recognised in the Income Statement

	2006 £m	2005 £m
UK current tax expense	0 2	0 9
Foreign current tax expense	2 1	1 5
Adjustment in respect of prior periods	0 1	-
Total current tax expense	2 4	2 4
Deferred tax		
Original and reversal of temporary differences	0 1	0 4
Total income tax expense	2 5	2 8

Reconciliation of effective tax rate

	2006 £m	2005 £m
Profit before tax	4 8	7 6
Associate tax	0 3	0 3
Accounting profit before tax	5 1	7 9
Income tax using the standard UK corporation tax rate of 30% (2005 30%)	1 5	2 4
Effects of		
Higher tax rates on overseas earnings	0 3	0 4
Tax on overseas losses	0 1	-
Prior period adjustments	0 1	-
Non-deductible expenses	0 7	0 2
Non-recoverable withholding tax	0 1	0 1
Accounting tax expense	2 8	3 1
Total income tax expense	2 5	2 8
Associate tax	0 3	0 3
Accounting tax expense	2 8	3 1

8 PROPERTY, PLANT AND EQUIPMENT

	Freehold land & buildings £m	Leasehold improvements £m	Equipment & fixtures £m	Motor vehicles £m	Total £m
Cost:					
At 1 January 2005	4 5	2 6	15 5	0 2	22 8
Exchange movements	-	-	0 3	-	0 3
Additions	-	-	2 7	-	2 7
Disposals	-	-	(0 5)	(0 1)	(0 6)
At 31 December 2005	4 5	2 6	18 0	0 1	25 2
Exchange movements	-	(0 1)	(0 5)	-	(0 6)
Additions	-	-	4 7	-	4 7
Transfer to assets held for sale	(4 5)	-	(1 1)	-	(5 6)
Disposals	-	-	(0 7)	(0 1)	(0 8)
Disposal of subsidiary	-	-	(0 1)	-	(0 1)
At 31 December 2006	-	2 5	20 3	-	22 8
Depreciation:					
At 1 January 2005	1 1	0 9	10 6	0 1	12 7
Exchange movements	-	-	0 2	-	0 2
Charge for the year	0 1	0 2	1 8	-	2 1
Disposals	-	-	(0 5)	(0 1)	(0 6)
At 31 December 2005	1 2	1 1	12 1	-	14 4
Exchange movements	-	-	(0 5)	-	(0 5)
Charge for the year	0 1	0 1	1 9	-	2 1
Impairment	-	-	0 3	-	0 3
Transfer to assets held for sale	(1 3)	-	(1 0)	-	(2 3)
Disposals	-	-	(0 7)	-	(0 7)
Disposal of subsidiary	-	-	(0 1)	-	(0 1)
At 31 December 2006	-	1 2	12 0	-	13 2
Net book value:					
At 31 December 2006	-	1 3	8 3	-	9 6
At 31 December 2005	3 3	1 5	5 9	0 1	10 8
At 31 December 2004	3 4	1 7	4 9	0 1	10 1

The cost of freehold buildings held by the Group at 31 December 2006 was £4 2m (2005 £4 2m) The net book value of assets held under finance leases at 31 December 2006 was £0 1m (2005 £0 1m)

NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED)

9. INTANGIBLE ASSETS

	Goodwill £m	Software £m	Total £m
Cost:			
At 1 January 2005	4 8	2 3	7 1
Additions	-	1 1	1 1
At 31 December 2005	4 8	3 4	8 2
Additions	-	0 6	0 6
Disposals	-	(0 1)	(0 1)
At 31 December 2006	4 8	3 9	8 7
Amortisation:			
At 1 January 2005	-	1 0	1 0
Charge for the year	-	0 6	0 6
At 31 December 2005	-	1 6	1 6
Charge for the year	-	0 9	0 9
Disposals	-	(0 1)	(0 1)
At 31 December 2006	-	2 4	2 4
Net book value:			
At 31 December 2006	4 8	1 5	6 3
At 31 December 2005	4 8	1 8	6 6
At 31 December 2004	4 8	1 3	6 1

The amortisation charge is recognised within administrative expenses in the consolidated income statement

The smallest cash generating unit (CGU) to which the goodwill fully relates is the UK trading operation An impairment review based upon expected cash flows from approved five year plans for the CGU confirmed that no impairment to goodwill had arisen

