

**SHIRES LIMITED**  
**Report and financial statements**  
**Year ended 31 December 2006**

Registered number 3972676

**BDO**

**BDO Stoy Hayward LLP**  
Chartered Accountants

THURSDAY



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## **SHIRES LIMITED**

### **Report and financial statements for the year ended 31 December 2006**

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#### **Contents**

	<u>Pages</u>
Report of the directors	2-4
Report of the independent auditors	5
Profit and loss account	6
Statement of total recognised gains and losses	7
Balance sheet	8
Notes to the financial statements	9-22

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#### **Directors**

A Clince  
J O'Loughlin  
D Swords  
P McClintock

#### **Secretary**

A Clince

#### **Registered office**

Beckside Road  
Bradford  
West Yorkshire  
BD7 2JE

#### **Registered number**

3972676

#### **Auditors**

BDO Stoy Hayward LLP  
Commercial Buildings  
11-15 Cross Street  
Manchester  
M2 1WE

## **SHIRES LIMITED**

### **Report of the directors for the year ended 31 December 2006**

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

#### **Principal activities**

During the year, the principal activities of the company continued to be the manufacture, sale and distribution of bathroom products through its Shires Bathrooms, Trent Bathrooms and Selecta Shower Products divisions together with the manufacture and sale of fireclay and terracotta under the Shaws of Darwen brand

#### **Result and dividend**

Operating loss on ordinary activities, before exceptional items, amounted to £863,000 (2005 profit £101,000) After exceptional costs of £3,150,000 (2005 £4,180,000), deducting net interest payable of £372,000 (2005 £255,000) and accounting for an FRS17 interest adjustment of £580,000 (2005 £440,000) the loss on ordinary activities before taxation for the year amounted to £3,805,000 (2005 loss £3,894,000) The directors do not recommend the payment of a dividend (2005 £Nil)

#### **Review of the business and future developments**

The turnover for the year shows a slight decline from the previous year whilst losses (after exceptional items) has increased slightly from £3,972,000 to £4,009,000 as shown in the profit and loss account set out on page 6

The UK market remains fairly static year on year and sales for the first half of 2007 show a similar trend despite an increase in interest rates and a general tightening in the housing market The USA showed a significant increase in turnover from £1,443,000 in 2005 to £2,498,000 in 2006 predominantly due to a number of prestigious terracotta projects The European market shows a decline in turnover from £11,942,000 in 2005 to £7,961,000 in 2006 as a result of a decline in sales within the Irish market Further details of turnover by geographical segment are given in note 2 to the accounts

During 2006 there was further restructuring of the ceramics manufacturing operation at Longton, Stoke on Trent, hence the exceptional cost in the profit and loss account, see note 4 for further details The company continues to review its cost base in a highly competitive arena to maintain its market position

There have been no events since the balance sheet date which materially affect the position of the company

#### **Principal risks and uncertainties**

The bathroom products market remains highly competitive with the continual integration of European manufacturers and distributors into the UK sector along with increase in low cost manufacturing The company seeks to manage the risk of losing turnover to key competitors by the continued focus in reducing cost and improving efficiencies as well as improving delivery times in the supply of products and the response to handling customer queries The company works closely with its customers to ensure that a progressive business relationship is maintained

A small proportion of sales and purchases are made in Euros and US Dollars The company manages the exposure from fluctuations in exchange rates by offsetting income from customers with payments to suppliers and does not have surpluses or deficits in any foreign currency

## **SHIRES LIMITED**

### **Report of the directors for the year ended 31 December 2006 (continued)**

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#### **Principal risks and uncertainties**

The main financial risks arising from the company's activities are credit risk, interest rate risk, liquidity risk and price risk. These are monitored by the board of directors and were not considered to be significant at the balance sheet date.

The company's policy in respect of credit risk is to require appropriate credit checks on potential customers before sales are made and to monitor the debt within the agreed credit terms.

The company's interest rate risk, liquidity risk and price risk is monitored and managed by the ultimate parent undertaking.

