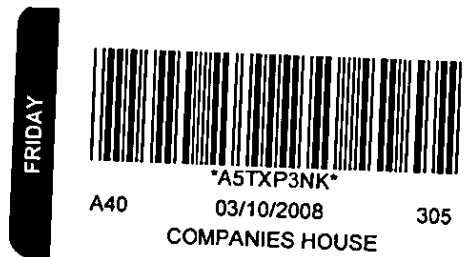


Shires Limited

Report and Financial Statements

Year Ended

31 December 2007



Registered number 3972676



BDO Stoy Hayward
Chartered Accountants

Shires Limited
Annual report and financial statements
for the year ended 31 December 2007

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Directors

A Clince
J O'Loughlin
D Swords
P McClintock

Secretary and registered office

A Clince, Becksid Road, Bradford, West Yorkshire, BD7 2JE

Company 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 2007

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

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 £1,746,000 (2006 loss £863,000) After exceptional costs of £1,363,000 (2006 £3,150,000), deducting net interest payable of £397,000 (2006 £372,000) and accounting for an FRS17 interest adjustment of £580,000 (2006 £580,000) the loss on ordinary activities before taxation for the year amounted to £2,926,000 (2006 loss £3,805,000) The directors do not recommend the payment of a dividend (2006 £Nil)

Review of the business and future developments

The turnover for the year shows a decline from the previous year mainly as a result in reduced sales to other group divisions due to a slow down in the construction sector Sales to external customers have not significantly changed Losses (after exceptional items) have decreased from £4,009,000 to £3,142,000 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 slight decline in turnover from £2,498,000 in 2006 to £2,387,000 in 2007 with the tightening of the USA housing market being countered by the winning of a number of prestigious terracotta projects The European market shows a decline in turnover from £7,961,000 in 2006 to £5,929,000 in 2007 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 2007 the company announced the restructure of the shower assembly facility at Rochdale which has given rise to 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

On 20 March 2008 the Group confirmed that it had received an unsolicited preliminary expression of interest from a third party to acquire the Group This may or may not lead to a formal offer being made to acquire all of the outstanding shares of Qualceram-Shires PLC

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 an 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 2007 (Continued)

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.

Key performance indicators

Management use a range of performance measures to monitor and manage the business. A detailed budget is prepared for the Company for the Financial year and is incorporated within the group annual budget. Results for the year are compared to the budget on a monthly basis and reported to the group board. The Company also monitors customer satisfaction by measuring orders delivered on-time and in full.

Directors

The directors of the company who served during the year ended 31 December 2007 are listed below:

A. Cline
J. O'Loughlin
D. Swords
P. McClintock

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 2007 (Continued)

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

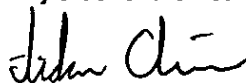
It is the company's policy to settle the terms of payment with all suppliers, including staged payments, when agreeing the terms of each transaction. Trade creditors at the year end represented 82 days (2006: 93 days) of purchases.

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

10/09/08

Shires Limited

Report of the independent auditors

To the shareholders of Shires Limited

We have audited the financial statements of Shires Limited for the year ended 31 December 2007 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses 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 and whether the information given in the directors' report is consistent with those 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.

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.

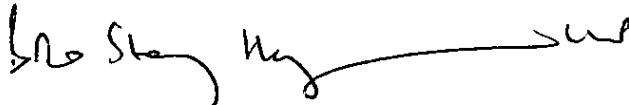
Shires Limited

Report of the independent auditors (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 December 2007 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

1/10/2008

Shires Limited

Profit and loss account for the year ended 31 December 2007

	Note	2007 £'000	2006 £'000
Turnover	2	30,334	33,461
Cost of sales		(23,908)	(24,929)
Gross profit		6,426	8,532
Selling and distribution costs		(6,609)	(7,449)
Administrative expenses		(1,563)	(1,946)
Operating loss before exceptional items	3	(1,746)	(863)
Exceptional items	4	(1,363)	(3,150)
Operating loss after exceptional items		(3,109)	(4,013)
Interest receivable and similar income	7	580	580
Interest payable and similar charges	7	(397)	(372)
Loss on ordinary activities before taxation		(2,926)	(3,805)
Taxation	8	(216)	(204)
Loss on ordinary activities after taxation	16	(3,142)	(4,009)

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

The notes on pages 9 to 20 form part of these financial statements

Shires Limited

Statement of total recognised gains and losses for the year ended 31 December 2007