10 INVESTMENT IN ASSOCIATE

	2006 £m	2005 £m
At 1 January 2006	2 0	1 9
Exchange movements	(0 3)	(0 1)
Post tax profits	0 4	0 4
Dividends received	(0 2)	(0 2)
At 31 December 2006	1 9	2 0

The Group holds an investment of 27% (2005 27%) in SHL Japan Co Limited

	2006 £m	2005 £m
SHL Japan Co Limited		
Assets	8 0	8 6
Liabilities	0 6	0 7
Equity	7 4	7 9
Revenues	7 4	7 5
Profit for the period, after tax and dividend	0 8	0 7

Details of investments in subsidiaries and associated undertakings are given in note 26

11. DEFERRED TAX ASSETS AND LIABILITIES

Recognised deferred tax assets and liabilities

	Assets		Liabilities		Net	
	2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m
Accelerated capital allowances	0 4	0 8	-	(0 4)	0 4	0 4
Other short term timing differences	0 5	0 6	(0 2)	(0 2)	0 3	0 4
	0 9	1 4	(0 2)	(0 6)	0 7	0 8

Unrecognised deferred tax assets

	2006 £m	2005 £m
Tax value of losses carried forward	-	1 2

Movements in deferred tax balances

	Accelerated capital allowances £m	Tax losses £m	Other £m	Total £m
At 1 January 2005	0 8	0 1	0 3	1 2
Recognised in income	(0 4)	(0 1)	0 1	(0 4)
At 31 December 2005 and 1 January 2006	0 4	-	0 4	0 8
Recognised in income	-	-	(0 1)	(0 1)
Balance at 31 December 2006	0 4	-	0 3	0 7

12. INVENTORIES

	2006 £m	2005 £m
Work in progress	-	0 1
Finished goods for resale	0 4	0 6
	0 4	0 7

13. TRADE AND OTHER RECEIVABLES

	2006 £m	2005 £m
Trade debtors	17 3	14 0
Other debtors	1 6	0 8
Prepayments and accrued income	1 7	1 5
Total debtors	20 6	16 3

14 CASH AND CASH EQUIVALENTS

	2006 £m	2005 £m
Bank balance	5 1	4 3
Short term deposits	0 8	0 2
Cash and cash equivalents in the statement of cash flows	5 9	4 5

15. ASSETS CLASSIFIED AS HELD FOR SALE

The Board decided prior to the year-end to dispose of the Company's freehold interest in Woodstock House

	2006 £m	2005 £m
Assets classified as held for sale		
Property, plant and equipment	3 3	-
	3 3	-

16 EQUITY

Reconciliation of movement in share capital and reserves:

	Share capital £m	Share premium £m	Translation reserve	Profit & loss account £m	Total £m
Balance at 1 January 2005	5 5	12 1	(0 6)	3 7	20 7
Exchange movements	-	-	(0 2)	-	(0 2)
Retained profit for the year	-	-	-	4 8	4 8
Own shares acquired in ESOP trust	-	-	-	(0 5)	(0 5)
Employee share scheme charge to profit and loss account	-	-	-	0 6	0 6
Dividends to shareholders	-	-	-	(2 1)	(2 1)
Balance at 31 December 2005	5 5	12 1	(0 8)	6 5	23 3
Exchange movements	-	-	(0 7)	-	(0 7)
Retained profit for the year	-	-	-	2 3	2 3
Employee share scheme charge to profit and loss account	-	-	-	0 5	0 5
Employee share scheme payment for share options	-	-	-	(2 5)	(2 5)
Dividends to shareholders	-	-	-	(2 5)	(2 5)
Balance at 31 December 2006	5 5	12 1	(1 5)	4 3	20 4

Share Capital	2006 £m	2005 £m
Authorised		
170,000,000 ordinary shares of 10p each	17 0	17 0
Allotted, called up and fully paid		
55,525,879 (2005 55,435,879) ordinary shares of 10p each	5 5	5 5

During the year 90,000 ordinary shares were issued at 50p per share

16. EQUITY (CONTINUED)

Dividends Paid

		2006 £m	2005 £m
Ordinary dividend	- interim	0 6	0 6
	- final	1 9	1 5
Total dividends paid		2 5	2 1