#### **Directors**

The directors of the company who served during the year ended 31 December 2006 are listed below:

A Clince  
M Leaf (resigned 1 October 2006)  
J O'Loughlin  
D Swords  
J B Whooley (resigned 31 December 2006)  
P McClintock  
K Cameron (resigned 28 April 2006)

#### **Statement of directors' responsibilities**

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 these 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,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- 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 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.

## SHIRES LIMITED

### Report of the directors for the year ended 31 December 2006 (*continued*)

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#### Directors' interests

The directors had no beneficial interests in the shares of the company at any time during the year. Mr J O'Loughlin, Mr A Clince and Mr D Swords are also directors of the ultimate parent undertaking and their interests in the share capital of group companies are detailed in that company's directors' report.

None of the other directors had any beneficial interests in the shares of group companies.

None of the directors had a material interest in any contract of significance to which the company was a party during the year.

#### Employment policies

The company makes every effort to ensure that disabled persons are given the opportunity of proving that they are capable of performing a required task. Where employees become disabled, the company will approach the situation with the intention of allowing them, if appropriate, to continue in their present employment and not prejudice their career prospects.

The company's system of briefing has continued in order to provide employees with information on matters of concern to them and regarding the company's activities and progress generally. Company committees provide the opportunity for employees' representatives to express their views about the company's current operations and future plans.

#### Charitable and political donations

There were no charitable or political donations during this or the previous year.

#### Creditors payment policy

It is the company's policy to settle the terms of payment with all suppliers, including staged payments, when agreeing the terms of each transaction. Trade creditors at the year end represented 93 days (2005: 95 days) of purchases.

#### Auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

A resolution to re-appoint BDO Stoy Hayward LLP will be proposed at the annual general meeting.

#### By order of the Board



A. Clince  
Secretary

07/01/08

## SHIRES LIMITED

### Report of the independent auditors

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#### To the shareholders of Shires Limited

We have audited the financial statements of Shires Limited for the year ended 31 December 2006 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

#### *Respective responsibilities of directors and auditors*

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are 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 and have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with those financial statements, if 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.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

#### *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.

#### *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 December 2006 and of its loss 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.

  
**BDO STOY HAYWARD LLP**  
Chartered Accountants  
and Registered Auditors  
Manchester

9 January 2008

**SHIRES LIMITED****Profit and loss account for the year ended 31 December 2006**

		<b>2006</b>	<b>2005</b>
	<u>Notes</u>	<u>£'000</u>	<u>£'000</u>
<b>Turnover</b>	2	33,461	36,505
Cost of sales		(24,929)	(27,373)
<b>Gross profit</b>		<u>8,532</u>	<u>9,132</u>
Selling and distribution costs		(7,449)	(7,353)
Administrative expenses		(1,946)	(1,678)
<b>Operating (loss)/ profit before exceptional items</b>	3	(863)	101
Exceptional items	4	(3,150)	(4,180)
<b>Operating loss after exceptional items</b>		<u>(4,013)</u>	<u>(4,079)</u>
Interest receivable and similar income	7	580	440
Interest payable and similar charges	7	(372)	(255)
<b>Loss on ordinary activities before taxation</b>		<u>(3,805)</u>	<u>(3,894)</u>
Taxation	8	(204)	(78)
<b>Loss on ordinary activities after taxation</b>	16	<u>(4,009)</u>	<u>(3,972)</u>

The notes on pages 9 to 22 form part of these financial statements

All amounts for the current and prior years relate to continuing activities

## SHIRES LIMITED

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

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	<u>Notes</u>	<u>2006</u> <u>£'000</u>	<u>2005</u> <u>£'000</u>
Loss for the financial year		(4,009)	(3,972)
<i>Items derived from the implementation of FRS 17 in relation to the defined benefit pension scheme</i>			
Actuarial gain / (loss) relating to the defined benefit pension scheme taken directly to reserves	20	2,980	(1,060)
Deferred taxation on pension scheme liability taken directly to reserves		(894)	318
		—————	—————
<b>Total losses recognised since last financial statements</b>		<u>(1,923)</u>	<u>(4,714)</u>


