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Sun Hydraulics Limited

Report and Financial Statements

Year Ended

31 December 2006

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BDO Stoy Hayward
Chartered Accountants

Sun Hydraulics Limited

Annual report and financial statements for the year ended 31 December 2006

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Directors

A J Carlson
P Robson
R Glasspole

Secretary and registered office

Taylor Wessing Secretaries Limited, Carmelite, 50 Victoria Embankment, London, EC4Y 0DX

Company number

1914045

Auditors

BDO Stoy Hayward LLP, 125 Colmore Row, Birmingham, B3 3SD

Sun Hydraulics Limited

Report of the directors for the year ended 31 December 2006

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

Results and dividends

The profit and loss account is set out on page 6 and shows the profit for the year

A dividend of £501,316 was paid during the year

Principal activities, review of business and future developments

Principal activities

The company's principal activities are to supply hydraulic screw-in cartridges and manifolds for use on all types of mobile and industrial machinery. We operate as the distributor in the UK and supply through independent companies operating as distributors in other countries around Europe. Our main manufacturing activity is the production of manifolds in SG iron.

The business has grown significantly during 2006 and we anticipate a continuation in growth in 2007.

Significant events in the year

A night shift as well as the current double day shift in the manifold manufacturing area was added to cope with the large increase in orders. A new five axis Mazac CNC was also purchased in 2006 to provide additional machining capacity. Production of cartridges for use in difficult environments, where the external parts are in stainless steel and titanium was started at the beginning of 2006 and should increase in 2007.

Review of the Business

The success of the business has been due to our continued ability to supply products on short delivery in a buoyant market while our competitors' delivery times have increased significantly.

We have also invested in additional resources to provide manifold design capability for special assemblies.

Employment policy

The company is committed to a policy of recruitment and promotion on the basis of aptitude and ability without discrimination of any kind. We also try and encourage our employees to attend outside courses to improve their skills and improve their general education. Full training is provided to all new employees. We continue to try and recruit additional people for the manifold manufacturing area.

Future Developments

We plan to continue to expand our manufacturing capability and have already ordered an additional five axis CNC machine to increase our capacity. We continue to develop new product training and product selection programs to make it as easy as possible for customers to find the right products. We also continue to develop our web-site to provide easy access to information about our products and capabilities.

Sun Hydraulics Limited

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

Financial instruments

Details of the use of financial instruments by the company and its subsidiary undertakings are contained in note 1 of the financial statements

Research and development activities

Research and development expenditure is written off as incurred

Directors

The directors of the company during the year were

A J Carlson	(appointed 24 August 2006)
P Robson	
C G Nixon	(resigned 24 August 2006)
R Glasspole	(appointed 24 August 2006)

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 year. 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

Sun Hydraulics Limited

Report of the directors for the year ended 31 December 2006 (Continued)

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.

BDO Stoy Hayward LLP were appointed as auditors during the year and have expressed their willingness to continue in office. A resolution to re-appoint them will be proposed at the annual general meeting.

On behalf of the board

R Glasspole



Director

22 June 2007

To the shareholders of Sun Hydraulics Limited

We have audited the financial statements of Sun Hydraulics Limited for the year ended 31 December 2006 which comprise the profit and loss account, the balance sheet 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 judgements 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.

Sun Hydraulics Limited

Independent auditor's report (*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 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements

BDO Stoy Hayward Ltd

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

Date *22 June 2007*

Sun Hydraulics Limited**Profit and loss account for the year ended 31 December 2006**

	Note	2006 £	2005 £
Turnover	2	11,018,949	9,961,700
Cost of sales		8,056,183	7,390,908
Gross profit		2,962,766	2,570,792
Administrative expenses		1,867,552	1,781,139
Operating profit	3	1,095,214	789,653
Other interest receivable and similar income		31,290	21,489
Interest payable and similar charges	6	(2,507)	(14,002)
Profit on ordinary activities before taxation		1,123,997	797,140
Taxation on profit on ordinary activities	7	328,537	129,236
Profit on ordinary activities after taxation		795,460	667,904