	Note	2007 £'000	2006 £'000
Loss for the financial year		(3,142)	(4,009)
<i>Items derived from the implementation of FRS 17 in relation to the defined benefit pension scheme</i>			
Actuarial gain relating to the defined benefit pension scheme taken directly to reserves	20	2,890	2,980
Deferred taxation on pension scheme gain taken directly to reserves		(867)	(894)
Total losses recognised since last financial statements		(1,119)	(1,923)


The notes on pages 9 to 20 form part of these financial statements

Shires Limited

Balance sheet
at 31 December 2007

	Note	2007 £'000	2007 £'000	2006 £'000	2006 £'000
Fixed assets					
Tangible assets	9		2,141		2,934
Current assets					
Stocks	10	4,282		5,128	
Debtors	11	20,341		21,898	
Cash at bank and in hand		-		-	
		24,623		27,026	
Creditors: amounts falling due within one year	12	(10,734)		(9,884)	
Net current assets					
Due within one year		(1,125)		339	
Debtors due after more than one year		15,014		16,803	
			13,889		17,142
Total assets less current liabilities	—		16,030		20,076
Other provisions	13	(2,750)		(3,150)	
Net pension asset/(liability)	20	1,309		(1,218)	
			(1,441)		(4,368)
Net assets			14,589		15,708
Capital and reserves					
Called up share capital	15		15,000		15,000
Share premium account			7,575		7,575
Profit and loss account	16		(7,986)		(6,867)
Shareholders funds	17		14,589		15,708

The financial statements were approved by the board of directors on 10/09/08 and were signed on its behalf by


D Swords
 Director

The notes on pages 9 to 20 form part of these financial statements

Shires Limited

Notes forming part of the financial statements for the year ended 31 December 2007

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 forming part of the financial statements for the year ended 31 December 2007 (Continued)

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 into 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 forming part of the financial statements
for the year ended 31 December 2007 (Continued)**

2 Turnover

	2007	2006
	£'000	£'000
The geographical analysis of turnover by destination is as follows		
United Kingdom	21,374	22,417
Rest of Europe	5,929	7,961
USA	2,387	2,498
Asia	523	501
Australia	121	82
Africa	0	2
	30,334	33,461

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

	2007	2006
	£'000	£'000
Operating loss is stated after charging/(crediting)		
Depreciation of tangible fixed assets	945	498
Exceptional items (note 4)	1,363	3,150
Operating lease charges - plant and vehicles	254	265
Operating lease charges - land & buildings	1,715	1,700
Auditors' remuneration - audit services	51	51
- non audit services	8	9
Loss / (Gain) on foreign exchange	72	(15)
Pension service costs on FRS 17 basis (note 20)	290	340
	3,738	5,008

Shires Limited

**Notes forming part of the financial statements
for the year ended 31 December 2007 (Continued)**

4 Exceptional items

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

	2007	2006
	£'000	£'000
Restructuring costs	1,363	3,150
	<u> </u>	<u> </u>

During 2007 the company implemented a restructuring program to counter the slowdown in the construction market. A provision for the costs associated with the closure of the shower enclosure facility and the disposal of non-essential leasehold properties has been made (see note 13 for further details)

In 2006, an onerous lease provision of £3,150,000 was 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.

5 Employees

Staff costs, (including directors) consist of

	2007	2006
	£'000	£'000
Wages and salaries	4,551	4,810
Social security costs	391	896
Other pension costs (note 20)	433	457
	<u>5,375</u>	<u>6,163</u>

	2007	2006
	No	No
The average number of employees during the year was as follows		
Production	164	218
Selling and distribution	36	45
Administration	20	22
	<u>220</u>	<u>285</u>

Shires Limited

**Notes forming part of the financial statements
for the year ended 31 December 2007 (Continued)**

6 Directors emoluments

	2007	2006
	£'000	£'000
Directors emoluments consist of Aggregate emoluments including pension contributions and benefits in kind	133	251
	<u> </u>	<u> </u>

The emoluments of the highest paid director were

Emoluments (excluding pension contributions)	123	105
	<u> </u>	<u> </u>

Retirement benefits are accruing to 4 directors under a defined benefit scheme (2006 – 5)

7 Interest

	2007	2006
	£'000	£'000
Interest payable & similar charges		
Invoice discounting	(271)	(218)
Bank interest payable	(126)	(154)
	<u> </u>	<u> </u>
	(397)	(372)
Interest receivable & similar income		
FRS 17 – net finance income (note 20)	580	580
	<u> </u>	<u> </u>
	183	208
	<u> </u>	<u> </u>

8 Taxation

No current taxation liability arises based upon the results of the current or previous years, due to losses incurred. Deferred tax of £216,000 (2006 £204,000) arose in relation to movement in the pension scheme liability.