The notes on pages 9 to 22 form part of these financial statements

**SHIRES LIMITED**

**Balance sheet as at 31 December 2006**

		31 December 2006		31 December 2005	
	<u>Notes</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
<b>Fixed assets</b>					
Tangible assets	9		2,934		3,011
<b>Current assets</b>					
Stocks	10	5,128		5,855	
Debtors	11	21,898		22,754	
Cash at bank and in hand		-		-	
			<u>27,026</u>	<u>28,609</u>	
<b>Creditors: amounts falling due within one year</b>	12	(9,884)		(10,209)	
<b>Net current assets</b>					
Due within one year		339		297	
Debtors due after more than one year		16,803		18,103	
			17,142		18,400
<b>Total assets less current liabilities</b>			<u>20,076</u>		<u>21,411</u>
<b>Net pension liability</b>	20	1,218		3,780	
<b>Other provisions</b>	13	3,150		-	
			<u>(4,368)</u>	<u>(3,780)</u>	
<b>Net assets</b>			<u>15,708</u>	<u>17,631</u>	
<b>Capital and reserves</b>					
Called up share capital	15		15,000		15,000
Share premium account			7,575		7,575
Profit and loss account	16		(6,867)		(4,944)
<b>Shareholders' funds</b>			<u>15,708</u>	<u>17,631</u>	

The financial statements were approved by the board of directors on 07/01/08 and were signed on its behalf by

  
**D Swords**  
 Director

The notes on pages 9 to 22 form part of these financial statements

## SHIRES LIMITED

### Notes to the financial statements for the year ended 31 December 2006

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#### 1. Accounting policies

The financial statements have been prepared under the historical cost convention and in accordance with applicable Accounting Standards in the United Kingdom

The following principal accounting policies have been applied

##### (a) Turnover

Turnover comprises the invoice value of goods supplied to customers during the year net of trade discounts and value added tax

##### (b) Deferred taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that

- deferred tax is not recognised on timing differences arising on revalued properties unless the company has entered into a binding sale agreement and is not proposing to take advantage of rollover relief, and
- the recognition of deferred tax assets is limited to the extent that the company anticipates to make sufficient taxable profits in the future to absorb the reversal of the underlying timing differences

Deferred tax balances arising from underlying timing differences in respect of tax allowances on industrial buildings are reversed if and when all conditions for retaining those allowances have been met

Deferred tax balances are not discounted

##### (c) Stocks

Stocks are valued under the 'first in first out' method at the lower of cost and net realisable value. Cost comprises raw materials, direct labour and an appropriate proportion of production overheads based on expected normal levels of activity. Provision is made for obsolete and slow moving stocks

Net realisable value comprises the actual or estimated selling price (net of trade discounts) less all further costs to completion or to be incurred on marketing, selling and distribution

##### (d) Leased assets

Where assets are financed by leasing agreements that give rights approximating to ownership ('finance lease'), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the profit and loss account

**SHIRES LIMITED**

**Notes to the financial statements for the year ended 31 December 2006 (continued)**

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**1 Accounting policies (continued)**

**(d) Leased assets (continued)**

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor.

All other leases are treated as operating leases. Their annual rentals are charged to the profit and loss account on a straight-line basis over the term of the lease.

**(e) Foreign currency**

Monetary assets and liabilities denominated in foreign currencies are translated with sterling at the exchange rate ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the profit and loss account.

**(f) Depreciation**

Depreciation is provided to write off the cost, less estimated residual values, of all tangible fixed assets, over their expected useful lives. It is calculated at the following annual rates on a straight line basis:

Plant and equipment	10 - 25 percent
Motor vehicles	25 percent

Assets acquired under finance leases are capitalised at their fair value and the related leasing obligation included in creditors. The interest element is charged to the profit and loss account in accordance with the reducing balance method each year.

**(g) Pensions**

The company has a defined benefit pension scheme for its employees. The assets of the scheme are held separately from those of the company. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. Actuarial valuations are obtained at each balance sheet date. The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately after other net assets on the face of the balance sheet in accordance with FRS 17. Further details in respect of these pension arrangements are shown in note 20.