All amounts relate to continuing activities

All recognised gains and losses in the current and prior year are included in the profit and loss account

The notes on pages 8 to 17 form part of these financial statements

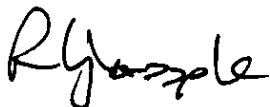
Sun Hydraulics Limited

Balance sheet at 31 December 2006

	Note	2006 £	2006 £	2005 £	2005 £
Fixed assets					
Tangible assets	9		3,924,999		4,049,589
Current assets					
Stocks	10	768,130		739,348	
Debtors	11	1,724,487		1,766,111	
Cash at bank and in hand		979,088		1,150,400	
		3,471,705		3,655,859	
Creditors: amounts falling due within one year	12	991,086		1,032,244	
Net current assets			2,480,619		2,623,615
Total assets less current liabilities			6,405,618		6,673,204
Creditors: amounts falling due after more than one year	13	-		550,585	
Provisions for liabilities	14	263,398		274,543	
			263,398		825,128
			6,142,220		5,848,076
Capital and reserves					
Called up share capital	15		1,140,000		1,140,000
Profit and loss account	16		5,002,220		4,708,076
Shareholders' funds	17		6,142,220		5,848,076

The financial statements were approved by the board of directors and authorised for issue on 22 June 2007.

R Glasspole
Director



The notes on pages 8 to 17 form part of these financial statements

1 Accounting policies

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

In preparing these financial statements the company has adopted for the first time FRS 20 'Share-based payment' Further details are given on page 8

The following principal accounting policies have been applied

Cash flow statement

The company has taken advantage of the exemption conferred by Financial Reporting Standard 1 'Cash Flow Statements (Revised 1996)' not to prepare a cash flow statement on the grounds that at least 90% of the voting rights in the company are controlled within the group headed by Sun Hydraulics Corporation and the company is included in consolidated financial statements

Turnover

Turnover represents sales to external customers at invoiced amounts less value added tax

Depreciation

Depreciation is provided to write off the cost, less estimated residual values, of all tangible fixed assets, except for freehold land and certain buildings, evenly over their expected useful lives It is calculated at the following rates

Land & buildings	- 10 and 40 years
Plant & machinery	- 4, 5 and 10 years
Office equipment	- 3, 4 and 10 years

Stocks

Stocks are valued at the lower of cost and net realisable value Cost is based on the cost of purchase on a first in, first out basis Net realisable value is based on estimated selling price less additional costs to completion and disposal.

Foreign currency

Foreign currency transactions are translated into sterling at the rates ruling when they occurred Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet dates Any differences are taken to the profit and loss account

Financial Instruments

Financial instruments are measured initially and subsequently at cost

Research and development

Research and development expenditure is written off in the year in which it is incurred

1 Accounting policies (*continued*)

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

- the recognition of deferred tax assets is limited to the extent that the company anticipates making 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

Share-based payment

When share options are awarded to employees, the fair value of the options at the date of grant is charged to the income statement over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in fair value of the options, measured immediately before and after the modification, is also charged to the income statement over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the profit and loss account is charged with the fair value of goods and services received.

Pension costs

Contributions to the company's defined contribution pension scheme are charged to the profit and loss account in the year in which they become payable.

2 Turnover

	2006 £	2005 £
Analysis by geographical market		
United Kingdom	3,957,427	3,288,760
Europe	4,593,310	4,964,756
Rest of the world	911,113	707,891
North America and Canada	1,031,020	957,138
Commission	526,079	43,155
	<u>11,018,949</u>	<u>9,961,700</u>

Turnover is wholly attributable to the principal activity of the company

3 Operating profit

	2006 £	2005 £
This is arrived at after charging/(crediting)		
Research and development - current year's expenditure	5,369	2,958
Depreciation of tangible fixed assets	534,200	550,452
Loss on disposal of tangible fixed assets	-	589
Audit services	16,300	14,000
Exchange differences	180,079	(114,866)
	<u>735,948</u>	<u>99,133</u>

