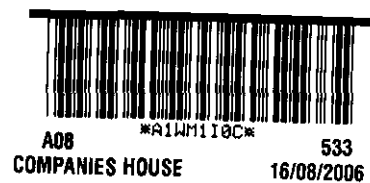


# **FKI Heracles Limited**

## **Report and Financial Statements**

31 March 2006



**FKI Heracles Limited**

Registered No. 04225689

**Directors**

N Bamford  
A Ventrella

**Secretary**

A Ventrella

**Auditors**

Ernst & Young LLP  
City Gate West  
Toll House Hill  
Nottingham  
NG1 5FY

**Registered Office**

Falcon Works,  
PO Box 7713,  
Meadow Lane,  
Loughborough,  
LE11 1ZF

## Directors' report

The directors present their report and the audited financial statements for the year ended 31 March 2006.

### Results and dividends

The audited financial statements for the year ended 31 March 2006 are set out on pages 8 to 11. The company did not trade during the current financial year and consequently made neither a profit nor a loss. The directors do not recommend the payment of a dividend for the year.

### Principal activity and review of the business

The principal activity of the company is to act as an investment company. The company made no transactions during the year. It will continue to hold investments in subsidiary undertakings, and will periodically receive income from distributions.

### Directors and their interests

The directors who served during the year ended 31 March 2006 and thereafter are as listed on page 1.

No director had any interests in the shares of the company at 31 March 2006.

N Bamford was also a director of the ultimate parent undertaking, and his interests in the shares of that company are disclosed in that company's financial statements.

The interests of the remaining director that served in the year in the shares of the ultimate parent undertaking are set out below:

<i>Ordinary 10p shares</i>				2006	2005
				<i>No.</i>	<i>No.</i>
A Ventrella				-	-
<i>Executive share option scheme</i>	<i>1 April</i>				<i>31 March</i>
	<i>2005</i>	<i>Granted</i>	<i>Exercised</i>	<i>Lapsed</i>	<i>2006</i>
	<i>No.</i>	<i>No.</i>	<i>No.</i>	<i>No.</i>	<i>No.</i>
A Ventrella	135,000	42,574	-	-	177,574

All options granted in the year were at an option price of 103.35 pence per share.

<i>SAYE share option scheme</i>	<i>1 April</i>			<i>31 March</i>	
	<i>2005</i>	<i>Granted</i>	<i>Exercised</i>	<i>Lapsed</i>	<i>2006</i>
	<i>No.</i>	<i>No.</i>	<i>No.</i>	<i>No.</i>	<i>No.</i>
A Ventrella	26,541	-	-	-	26,541

Options in existence at 31 March 2006 are exercisable between 2006 and 2015 at prices of 140 pence, 77 pence and 60 pence per share.

The market price of the ordinary shares of FKI plc at 31 March 2006 was 126 pence (2005: 106.25 pence) and the range during the year was 90.25 pence to 127.25 pence (2005: 105 pence to 137.5 pence).

All interests shown above are beneficial.

## Directors' report (continued)

### Directors and their interests (continued)

#### Long term incentive plan (LTIP)

The ultimate parent company operates a new LTIP scheme which was approved by its shareholders in 2005 under which participants receive annual conditional awards of shares in FKI plc which may vest only after the achievement of certain long-term performance conditions. In the first year of the new arrangements, long-term incentives were provided through a combination of executive share options and performance shares. Each element of the long-term incentive may vest independently of the other. Participants may receive up to the maximum number of shares, three years after the award, provided the performance conditions are met. Until then, the shares are held in a trust, which is administered by a trustee company.

The level of vesting of awards under the LTIP is determined by the performance of FKI plc's total shareholder return against a comparator group of all companies which on the date of grant are constituent companies of the Engineering and Machinery Index as determined by the FTSE Actuaries Industry Classification Committee. No performance shares vest for below median performance and 30% of an award will vest for median performance. Full vesting occurs only at a level equal or greater than 80<sup>th</sup> percentile performance. Accrued dividends on vested awards are paid to the executives pending transfer of the shares into the name of the respective participant.

The performance condition is based upon total shareholder return as this is considered to be the best means of aligning the interests of directors with shareholders by requiring superior total shareholder return performance compared to competitor companies. The assessment as to whether the performance conditions have been met is independently calculated by Mercer Human Resource Consulting in conjunction with Datastream and is ratified by the Remuneration Committee of FKI plc.

The maximum number of ordinary shares that the directors could receive under the LTIP is detailed below:

	<i>Shares allocated at 1 April 2005</i>	<i>Shares allocated during year</i>	<i>Shares vested during year</i>	<i>Shares lapsed during year</i>	<i>Shares transferred during year</i>	<i>Value of award at date of grant</i>	<i>Shares allocated at 31 March 2006</i>	<i>Earliest date for transfer</i>	<i>Value of shares vested*</i>	<i>Market value**</i>
						£				£
A Ventrella	-	26,609	-	-	-	27,939	26,609	26/8/08	n/a	33,527

\*There were no shares that vested during the year.

\*\*Market value of LTIP shares as yet uninvested at 126 pence (2005: 106.25 pence), the closing mid-market price on 31 March 2006.

There are no other interests required to be disclosed under section 234 of the Companies Act 1985.