**(h) Cash flow statement**

The company is a wholly owned subsidiary of Qualceram Limited and its cash flows are included in the consolidated group cash flow statement of the ultimate parent undertaking. Consequently, the company is exempt from the requirement to produce a cash flow statement under Financial Reporting Standard 1 (Cash flow statements, revised).

## SHIRES LIMITED

Notes to the financial statements for the year ended 31 December 2006 (continued)

### 2. Turnover

	<b>2006</b>	<b>2005</b>
	<b><u>£'000</u></b>	<b><u>£'000</u></b>
The geographical analysis of turnover by destination is as follows		
United Kingdom	22,417	22,367
Rest of Europe	7,961	11,942
USA	2,498	1,443
Asia	501	649
Australia	82	102
Africa	2	2
	<u>33,461</u>	<u>36,505</u>

All turnover originated in the United Kingdom

In the opinion of the directors, disclosure of the operating result by geographical segment would be seriously prejudicial to the interests of the company

### 3. Operating (loss)/profit

	<b>2006</b>	<b>2005</b>
	<b><u>£'000</u></b>	<b><u>£'000</u></b>
Operating (loss)/profit is stated after charging/(crediting)		
Loss on disposal of tangible fixed assets	-	47
Depreciation of tangible fixed assets	498	483
Exceptional item – provision for onerous lease (note 4)	3,150	-
Operating lease charges - plant and vehicles	265	279
Operating lease charges - land & buildings	1,700	1,650
Auditors' remuneration - audit services	51	51
- non audit services	9	19
Gain on foreign exchange	(15)	(15)
Pension service costs on FRS 17 basis	340	710
Stock written off	-	360
	<u>                    </u>	<u>                    </u>

## SHIRES LIMITED

### Notes to the financial statements for the year ended 31 December 2006 (continued)

#### 4 Exceptional items

Exceptional items disclosed separately in the profit and loss account comprise:

	<b>2006</b> <b>£'000</b>	<b>2005</b> <b>£'000</b>
Restructuring costs	3,150	4,180

During 2005, a significant restructuring was implemented, involving a scaling down of operations at the company's ceramics plant in Longton, Stoke on Trent. In 2006, the exceptional cost relates to an onerous lease provision against the remaining life of the lease on the Longton property following further restructuring in the year (see note 13 for further details)

#### 5 Employees

Staff costs, (including directors) consist of

	<b>2006</b> <b>£'000</b>	<b>2005</b> <b>£'000</b>
Wages and salaries	4,810	7,389
Social security costs	896	771
Other pension costs (note 20)	457	490
	<u>6,163</u>	<u>8,650</u>

The average number of employees during the year was as follows

	<b>2006</b> <b>No.</b>	<b>2005</b> <b>No.</b>
Production	218	317
Selling and distribution	45	71
Administration	22	23
	<u>285</u>	<u>411</u>

**SHIRES LIMITED****Notes to the financial statements for the year ended 31 December 2006 (continued)**

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**6. Directors emoluments**

	<b><u>2006</u></b> <b><u>£'000</u></b>	<b><u>2005</u></b> <b><u>£'000</u></b>
Directors emoluments consist of		
Aggregate emoluments including pension contributions and benefits in kind	251	314

The emoluments of the highest paid director were

Emoluments (excluding pension contributions)	105	103
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Retirement benefits are accruing to 5 directors under a defined benefit scheme (2005 – 5)

**7. Interest**

	<b><u>2006</u></b> <b><u>£'000</u></b>	<b><u>2005</u></b> <b><u>£'000</u></b>
<b>Interest payable &amp; similar charges</b>		
Invoice discounting	(218)	(190)
Bank interest payable	(154)	(65)
	<u>(372)</u>	<u>(255)</u>
<b>Interest receivable &amp; similar income</b>		
FRS 17 – net finance income	580	440
	<u>208</u>	<u>185</u>

## SHIRES LIMITED

### Notes to the financial statements for the year ended 31 December 2006 (continued)

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#### 8. Taxation

No current taxation liability arises based upon the results of the current or previous years, due to losses incurred. Deferred tax of £204,000 (2005 £78,000) arose in relation to movement in the pension scheme liability.