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

	2007	2006
	£'000	£'000
Loss on ordinary activities before taxation	(2,926)	(3,805)
	<u> </u>	<u> </u>
Loss on ordinary activities at the standard rate of corporation tax in the UK of 30% (2006 – 30%)	(878)	(1,142)
Effect of		
Expenses not deductible for tax purposes	134	131
Depreciation in excess of capital allowances	161	149
Movement on provisions	20	(205)
Increase in tax losses carried forward	779	1,271
FRS 17 pension scheme liability movements	(216)	(204)
	<u> </u>	<u> </u>
Current tax charge for year	-	-
	<u> </u>	<u> </u>

Shires Limited

Notes forming part of the financial statements
for the year ended 31 December 2007 *(Continued)*

9 Tangible fixed assets

	Assets Under Construction £'000	Freehold land and buildings £'000	Plant, equipment and motor vehicles £'000	Total £'000
Cost				
At 1 January 2007	437	748	4,744	5,929
Additions	152	-	-	152
Disposals	-	-	(8)	(8)
Transfer to completed assets	(583)	-	583	-
At 31 December 2007	<u>6</u>	<u>748</u>	<u>5,319</u>	<u>6,073</u>
Depreciation				
At 1 January 2007	-	76	2,919	2,995
Charge for the year	-	409	536	945
Disposals	-	-	(8)	(8)
At 31 December 2007	<u>-</u>	<u>485</u>	<u>3,447</u>	<u>3,932</u>
Net book value				
At 31 December 2007	<u>6</u>	<u>263</u>	<u>1,872</u>	<u>2,141</u>
At 31 December 2006	<u>437</u>	<u>672</u>	<u>1,825</u>	<u>2,934</u>

10 Stocks

	31 December 2007 £'000	31 December 2006 £'000
Raw materials and consumables	476	944
Work in progress	253	408
Finished goods and goods for resale	3,553	3,776
	<u>4,282</u>	<u>5,128</u>

Shires Limited

Notes forming part of the financial statements
for the year ended 31 December 2007 (Continued)

11 Debtors

	31 December 2007 £'000	31 December 2006 £'000
Trade debtors	4,391	4,261
Amounts owed by group undertakings	15,014	16,803
Prepayments and accrued income	936	834
	20,341	21,898

Debtors include amounts owed by group undertakings due after more than one year, £15,014,000 (2006 - £16,803,000)

12 Creditors: amounts falling due within one year

	31 December 2007 £'000	31 December 2006 £'000
Bank overdraft	1,146	34
Trade creditors	5,241	5,732
Other taxation and social security	419	562
Invoice discounting creditor	3,388	3,357
Accruals and deferred income	540	199
	10,734	9,884

13 Provisions

In both 2007 and 2006 the provision relates to an onerous lease provision made to cover the remaining life of the lease over the Longton site following restructuring of activities in 2006. 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.

14 Deferred taxation

Full potential (assets)/liabilities

	31 December 2007 £'000	31 December 2006 £'000
Accelerated capital allowances	(917)	(757)
Provisions	(186)	(47)
Unrelieved trading losses	(2,597)	(1,814)
	(3,700)	(2,618)

At 31 December 2007, there is a potential deferred tax net asset of £3,700,000 as analysed above (2006 £2,618,000). This has not been recognised in the financial statements.

Shires Limited

Notes forming part of the financial statements
for the year ended 31 December 2007 (*Continued*)

15 Called up share capital

	31 December 2007 £'000	31 December 2006 £'000
Authorised, allotted, called up and fully paid 15,000,000 ordinary share of £1 each	15,000	15,000

16 Reserves

		Profit & loss account £'000
At 1 January 2007		(6,867)
<i>FRS17 adjustments</i>		
Defined benefit pension scheme actuarial gains taken directly to reserves		2,890
Deferred taxation on pension scheme gains taken directly to reserves		(867)
Loss for the year	—	(3,142)
At 31 December 2007		(7,986)

17 Reconciliation of movements in shareholders funds

	2007 £'000	2006 £'000
Opening shareholders funds	15,708	17,631
<i>FRS 17 adjustments</i>		
Defined benefit pension scheme actuarial gains taken directly to reserves	2,890	2,980
Deferred taxation on actuarial gains taken directly to reserves	(867)	(894)
Loss for the year	(3,142)	(4,009)
At 31 December 2007	14,589	15,708

18 Capital commitments

Capital commitments authorised and contracted for at 31 December 2007 amounted to £16,200 (2006 £ nil)

Shires Limited

Notes forming part of the financial statements
for the year ended 31 December 2007 *(Continued)*

19 Commitments under operating leases

	31 December 2007 £'000	31 December 2006 £'000
Annual operating lease commitments in respect of plant and equipment relate to leases expiring		
Within one year	116	156
Between one and two years	76	70
Between two and five years	39	39
	231	265
Annual operating lease commitments in respect of land and buildings relate to lease expiring		
After more than five years	1,746	1,700
	1,746	1,700

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 £433,000 (2006 £457,000) (note 5).