#### Directors' Liabilities

FKI plc, the ultimate parent undertaking, has indemnified one or more directors of the company against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985. Such qualifying third party indemnity provision was in force during the year.

#### Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.


## Directors' report (continued)

### Directors' statement as to disclosure of information to auditors

The directors who were members of the board at the time of approving the directors' report are listed on page 1. Each of these directors confirms that:

- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are unaware; and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information.

By order of the Board



N Bamford  
Director

Date: 7 August 2006

## **Statement of directors' responsibilities in relation to the financial statements**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare financial statements for each financial year which 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 those 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; 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 which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# **Independent auditors' report**

**to the members of FKI Heracles Limited**

We have audited the company's financial statements for the year ended 31 March 2006 which comprise the Profit and Loss Account, Balance Sheet and the related notes 1 to 8. These financial statements have been prepared on the basis of 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 auditors' 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 are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities.

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, are properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' Report is consistent with the financial statements.

We also 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.

## **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 FKI Heracles Limited (continued)

### Opinion

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2006 and of its result 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.

*Ernst & Young LLP*

Ernst & Young LLP  
Registered Auditor  
Nottingham

Date: 7 August 2006



**Profit and loss account**

at 31 March 2006

	2006 £'000	2005 £'000
Operating result	-	-
<b><i>Result on ordinary activities before taxation</i></b>	-	-
Tax on result on ordinary activities	-	-
<b><i>Retained result for the financial year</i></b>	-	-

There were no recognised gains or losses other than the result for the financial year and consequently no statement of total recognised gains and losses has been prepared.

## Balance sheet

at 31 March 2006

	Notes	2006 £'000	2005 £'000
<b>Fixed assets</b>			
Investments in subsidiaries	3	146,361	146,361
<b>Net assets</b>		146,361	146,361
<b>Capital and reserves</b>			
Called up share capital	4	1	1
Share premium	5	146,360	146,360
<b>Equity shareholders' funds</b>	6	146,361	146,361

Approved by the Board and signed on its behalf by:



N Bamford  
Director

Date: 7 August 2006

## Notes to the financial statements

at 31 March 2006

### 1. Accounting policies

#### Basis of preparation

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

The company has taken advantage of the exemption from preparing group financial statements afforded by section 228 of the Companies Act 1985 because it is a wholly owned subsidiary undertaking of FKI plc, which prepares consolidated financial statements which are publicly available.

#### Statement of cash flows

Under the provisions of FRS 1 "Cash flow statements (Revised 1996)", the company has not prepared a statement of cash flows because its ultimate parent undertaking, FKI plc, has prepared consolidated financial statements which include the financial statements of the company and which contain a statement of cash flows.

#### Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted by the balance sheet date.

### 2. Directors remuneration, staff costs and audit fee

The directors received no remuneration for their services to the company during the year (2005: £nil). The emoluments of N Bamford and A Ventrella have been borne by FKI plc, the ultimate parent undertaking. The directors of the company are also directors of a number of the companies within the FKI group. The directors' services to the company do not occupy a significant amount of their time. As such, the directors do not consider that they have received any remuneration for their incidental services to the company for the year ended 31 March 2006 and 31 March 2005. There were no staff employed other than directors (2005: none). The audit fee in 2005 and 2006 was borne by the parent undertaking.

### 3. Investments

	<i>Shares in associated undertakings £000</i>
Cost:	
At 1 April 2005 and 31 March 2006	146,361
Net book value:	
At 31 March 2006	146,361
At 1 April 2005	146,361

The associated undertaking is as follows:

<i>Undertaking</i>	<i>Country of incorporation</i>
FKI Luxembourg Sarl	Luxembourg

FKI Heracles owns 25.4% of FKI Luxembourg Sarl. The country of registration and the principal place of operation of the subsidiary is the country of incorporation.

## Notes to the financial statements

at 31 March 2006

### 4. Share capital

	2006	2005
<i>Authorised</i>	<i>£'000</i>	<i>£'000</i>
10,000 Ordinary shares of £1 each	10	10
	<hr/>	<hr/>
	2006	2005
<i>Allotted, called up and fully paid</i>	<i>£'000</i>	<i>£'000</i>
1,001 Ordinary shares of £1 each	1	1
	<hr/>	<hr/>

### 5. Reconciliation of shareholders' funds and movement on reserves

	<i>Share Capital</i>	<i>Share Premium account</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
At 1 April 2005 and 31 March 2006	1	146,360	146,361
	<hr/>	<hr/>	<hr/>

### 6. Contingent liabilities

As part of a group debt arrangement the company has entered into a multilateral cross guarantee in respect of group borrowings.

### 7. Related party transactions

The company is a wholly owned subsidiary of FKI plc, the consolidated accounts of which are publicly available. Accordingly, the company has taken advantage of the exemption in FRS 8 from disclosing transactions with members or investees of the FKI group.

### 8. Ultimate parent undertaking

The directors regard FKI plc, a company incorporated in Great Britain and registered in England and Wales, as the company's ultimate parent undertaking and controlling party.

The only group into which the results of the company are consolidated is that headed by FKI plc. Copies of the financial statements of FKI plc are available from the Company Secretary, FKI plc, Falcon Works, PO Box 7713, Meadow Lane, Loughborough, Leicestershire, LE11 1ZF.