The tax assessed for the period varies from the standard rate of corporation tax in the UK. The differences are explained below:

	<b>2006</b> <b>£'000</b>	<b>2005</b> <b>£'000</b>
Loss on ordinary activities before taxation	(3,805)	(3,894)
Loss on ordinary activities at the standard rate of corporation tax in the UK of 30% (2005 – 30%)	(1,142)	(1,168)
Effect of		
Expenses not deductible for tax purposes	131	27
Capital profit	-	(9)
Depreciation in excess of capital allowances	149	524
Movement on provisions	(205)	243
Increase in tax losses carried forward/(tax losses utilised)	1,271	525
FRS 17 pension scheme liability movements	(204)	(142)
Current tax charge for period	-	-

**SHIRES LIMITED**

**Notes to the financial statements for the year ended 31 December 2006 (continued)**

**9. Tangible fixed assets**

	<b>Assets under construction £'000</b>	<b>Freehold land and buildings £'000</b>	<b>Plant, Equipment and motor vehicles £'000</b>	<b>Total £'000</b>
<i>Cost</i>				
At 1 January 2006	872	-	4,636	5,508
Additions	415	-	6	421
Transfer to completed assets	(850)	748	102	-
At 31 December 2006	<u>437</u>	<u>748</u>	<u>4,744</u>	<u>5,929</u>
<i>Depreciation</i>				
At 1 January 2006	30	-	2,467	2,497
Charge for the year	-	46	452	498
Transfer to completed assets	(30)	30	-	-
At 31 December 2006	<u>-</u>	<u>76</u>	<u>2,919</u>	<u>2,995</u>
<i>Net book value</i>				
At 31 December 2006	<u>437</u>	<u>672</u>	<u>1,825</u>	<u>2,934</u>
At 31 December 2005	<u>842</u>	<u>-</u>	<u>2,169</u>	<u>3,011</u>

The net book value of assets included in plant and equipment acquired under finance leases and hire purchase contracts was £nil (2005 £nil) Depreciation charged on these assets in the year was £nil (2005 £14,492)

**10. Stocks**

	<b>31 December 2006 £'000</b>	<b>31 December 2005 £'000</b>
Raw materials and consumables	944	1,226
Work in progress	408	410
Finished goods and goods for resale	3,776	4,219
	<u>5,128</u>	<u>5,855</u>

## SHIRES LIMITED

### Notes to the financial statements for the year ended 31 December 2006 (continued)

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#### 11. Debtors

	31 December 2006 <u>£'000</u>	31 December 2005 <u>£'000</u>
Trade debtors	4,261	3,850
Amounts owed by group undertakings	16,803	18,103
Prepayments and accrued income	834	801
	<u>21,898</u>	<u>22,754</u>

Debtors include amounts owed by group undertakings due after more than one year, £16,803,000 (2005 - £18,103,000)

#### 12. Creditors: amounts falling due within one year

	31 December 2006 <u>£'000</u>	31 December 2005 <u>£'000</u>
Bank overdraft	34	483
Trade creditors	5,732	6,090
Other taxation and social security	562	188
Invoice discounting creditor	3,357	3,117
Accruals and deferred income	199	331
	<u>9,884</u>	<u>10,209</u>

#### 13. Provisions

An onerous lease provision of £3,150,000 has been made to cover the remaining life of the lease over the Longton site following restructuring of activities in the year. The provision has been calculated from the discounted annual rental cost less the portion of the site that continued to derive revenues for the company.