The most recent actuarial valuation for the Shires Group Pension Scheme was carried out as at 31 December 2007. The principal assumptions underlying the valuation were retail price inflation 3.5%, investment returns on existing assets 6.9% (real rate of return 3.30%), earnings increases 3.5% and annual pensions increases of Nil (pre April 1997), 3.5% (post April 1997) and 2.5% (post April 2005). The aggregate market value of the Scheme's assets at 31 December 2007 was £38,900,000 and this represented 105% 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:

Shires Limited

Notes forming part of the financial statements for the year ended 31 December 2007 (Continued)

20 Pension scheme (continued)

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 2007 and are as follows

	31 December 2007 %pa	31 December 2006 %pa
Inflation	3 50	3 10
Rate of increase in salaries	3 50	3 10
Rate of increase for deferred pensions	3 50	3 10
Rate of increase of pensions in payment		
- for service before 6 April 1997*	0 00	0 00
- for service after 5 April 1997	3 50	3 10
- for service after 5 April 2005	2 50	2 50
Discount rate	5 80	5 10

* in excess of any Guaranteed Minimum Pension (GMP) element

Scheme assets and expected rate of return

The assets of the Scheme and expected rate of return were

	At 31 December 2007		At 31 December 2006	
	Fair Value £ million	Expected rate of return %pa	Fair value £ million	Expected rate of return % pa
UK Scheme				
Equities	22 82	8 20	25 99	7 90
Government bonds	10 10	4 50	7 54	4 50
Corporate bonds	5 97	5 80	4 51	5 10
Cash	0 01	5 50	0 12	5 00
	38 90	6 87	38 16	6 89

Shires Limited

Notes forming part of the financial statements
for the year ended 31 December 2007 *(Continued)*

20 Pension scheme *(continued)*

Components of the defined benefit pension cost recognised in the profit and loss account for the year ended 31 December 2007

	2007 £ million	2006 £ million
<i>Amount charged to operating profit</i>		
Current service cost	(0 29)	(0 34)
<i>Amount credited/(charged) to other finance income</i>		
Interest cost	(1 99)	(1 90)
Expected return on assets	2 57	2 48
Net credit to other finance income	0 58	0 58
Total profit and loss credit before deduction for tax	0 29	0 24

Analysis of amounts recognised in the Statement of Total Recognised Gains and Losses:

	2007 £ million	2006 £ million
(Loss)/gain on assets	(0 36)	1 35
Experience gain on liabilities	0 09	0 02
Gain on change of assumptions	3 16	1 61
Total gain recognised under FRS 17 before adjustment for tax	2 89	2 98

History of experience gains and losses

	2007	2006
<i>Gain / (Loss) on assets:</i>		
Amount (£ million)	(0 36)	1 35
% of assets at end of year	1 0%	3 5%
<i>Experience gain on liabilities</i>		
Amount (£ million)	0 09	0 02
% of liabilities at end of year	0 2%	0 1%
<i>Total actuarial gain recognised in Statement of Total Recognised Gains and Losses:</i>		
Amount (£ million)	2 89	2 98
% of liabilities at end of year	7 8%	7 5%

Shires Limited

Notes forming part of the financial statements
for the year ended 31 December 2007 (*Continued*)

20 Pension scheme (*continued*)

Amounts included in the balance sheet

	31 December 2007	31 December 2006
	£ million	£ million
Market value of assets	38 90	38 16
Value of liabilities	(37 03)	(39 90)
	<hr/>	<hr/>
Surplus / (Deficit) before tax	1 87	(1 74)
Related deferred tax asset at expected future rate – 30%	(0 56)	0 52
	<hr/>	<hr/>
Surplus / (Deficit)	1 31	(1 22)
	<hr/> <hr/>	<hr/> <hr/>

Analysis of movement in deficit

	2007	2006
	£ million	£ million
Deficit at beginning of year net of deferred taxation	(1 22)	(3 78)
Contributions paid by company	0 43	0 44
Current service cost	(0 29)	(0 34)
Other finance income	0 58	0 58
Gain to be recognised in Statement of Recognised Gains and Losses	2 89	2 98
Deferred tax increase	(1 08)	(1 10)
	<hr/>	<hr/>
Surplus/(deficit) at end of year net of deferred taxation	1 31	(1 22)
	<hr/> <hr/>	<hr/> <hr/>

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