The directors do not propose a final dividend (2005 3 4p per share) An Interim ordinary dividend of 1 1p (2005 1 1p) per share was paid on 20 October 2006

17. INTEREST BEARING LOANS AND BORROWINGS

	2006 £m	2005 £m
Non-current liabilities		
Finance lease liabilities	-	0 1
	-	0 1
Current liabilities		
Bank loans	-	0 3
Amounts due to parent undertakings	3 5	-
	3 5	0 3

The Company discharged the following facility agreements with HSBC Bank plc on 3 November 2006

- £1 5m multi-currency overdraft facility
- £3 0m multi-currency credit facility

In addition HSBC Bank PLC released the composite guarantee and debenture dated 19 August 1997 secured over these facilities on 18 December 2006

18. TRADE AND OTHER PAYABLES

	2006 £m	2005 £m
Non-current liabilities		
Other creditors	1 0	-
Current liabilities		
Trade creditors	3 0	3 7
Other creditors	5 4	5 1
Other taxation and social security	2 1	2 2
Amounts due to parent undertakings	4 9	-
Accruals and deferred income	6 5	5 5
	21 9	16 5

19. PROVISIONS

	Onerous leases £m	Other £m	Total £m
At 1 January 2006	0 6	0 1	0 7
Utilised in the year	(0 4)	(0 1)	(0 5)
At 31 December 2006	0 2	-	0 2
Non-current	0 1	-	0 1
Current	0 1	-	0 1
	0 2	-	0 2

The onerous lease provision relates to vacant properties in the Group, and will unwind over the period 2007 to 2010

20. FINANCIAL INSTRUMENTS

The Board approves treasury policy The principal objective of the Group's treasury policy is the management and control of risks to earnings and net assets that arise because of the international nature of the Group's business It is a fundamental principle that the Group does not speculate in the currency markets nor enter into artificial treasury transactions that may enhance earnings at the expense of net assets

The Group's policy is to protect significant specific interest rate or transactional currency exposure The Group is exposed to foreign currency translation differences in accounting for its overseas operations, but policy is not to hedge this exposure The Group is not exposed to significant credit risk The Group did not enter into any derivative financial instruments during the period

The interest rate and currency profile of financial assets and financial liabilities at 31 December 2006 was

Financial assets

The interest rate profile of the financial assets of the Group was as follows

		2006 £m	2005 £m
Cash at bank	- non-interest bearing	3 3	1 2
	- interest bearing at floating interest rates	1 8	3 1
Short term deposits at floating interest rates		0 8	0 2
		5 9	4 5

The weighted average interest rate on interest bearing cash and short-term deposits at 31 December 2006 was 2 1% (2005 1 9%)

The Company and subsidiaries hold the cash in local currencies The principal currencies held at the end of the period were Euros £2 7m, Swedish Krona £0 9m, Canadian Dollars £0 4m, Danish Krona £0 4m, Australian Dollars £0 3m and South African Rand £0 3m In the period no financial assets were held in currencies other than local currencies

Financial liabilities

The group's fixed rate financial liabilities comprise of an immaterial amount relating to finance leases No financial liabilities were held in currencies other than local currencies

Fair value financial assets and financial liabilities

There are no material differences between the carrying values and the fair values of the financial assets and financial liabilities disclosed above

NOTES TO THE CONSOLIDATED ACCOUNTS (CONTINUED)

21. SHARE-BASED PAYMENTS

The Company operated a number of share option schemes, restricted share schemes and long term incentive plans for employees The Company was acquired during the year resulting in the settlement of all share schemes

Executive Share Option Schemes

No options were granted during the year under the SHL Group plc Approved and Unapproved Executive Share Option Schemes Options over 228,236 10p ordinary shares lapsed during the period under these schemes

The SHL Group plc Approved and Unapproved Executive Share Option Schemes provide for a grant price equal to the average quoted market prices of the Company shares on the date immediately preceding the date of the grant The vesting period is 3 years If the options remain unexercised after a period of 10 years from the date of the grant, the options expire The awards are subject to a performance condition that earnings per share growth exceeds the increase in the retail price index by 3% per annum compound This performance condition is retested annually, and is met with the issuance of these financial statements Following the acquisition of SHL Group plc by SHL Group Holdings 4 Limited all interests were bought out