4 Employees

Staff costs (including directors) consist of

	2006	2005
	£	£
Wages and salaries	1,996,482	1,797,843
Social security costs	213,013	200,510
Other pension costs	117,612	119,179
	<u>2,327,107</u>	<u>2,117,532</u>

The average number of employees (including directors) during the year was as follows

	2006	2005
	Number	Number
Production staff	49	47
Management staff	26	25
	<u>75</u>	<u>72</u>

5 Directors' remuneration

	2006	2005
	£	£
Directors' emoluments	136,467	86,391
Company contributions to money purchase pension schemes	13,839	10,038
	<u>150,306</u>	<u>96,429</u>

There were 2 directors in the company's defined benefit pension scheme during the year (2005 - 1)

6 Interest payable and similar charges

	2006	2005
	£	£
Bank loans and overdrafts	2,507	14,002
	<u>2,507</u>	<u>14,002</u>

7 Taxation on profit on ordinary activities

	2006 £	2005 £
<i>UK Corporation tax</i>		
Current tax on profits of the year	339,682	95,270
<i>Deferred tax</i>		
Origination and reversal of timing differences	(11,145)	33,966
	<u>328,537</u>	<u>129,236</u>
Taxation on profit on ordinary activities	<u>328,537</u>	<u>129,236</u>

The tax assessed for the period is higher than the standard rate of corporation tax in the UK. The differences are explained below

	2006 £	2005 £
Profit on ordinary activities before tax	1,123,997	797,140
Profit on ordinary activities at the standard rate of corporation tax in the UK of 30% (2005 - 30%)	337,199	239,142
Effect of		
Expenses not deductible for tax purposes	(1,745)	(28,405)
Depreciation for period in excess of capital allowances	(6,351)	1,315
Utilisation of tax losses	-	(116,676)
Adjustment to tax charge in respect of previous periods	(4,309)	-
Other	14,888	(106)
	<u>339,682</u>	<u>95,270</u>
Current tax charge for period	<u>339,682</u>	<u>95,270</u>

8 Dividends

	2006 £	2005 £
Ordinary shares		
Interim paid of £0.439 (2005 - £1.16) per share	501,316	1,327,457
	<u>501,316</u>	<u>1,327,457</u>

9 Tangible fixed assets

	Freehold land and buildings £	Plant and machinery £	Office equipment £	Total £
<i>Cost</i>				
At 1 January 2006	2,993,523	5,330,929	771,934	9,096,386
Additions	6,751	359,236	43,618	409,605
Disposals	-	(176,090)	(8,187)	(184,277)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2006	3,000,274	5,514,075	807,365	9,321,714
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>				
At 1 January 2006	915,974	3,521,546	609,277	5,046,797
Provided for the year	88,230	377,449	68,521	534,200
Disposals	-	(176,096)	(8,186)	(184,282)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2006	1,004,204	3,722,899	669,612	5,396,715
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>				
At 31 December 2006	1,996,070	1,791,176	137,753	3,924,999
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2005	2,077,549	1,809,383	162,657	4,049,589
	<hr/>	<hr/>	<hr/>	<hr/>

10 Stocks

	2006 £	2005 £
Raw materials and consumables	214,083	202,600
Work in progress	28,579	18,197
Finished goods and goods for resale	525,468	518,551
	<hr/>	<hr/>
	768,130	739,348
	<hr/>	<hr/>

There is no material difference between the replacement cost of stocks and the amounts stated above

Sun Hydraulics Limited**Notes forming part of the financial statements for the year ended 31 December 2006 (Continued)****11 Debtors**

	2006 £	2005 £
Trade debtors	1,334,709	1,389,361
Amounts owed by group undertakings	85,279	111,947
Amounts owed by fellow subsidiary undertakings	23,947	365
Other debtors	184,168	132,428
Prepayments and accrued income	96,384	87,280
Corporation tax repayable	-	44,730
	<u>1,724,487</u>	<u>1,766,111</u>