**SHIRES LIMITED****Notes to the financial statements for the year ended 31 December 2006 (continued)****14. Deferred taxation***Full potential (assets)/liabilities*

	<b>2006</b> <b>£'000</b>	<b>2005</b> <b>£'000</b>
Accelerated capital allowances	(757)	(521)
Provisions	(47)	(243)
Unrelieved trading losses	(1,814)	(525)
	<u>(2,618)</u>	<u>(1,289)</u>

At 31 December 2006, there is a potential deferred tax net asset of £2,618,000 as analysed above (2005 £1,289,000) This has not been recognised in the financial statements

**15. Called up share capital**

	<b>31 December</b> <b>2006</b> <b>£'000</b>	<b>31 December</b> <b>2005</b> <b>£'000</b>
Authorised, allotted, called up and fully paid		
15,000,000 ordinary shares of £1 each	15,000	15,000

**16. Reserves**

	<b>Profit &amp; loss</b> <b>Account</b> <b>£'000</b>
At 1 January 2006	(4,944)
<i>FRS 17 adjustments</i>	
Defined benefit pension scheme actuarial gains taken directly to reserves	2,980
Deferred taxation on pension scheme liability taken directly to reserves	(894)
Loss for the year	(4,009)
At 31 December 2006	<u>(6,867)</u>

**SHIRES LIMITED****Notes to the financial statements for the year ended 31 December 2006 (continued)****17. Reconciliation of movements in shareholders funds**

	<b>2006</b> <b>£'000</b>	<b>2005</b> <b>£'000</b>
Opening shareholders funds	17,631	22,345
<i>FRS 17 adjustments</i>		
Defined benefit pension scheme actuarial gain / (loss) taken directly to reserves	2,980	(1,060)
Deferred taxation on actuarial loss taken directly to reserves	(894)	318
Loss for the year	(4,009)	(3,972)
	<u>15,708</u>	<u>17,631</u>

**18. Capital commitments**

Capital commitments authorised and contracted for at 31 December 2006 amounted to £nil (2005 £18,263)  
Amounts authorised but not contracted for totalled £nil (2005 - £nil)

**19. Commitments under operating leases**

	<b>31 December</b> <b>2006</b> <b>£'000</b>	<b>31 December</b> <b>2005</b> <b>£'000</b>
Annual operating lease commitments in respect of plant and equipment relate to leases expiring:		
Within one year	156	140
Between one and two years	70	61
Between two and five years	39	22
	<u>265</u>	<u>223</u>
Annual operating lease commitments in respect of land and buildings relate to leases expiring		
After more than 5 years	1,700	1,696
	<u>1,700</u>	<u>1,696</u>

## SHIRES LIMITED

### Notes to the financial statements for the year ended 31 December 2006 (continued)

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#### 20. Pension scheme

The company operates a defined benefit pension scheme, (the Shires Group Pension Scheme) for certain staff. The Scheme is funded and is contracted-out of the state scheme. The assets of the Scheme are held in a separate trustee administered fund.

The company paid contributions at the rate of 10.2% of members' gross earnings to the Scheme over the accounting period. Members have paid contributions at the rate required under the Rules of the Scheme.

The total pension cost charged to the profit and loss account for the Scheme was £457,000 (2005 £490,000) (note 5).

The most recent actuarial valuation for the Shires Group Pension Scheme was carried out as at 31 December 2006. The principal assumptions underlying the valuation were retail price inflation 3.1%, investment returns on existing assets 6.9% (real rate of return 3.69%), earnings increases 3.1% and annual pensions increases of Nil (pre April 1997), 3.1% (post April 1997) and 2.5% (post April 2005). The aggregate market value of the Scheme's assets at 31 December 2006 was £38,160,000 and this represented 96% of the combined value of accrued benefits.

The disclosures required, based on calculations of the actuaries, under Financial Reporting Standard 17 in respect of the company's defined benefit scheme are as follows:

#### Financial assumptions

The financial assumptions which have been used to calculate the scheme's liabilities under FRS 17 are based upon market conditions at 31 December 2006 and are as follows:

	<b>31 December 2006 <u>% pa</u></b>	<b>31 December 2005 <u>% pa</u></b>
Inflation	3.10	2.80
Rate of increase in salaries	3.10	2.80
Rate of increase for pensions and deferred pensions*	2.50	2.20
Discount rate	5.10	4.70

\* The calculations at 31 December 2001 included allowance for discretionary increases of 2.5% pa on pensions earned before 6 April 1997. The calculations at 31 December 2005 and 2006 exclude any such allowance for discretionary increases.