At 31 December 2006 the total number of options outstanding under these share option schemes was as follows

	Number of ordinary shares of 10p each					
Option Price	Total at 01 January 06	Options lapsed	Options exercised	Options bought out	Total at 31 December 06	Exercisable between
Unapproved Executive Scheme						
207 5p	22,660	(22,660)	-	-	-	10 12 02 to 09 12 06
207 5p	10,230	(10,230)	-	-	-	04 01 03 to 03 01 07
159 5p	608,151	-	-	(608,151)	-	01 12 03 to 30 11 07
198 5p	6,110	(6,110)	-	-	-	09 01 04 to 08 01 08
178 5p	3,194	-	-	(3,194)	-	02 07 04 to 01 07 08
111 5p	82,744	-	-	(82,744)	-	10 12 04 to 09 12 08
141 5p	252,000	(157,000)	-	(95,000)	-	04 01 05 to 03 01 09
50 0p	340,000	-	(40,000)	(300,000)	-	01 04 06 to 31 03 10
	1,325,089	(196,000)	(40,000)	(1,089,089)	-	
Approved Executive Scheme						
207 5p	22,340	(22,340)	-	-	-	10 12 02 to 09 12 06
207 5p	6,800	(6,800)	-	-	-	04 01 03 to 03 01 07
159 5p	18,808	-	-	(18,808)	-	01 12 03 to 30 11 07
198 5p	3,096	(3,096)	-	-	-	09 01 04 to 08 01 08
178 5p	16,806	-	-	(16,806)	-	02 07 04 to 01 07 08
111 5p	26,905	-	-	(26,905)	-	10 12 04 to 09 12 08
50 0p	110,000	-	(50,000)	(60,000)	-	01 04 06 to 31 03 10
	204,755	(32,236)	(50,000)	(122,519)	-	
2006	1,529,844	(228,236)	(90,000)	(1,211,608)	-	
2005	1,783,454	(253,610)	-	-	1,529,844	
Weighted average exercise price						
2006	*123 3p*	*161 7p*	*50p*	*121 5p*	-	
2005	*124 5p*	*131 6p*	-	-	*123 3p*	

IFRS 2 *Share-based payment* is only applicable to share options granted after 7 November 2002

The cost of the share options awarded on 1 April 2003 (490,000 awards at an exercise price of 50 0p) has been recognised in the accounts at an expense of £13,000 (2005 £19,000) Fair value per share option was calculated as 16 5p The charge for the earnings per share performance condition is calculated taking into account the fair value at the outset of the probability of meeting the performance conditions The charge assumed that there is a 100% likelihood of meeting the earnings per share target The charge has been adjusted for known leavers and at the point the shares were bought out was based on 100% employee retention

21. SHARE-BASED PAYMENTS (CONTINUED)

The inputs into the Stochastic valuation model were as follows

	2006
Weighted average share price	50 0p
Weighted average exercise price	50 0p
Expected volatility[1]	57%
Expected life[2]	5 years
Risk free interest rate	5%
Expected dividend yield	7%

[1] Expected volatility is calculated looking at historic share price data corresponding to the expected life of the option Volatility has been calculated over a 5 year period being the expected life of an option, using the share price data for the five years prior to the award date

[2] Expected life has been taken as the mid point between vesting and expiry

Performance Share Plan

Following approval at the 2004 Annual General Meeting, the Company established a new long term incentive plan the SHL Group plc Performance Share Plan No interests over ordinary shares were granted during the year There is no entitlement to dividends prior to vesting Following the acquisition of SHL Group plc by SHL Group Holdings 4 Limited all interests were bought out

At 31 December 2006 the total number of interests in 10p ordinary shares awarded under this Plan was as follows

Award	Grant date	Interests at 1 January 2006	Interests lapsed during year	Interests bought out during year	Interests at 31 December 2006	Vesting price half/full award	*Vesting date*
2004 - 1	22 June 2004	937,544	(114,035)	(823,509)	-	160 0p/260 0p	*22 June 2007*
2004 - 2	22 June 2004	937,544	(148,044)	(789,500)	-	160 0p/260 0p	*22 June 2008*