All amounts shown under debtors fall due for payment within one year

12 Creditors: amounts falling due within one year

	2006 £	2005 £
Trade creditors	290,511	368,367
Amounts owed to group undertakings	373,872	451,692
Corporation tax	51,952	-
Other taxation and social security	145,356	108,058
Other creditors	72,078	58,093
Accruals and deferred income	57,317	46,034
	<u>991,086</u>	<u>1,032,244</u>

Other creditors include £43,516 (2005 £29,757) in respect of share-based payments (see note 20)

Sun Hydraulics Limited

Notes forming part of the financial statements for the year ended 31 December 2006 (*Continued*)

13 Creditors: amounts falling due after more than one year

	2006 £	2005 £
Amounts owed to group undertakings	-	550,585

The inter company balance was repaid in full during the year

14 Provisions for liabilities

		Deferred taxation £
At 1 January 2006		274,543
Credited to profit and loss account		(11,145)
		<u>263,398</u>
At 31 December 2006		<u>263,398</u>
<i>Deferred taxation</i>		
	2006 £	2005 £
Accelerated capital allowances	274,543	240,577
Profit and loss account movement arising during the year	(8,537)	33,966
Adjustments in respect of prior years	(2,608)	-
	<u>263,398</u>	<u>274,543</u>

15 Share capital

	2006 £	Authorised 2005 £	Allotted, called up and fully paid 2006 £	2005 £
Ordinary shares of £1 each	<u>2,000,000</u>	<u>2,000,000</u>	<u>1,140,000</u>	<u>1,140,000</u>

Sun Hydraulics Limited

Notes forming part of the financial statements for the year ended 31 December 2006 (Continued)

16 Reserves

	Profit and loss account £
At 1 January 2006	4,708,076
Profit for the year	795,460
Dividends	(501,316)
	<hr/>
At 31 December 2006	5,002,220
	<hr/>

17 Reconciliation of movements in shareholders' funds

	2006 £	2005 £
Profit for the year	795,460	667,904
Dividends	(501,316)	(1,327,457)
	<hr/>	<hr/>
Net additions to/(deductions from) shareholders' funds	294,144	(659,553)
Opening shareholders' funds	5,848,076	6,507,629
	<hr/>	<hr/>
Closing shareholders' funds	6,142,220	5,848,076
	<hr/>	<hr/>

18 Pensions

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension charge amounted to £117,612 (2005 £119,179). At year end, there was an amount of £3,877 (2005 £4,266) relating to outstanding contributions.

19 Related party disclosures

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 group headed by Sun Hydraulics Corporation on the grounds that at least 90% of the voting rights in the company are controlled within that group and the company is included in consolidated financial statements.

Sun Hydraulics Limited

Notes forming part of the financial statements for the year ended 31 December 2006 *(Continued)*

20 Share-based cash settled payments

At 31 December 2006 the company was entered into three share-based payment plans in respect of certain of its employees, as follows:

	Plan 1	Plan 2	Plan 3
Date of grant	17 January 2005	9 December 2005	10 October 2006
Number granted	6,779	4,623	4,260
Nature of shares	Phantom shares	Phantom shares	Phantom shares
Vesting dates - one third of the shares granted	15 October 2005	9 December 2006	10 October 2007
vest on each of the following dates	15 October 2006	9 December 2007	10 October 2008
	15 October 2007	9 December 2008	10 October 2009
Vesting Conditions	To be in service at the vesting date	To be in service at the vesting date	To be in service at the vesting date

Assuming the vesting conditions are met, at each vesting date the employees receive an amount equal to the number of phantom shares they have been allocated multiplied by the share price of the ultimate parent company's shares at the vesting date. An amount of £54,325 (2005 £29,757) has been expensed through the profit and loss account in respect of these plans.

21 Capital commitments

	2006 £	2005 £
Contracted but not provided for	-	77,235

22 Ultimate parent company and parent undertaking of larger group

The company is a wholly owned subsidiary of Sun Hydraulik Holdings Limited

The largest and smallest group in which the results of the company are consolidated is that headed by Sun Hydraulics Corporation incorporated in United States of America. The consolidated accounts of this company are available to the public and may be obtained from 1500 West University Parkway, Sarasota, Florida, 34243, USA.