**SHIRES LIMITED**

**Notes to the financial statements for the year ended 31 December 2006 (continued)**

**20. Pension scheme (continued)**

**Scheme assets and expected rate of return**

The assets of the Scheme and expected rate of return were

UK Scheme	At 31 December 2006		At 31 December 2005	
	Fair value <u>£ million</u>	Expected rate of return <u>% pa</u>	Fair value <u>£ million</u>	Expected rate of return <u>% pa</u>
Equities	25.99	7.90	28.94	7.80
Government bonds	7.54	4.50	4.18	4.10
Corporate bonds	4.51	5.10	2.54	4.70
Cash	0.12	5.00	0.07	4.50
<b>Total</b>	<b>38.16</b>	<b>6.89</b>	<b>35.73</b>	<b>7.14</b>

**Components of the defined benefit pension cost recognised in the profit and loss account for the year ended 31 December 2006**

	<b>2006</b> <b>£ million</b>	<b>2005</b> <b>£ million</b>
<i>Amount charged to operating profit:</i>		
Current service cost	(0.34)	(0.71)
<i>Amount credited to other finance income:</i>		
Interest cost	(1.90)	(1.89)
Expected return on assets	2.48	2.33
Net credit to other finance income	0.58	0.44
<b>Total profit and loss charge before deduction for tax</b>	<b>0.24</b>	<b>(0.27)</b>
<b>Analysis of amounts recognised in the Statement of Total Recognised Gains and Losses:</b>		
	<b>2006</b> <b>£ million</b>	<b>2005</b> <b>£ million</b>
Gain on assets	1.35	3.31
Experience gain on liabilities	0.02	0.62
Profit / (loss) on change of assumptions	1.61	(4.99)
<b>Total gain/(loss) recognised under FRS 17 before adjustment for tax</b>	<b>2.98</b>	<b>(1.06)</b>

**SHIRES LIMITED**

**Notes to the financial statements for the year ended 31 December 2006 (continued)**

**20. Pension scheme (continued)**

**History of experience gains and losses**

	<u>2006</u>	<u>2005</u>
<b>Gain on assets:</b>		
Amount (£ million)	1 35	3 31
% of assets at end of year	3 5%	9 3%
<b>Experience gain on liabilities:</b>		
Amount (£ million)	0 02	0 62
% of liabilities at end of year	0 1%	1 5%
<b>Total actuarial gain / (loss) recognised in Statement of Total Recognised Gains and Losses:</b>		
Amount (£ million)	2 98	(1 06)
% of liabilities at end of year	7 5%	2 6%

**Amounts included in the balance sheet**

	<b>31 December 2006 £ million</b>	<b>31 December 2005 £ million</b>
Market value of assets	38 16	35 73
Value of liabilities	(39 90)	(41 10)
<b>Deficit before tax</b>	(1 74)	(5 37)
Related deferred tax asset at expected future rate – 30%	0 52	1 59
<b>Deficit</b>	(1 22)	(3 78)

**Analysis of movement in deficit**

	<b>2006 £ million</b>	<b>2005 £ million</b>
<b>Deficit at beginning of year net of deferred taxation</b>	(3 78)	(3 22)
Contributions paid by company	0 44	0 53
Current service cost	(0 34)	(0 71)
Other finance income	0 58	0 44
Loss to be recognised in Statement of Recognised Gains and Losses	2 98	(1 06)
Tax reduction/(increase)	(1 10)	0 24
<b>Deficit at end of year</b>	(1.22)	(3.78)

## **SHIRES LIMITED**

**Notes to the financial statements for the year ended 31 December 2006** *(continued)*

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### **21. Related party transactions**

The company has taken advantage of the exemption conferred by Financial Reporting Standard 8, Related Party Disclosures, not to disclose transactions with members of the same group headed by Qualceram Shires plc, on the grounds that at least 90% voting rights in the company are controlled within the group and the company is included within consolidated financial statements

### **22. Ultimate parent undertaking and controlling party**

The directors regard Qualceram-Shires plc, incorporated and registered in Ireland, as the ultimate parent undertaking and controlling party

Group consolidated financial statements are publicly available