The total cost of these share awards is spread over the vesting period to 18 October 2006 with a cost of £366,000 (2005 £238,000) recognised in these accounts Fair value per share was calculated as 51 3p for award 2004-1 and 57 1p for award 2004-2

The plan incorporates a market performance condition The charge for the market performance condition has been taken into account when calculating the fair value of the award at the outset Having adjusted the fair value for the probability of meeting the market condition at the outset, no further adjustment is made for changes in the probability of meeting the market performance condition thereafter The plan also incorporates an earnings per share performance condition and the charge assumes a 100% likelihood of meeting the earnings per share target The charge has been adjusted for expected leavers on the basis that there will be 100% employee retention

The inputs into the Stochastic valuation model were as follows

	2006
Weighted average share price	116 5p
Expected volatility[1]	48 4%
Expected life[2]	
2004-1 award	3 years
2004-2 award	4 years
Risk free interest rate	5%
Dividend yield	3%

[1] Expected volatility is calculated looking at historic share price data Volatility has been calculated over a four year period using the share price data for the five years prior to the award date

[2] Expected life is taken as the vesting period for both awards

Share Schemes

During 2004 the Company established two employee share ownership plans trusts SHL Group plc Employee Trust No 1 and SHL Group plc Employee Trust No 2 These trusts are to be used to hold and issue shares awarded to employees under the SHL Group plc Performance Share Plan, the SHL Group plc Deferred Share Scheme and the SHL Group plc Restricted Share Scheme

21. SHARE-BASED PAYMENTS (CONTINUED)

Deferred Share Scheme

The SHL Group Limited Deferred Share Scheme holds awards made to members of the Executive Committee as part of their annual bonus, one-half of the bonus being awarded in restricted shares Shares were awarded in 2005 in respect of bonuses earned in 2004 No performance conditions are attached to these awards

At 31 December 2006 the total number of interests in 10p ordinary shares awarded under this Plan was as follows

Award	Grant date	Interests at 1 January 2006	Interests lapsed during year	Interests bought out during year	Interests at 31 December 2006	Exercise date
2004 bonus	8 March 2005	48,374	-	(48,374)	-	08 March 2006
2004 bonus	8 March 2005	81,417	(24,077)	(57,340)	-	08 March 2007
2004 bonus	8 March 2005	33,042	-	(33,042)	-	08 March 2008
		162,833	(24,077)	(138,756)	-	

£33,000 (2005 £56,000) has been recognised in the income statement for those awards

Restricted Share Scheme

The SHL Group Limited Restricted Share Scheme is used to incentivise senior executives of the group, who are not members of the Executive Committee

At 31 December 2006 the total number of interests in 10p ordinary shares awarded under this scheme was as follows

Award	Grant date	Interests at 1 January 2006	Interests granted in year	Interests bought out in year	Interests lapsed in year	Interests at 31 December 2006	Vesting date
2005	4 March 2005	138,400	-	-	(138,400)	-	2 March 2006
2006	7 April 2006	-	75,000	(75,000)	-	-	7 April 2008
2006		138,400	75,000	(75,000)	(138,400)	-	
2005		95,000	151,400	(62,100)	(45,900)	138,400	

£100,000 (2005 £nil) has been recognised in the financial statements for these awards

22 PROFIT ON DISPOSAL/(LOSS ON CLOSURE) OF OPERATIONS

During 2006 the Group disposed of its subsidiary, SHL Poland, which has become a member of the SHL distributor network This sale generated a profit on disposal of £0 1m The US Litigation Consulting business was closed with effect from 31 December 2005 Details of the net assets disposed and the consideration received are as follows

	2006 £m	2005 £m
Net assets	(0 1)	-
Disposal costs and loan write offs	-	(0 2)
Consideration	0 2	-
Profit on disposal/(Loss on closure) of operations	0 1	(0 2)

23. OPERATING LEASE COMMITMENTS

At 31 December 2006 the total commitments under non-cancellable operating leases were as follows

	2006 £m	2005 £m
Land and buildings		
Operating leases due		
Within one year	2 8	2 7
In two to five years	7 4	7 1
In more than five years	4 1	5 6
	14 3	15 4

These amounts exclude future minimum sublease payments expected to be received under non-cancellable subleases amounting to £0 3m (due within one year) and £0 2m (due within two to five years)

	2006 £m	2005 £m
Other		
Operating leases due		
Within one year	0 3	0 3
In two to five years	0 6	0 6
	0 9	0 9

24. CAPITAL COMMITMENTS AND CONTIGENT LIABILITIES

At 31 December 2006, the Group had contracted capital commitments of £0 6m (2005 £0 6m), which were not provided for in these accounts

The fixed and floating charges over all the assets of the Group and all of its UK incorporated subsidiaries were transferred from HSBC Bank PLC to CIT Capital Finance (UK) Limited on 18 December 2006

25 RELATED PARTY TRANSACTIONS

The Group charged fees of £0 2m (2005 £0 2m) for the use of intellectual property rights to SHL Japan Co Ltd, an associated undertaking

Directors of the Company, J Bateson and E Lancaster, acquired respectively 187,500 and 93,750 ordinary shares in the ultimate controlling parent company, SHL Group Holdings 1 Limited, as part of the management buy-out transaction Key management acquired 93,750 ordinary shares in the ultimate controlling parent company as part of the management buy-out transaction

At the period end there were amounts outstanding from J Bateson £29,999 and E Lancaster £29,999 due to overpayments made by the Company in error in connection with the cash settlement of the share schemes At the date of signing the accounts the amounts had been repaid in full

Compensation for loss of office of £0 1m was paid to Directors of the Company during the period

26 INVESTMENTS IN SUBSIDIARY AND ASSOCIATED UNDERTAKINGS

	Country of Incorporation	Effective Holding
SUBSIDIARY UNDERTAKINGS		
SHL (UK) Limited	UK	100%
Saville & Holdsworth Group Limited	UK	100%
Saville & Holdsworth Limited	UK	100%
Advanced Personnel Technology Limited	UK	100%
SHL USA Inc	USA	100%
Saville & Holdsworth International BV	Netherlands	100%
Savhold BV	Netherlands	100%
SHL France SAS	France	100%
Saville & Holdsworth Canada Inc	Canada	100%
Saville & Holdsworth Australia Pty Limited	Australia	100%
MTA Srl	Italy	100%
SHL Hong Kong Limited	Hong Kong	100%
SHL New Zealand Limited	New Zealand	100%
SHL Singapore Pte Limited	Singapore	100%
SHL Asia Pacific Region Pte Limited	Singapore	100%
Meteor Pte Ltd	Singapore	100%
SHL Belgium SA	Belgium	100%
SHL Special Projects SA	Belgium	100%
SHL Europe BV	Netherlands	100%
SHL Nederland BV	Netherlands	100%
Personeelparticipatie Psychotechniek Utrecht BV	Netherlands	100%
Saville & Holdsworth Deutschland GmbH	Germany	100%
Saville & Holdsworth (Ireland) Limited	Ireland	100%
SHL Sverige AB	Sweden	100%
SHL Norge A/S	Norway	100%
SHL Danmark A/S	Denmark	100%
Saville & Holdsworth (UK) Limited	UK	100%
SHL Technology Limited	Ireland	100%
Psychodata BV	Netherlands	100%
Saville & Holdsworth (South Africa) (Pty) Limited	South Africa	100%
SHL (India) Private Limited	India	100%
SHL AG	Switzerland	100%
SHL Iberia Consultoria de Recursos Humanos, SL	Spain	100%
ASSOCIATED UNDERTAKINGS		
SHL Japan Co Limited	Japan	27%
SHL Internacional y Psicologos Empresariales SA	Spain	50%

Except where stated below the effective holding in 2005 is as disclosed for 2006 All of the above subsidiary and associated undertakings are included in the consolidated accounts and carry on the Group's principal activity as described in the Directors' Report on pages 3 to 5 All undertakings have their principal operations in the country of incorporation

The effective holding is equivalent to the Group's share of ordinary share capital held and exercisable voting rights No subsidiary or associated undertaking had any shares in issue other than ordinary shares

The Group terminated all trading relationship between itself and SHL Internacional y Psicologos Empresariales SA during 2005

The Group fully disposed of its 100% interest in its subsidiary undertaking SHL Polska sp Z o o on 30 June 2006 SHL Polska has become a member of the SHL distributor network

27. ULTIMATE PARENT COMPANY AND PARENT COMPANY OF LARGER GROUP

The Company is a subsidiary undertaking of SHL Group Holdings 4 Limited The largest group into which SHL Group Limited will be consolidated and the ultimate controlling parent company is SHL Group Holdings 1 Limited No other group financial statements include the results of the Company The first set of consolidated financial statements for SHL Group Holdings 1 Limited will be available from the Registrar of Companies for the period ending 31 December 2007

COMPANY BALANCE SHEET
As at 31 December 2006

	Notes	2006 £m	2005 £m
Fixed assets			
Tangible assets	30	2 6	6 8
Investments	31	31 9	31 9
		34 5	38 7
Current assets			
Debtors	32	7 8	4 3
Cash and short term deposits		13 6	4 1
		21 4	8 4
Current liabilities			
Interest-bearing loans and borrowings	33	(3 5)	-
Creditors	34	(27 6)	(14 6)
		(31 1)	(14 6)
Net current liabilities		(9 7)	(6 2)
Total assets less current liabilities		24 8	32 5
Provisions for liabilities and charges	35	(0 1)	(0 3)
Net assets		24 7	32 2
Capital and reserves			
Called up share capital	36	5 5	5 5
Share premium account	36	12 1	12 1
Merger reserve	36	6 3	6 3
Profit and loss account	36	0 8	8 3
Equity shareholders' funds		24 7	32 2

The accounts on pages 29 to 33 were approved by the Board on 6 March 2007 and signed on its behalf by

Emma Lancaster

Suzanna Barrett

NOTES TO THE COMPANY ACCOUNTS

28 ACCOUNTING POLICIES

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

(A) BASIS OF PREPARATION

The financial statements have been prepared in accordance with applicable accounting standards under the historical cost convention

(B) PROFIT & LOSS EXEMPTION

In accordance with Section 230(4) of the Companies Act 1985, the Company is exempt from the requirement to present its own profit and loss account

(C) FRS1 EXEMPTION

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that it has been included in the Consolidated Statement of Cash Flows in these published consolidated financial statements

(D) INVESTMENTS

Investments in subsidiary and associated undertakings are stated at cost less provision for any impairment in value Dividends received and receivable are credited to the Company's profit and loss account to the extent that they represent a realised profit for the Company

To provide a true and fair view in the accounts of SHL Group Limited a departure is required from the requirement of the Companies Act 1985 In February 2001, the trade, assets and liabilities of Advanced Personnel Technology Limited, a subsidiary of SHL Group Limited were transferred at book value to SHL (UK) Limited, a fellow subsidiary of SHL Group Limited The remaining assets of Advanced Personnel Technology Limited amounted to £109,000 The Companies Act 1985 would normally require SHL Group Limited's investments to be written down This would have led to a charge of £5 5 million to the profit and loss account of SHL Group Limited in the year ended 30 September 2001 As the goodwill and assets associated with this subsidiary have not left the Group but have enhanced the value of SHL Group Limited investment in SHL UK Limited, the carrying value of Advanced Personnel Technology Limited has been transferred to the investment in SHL UK Limited in the balance sheet of SHL Group Limited

(E) TANGIBLE FIXED ASSETS

Depreciation is provided at rates calculated to write off the cost of each asset less its estimated residual value over its estimated useful life The principal annual rates used are

Freehold land	Nil
Freehold buildings	2% straight line
Computer equipment	20% to 33% straight line

The Company has incurred costs for the development of a global accounting and management information system This will not be depreciated until it is brought into use It will be depreciated over its expected useful life of five years, except for certain components which will be replaced after three years and will therefore be depreciated over this shorter period

(F) TAXATION

Corporation tax payable is provided on taxable profits at the current rates Except where otherwise required by accounting standards, full provision without discounting is made for deferred taxation on timing differences between the treatment of certain items for accounting and taxation purposes that have arisen but not reversed at the balance sheet date

(G) 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

(H) LEASES

Rentals under operating leases are charged on a straight line basis over the lease term Lease incentives are credited to the profit and loss account over the period to the first break clause in the lease

NOTES TO THE COMPANY ACCOUNTS (CONTINUED)

29 STAFF COSTS

	2006 £m	2005 £m
Staff costs including directors' remuneration were as follows		
Wages and salaries	1 6	1 3
Social security costs	0 2	0 2
Pension and other costs	0 3	0 1
	2 1	1 6

	2006	2005
The average weekly number of employees during the period was as follows		
Managers	3	3
Finance & legal	8	6
Administration	3	3
	14	12

30. TANGIBLE ASSETS

	Freehold Land & Buildings £m	Equipment & Fixtures £m	Total £m
Cost.			
At 1 January 2006	3 6	4 2	7 8
Disposal to related undertaking	-	(4 2)	(4 2)
At 31 December 2006	3 6	-	3 6
Depreciation:			
At 1 January 2006 and 31 December 2006	1 0	-	1 0
Net book value.			
At 31 December 2006	2 6	-	2 6
Net book value:			
At 31 December 2005	2 6	4 2	6 8

The Company held freehold buildings at 31 December 2006 with a cost of £3 3m (2005 £3 3m)

31. INVESTMENTS

	Equity in Subsidiary Undertakings £m
Cost	
At 1 January 2006 and 31 December 2006	31 9

	Country of incorporation	Effective Holding
SUBSIDIARY UNDERTAKINGS – DIRECTLY OWNED		
SHL (UK) Limited	UK	100%
Saville & Holdsworth Group Limited	UK	100%
Saville & Holdsworth Limited	UK	100%
Advanced Personnel Technology Limited	UK	100%
SHL USA Inc	USA	100%

32. DEBTORS

	2006 £m	2005 £m
Amounts owed by subsidiary undertakings	5 2	2 7
Other debtors	0 2	0 6
Corporation tax recoverable	2 4	1 0
Total debtors	7 8	4 3

33. INTEREST BEARING LOANS AND BORROWINGS

	2006 £m	2005 £m
Current liabilities		
Amounts due to parent undertakings	3 5	-
	3 5	-

34. CREDITORS

	2006 £m	2005 £m
Bank overdraft	4 7	1 8
Bank loan	-	0 3
Amounts owed to subsidiary undertakings	17 8	11 3
Amounts owed to parent undertakings	4 9	-
Accruals and deferred income	0 2	1 2
	27 6	14 6

35. PROVISIONS FOR LIABILITIES

	Deferred Tax £m	Onerous Lease £m	Total £m
At 1 January 2006	0 2	0 1	0 3
Released to the profit and loss account	(0 2)	-	(0 2)
At 31 December 2006	-	0 1	0 1

36. CAPITAL AND RESERVES

Reconciliation of movement in share capital and reserves:

	Share capital £m	Share premium £m	Merger reserve £m	Profit & loss account £m	Total £m
Balance at 1 January 2006	5 5	12 1	6 3	8 3	32 2
Retained loss for the year	-	-	-	(3 0)	(3 0)
Dividends paid	-	-	-	(2 5)	(2 5)
Employee share scheme charge to profit and loss account	-	-	-	0 5	0 5
Employee share scheme payment for share options	-	-	-	(2 5)	(2 5)
Balance at 31 December 2006	5 5	12 1	6 3	0 8	24 7

36 CAPITAL AND RESERVES (CONTINUED)

Share Capital:

	2006 £m	2005 £m
Authorised		
170,000,000 ordinary shares of 10p each	17 0	17 0
Allotted, called up and fully paid		
55,525,879 (2005 55,435,879) ordinary shares of 10p each	5 5	5 5

37 SHARE-BASED PAYMENTS

For disclosures on share-based payments, refer to note 21 of the consolidated financial statements All of the Group's share-based payments are made through the Company

38 OPERATING LEASE COMMITMENTS

At 31 December 2006 the annual commitments under non-cancellable operating leases were as follows

	2006 £m	2005 £m
Land and buildings		
Operating leases which expire		
In more than five years	1 2	1 2
	1 2	1 2

These amounts exclude future minimum sublease payments expected to be received under non-cancellable subleases amounting to £0 3m

39. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

The Company has contingent liabilities in respect of guarantees given in the normal course of trade on behalf of subsidiary undertakings These include £nil (2005 £0 7m) in respect of bank guarantees for subsidiary undertakings The Company had contracted capital commitments of £nil (2005 £0 6m)