

Sun Hydraulics Limited

Report and Financial Statements

Year Ended

31 December 2007



Sun Hydraulics Limited

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

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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 2007

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

Results and dividends

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

The directors did not recommend the payment of a dividend (2006 £501,316)

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 2007 and we anticipate a levelling off of sales in 2008.

Significant events in the year

Production of cartridges for use in difficult environments, where the external parts are in stainless steel and titanium has continued to expand in 2007. We have also started to supply cartridges and manifolds with special plating for difficult environments.

Review of the Business

The success of the business has been due to our continued ability to supply products on short delivery in the 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 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.

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.

Sun Hydraulics Limited

Report of the directors for the year ended 31 December 2007 (*Continued*)

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
P Robson
R Glasspole

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 2007 (*Continued*)

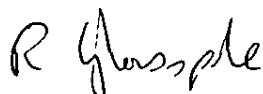
Auditors

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 have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

On behalf of the board

R Glasspole



Director

Date

31 Oct 08

Sun Hydraulics Limited

Independent auditor's report

To the shareholders of Sun Hydraulics Limited

We have audited the financial statements of Sun Hydraulics Limited for the year ended 31 December 2007 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.

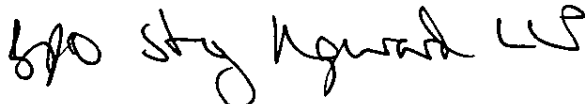
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

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 2007 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 LLP
Chartered Accountants
and Registered Auditors
Birmingham

Date 31 / 10 / 2008

Sun Hydraulics Limited**Profit and loss account for the year ended 31 December 2007**

	Note	2007 £	2006 £
Turnover	2	12,863,193	11,270,886
Cost of sales		<u>9,780,148</u>	<u>8,736,139</u>
Gross profit		3,083,045	2,534,747
Administrative expenses		<u>1,467,548</u>	<u>1,439,533</u>
Operating profit	3	1,615,497	1,095,214
Other interest receivable and similar income		23,721	31,290
Interest payable and similar charges	6	<u>-</u>	<u>(2,507)</u>
Profit on ordinary activities before taxation		1,639,218	1,123,997
Taxation on profit on ordinary activities	7	<u>393,516</u>	<u>328,537</u>
Profit on ordinary activities after taxation		<u>1,245,702</u>	<u>795,460</u>

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

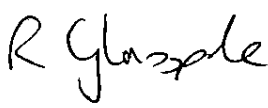
The notes on pages 8 to 18 form part of these financial statements

Sun Hydraulics Limited

Balance sheet at 31 December 2007

	Note	2007 £	2007 £	2006 £	2006 £
Fixed assets					
Tangible assets	9		4,773,799		3,924,999
Current assets					
Stocks	10	833,021		768,130	
Debtors	11	2,299,343		1,724,559	
Cash at bank and in hand		1,177,061		979,016	
		<u>4,309,425</u>		<u>3,471,705</u>	
Creditors: amounts falling due within one year	12	<u>1,415,658</u>		<u>991,086</u>	
Net current assets			<u>2,893,767</u>		<u>2,480,619</u>
Total assets less current liabilities			<u>7,667,566</u>		<u>6,405,618</u>
Provisions for liabilities	13		<u>279,644</u>		<u>263,398</u>
			<u>7,387,922</u>		<u>6,142,220</u>
Capital and reserves					
Called up share capital	14		1,140,000		1,140,000
Profit and loss account	15		6,247,922		5,002,220
Shareholders' funds	16		<u>7,387,922</u>		<u>6,142,220</u>

The financial statements were approved by the board of directors and authorised for issue on 30 October 2008


R Glasspole
Director

The notes on pages 8 to 18 form part of these financial statements

Sun Hydraulics 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 are in accordance with applicable accounting standards

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

Buildings	- 10 and 40 years
Plant and 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.

Sun Hydraulics Limited

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

2 Turnover

	2007 £	2006 £
Analysis by geographical market		
United Kingdom	5,169,663	4,209,364
Europe	5,194,112	4,593,310
Rest of the world	1,183,938	911,113
North America and Canada	1,315,480	1,557,099
	<u>12,863,193</u>	<u>11,270,886</u>

Turnover is wholly attributable to the principal activity of the company

3 Operating profit

	2007 £	2006 £
This is arrived at after charging/(crediting)		
Research and development - current year's expenditure	2,114	5,369
Depreciation of tangible fixed assets	558,183	534,200
Profit on disposal of tangible fixed assets	(37,960)	-
Audit services	16,300	16,300
Exchange differences	23,159	180,079
	<u>559,706</u>	<u>735,948</u>

Sun Hydraulics Limited

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

4 Employees

Staff costs (including directors) consist of

	2007 £	2006 £
Wages and salaries	2,256,660	1,797,843
Social security costs	229,724	213,013
Other pension costs	118,606	117,612
	<u>2,604,990</u>	<u>2,128,468</u>

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

	2007 Number	2006 Number
Production staff	56	49
Management staff	25	26
	<u>81</u>	<u>75</u>

5 Directors' remuneration

	2007 £	2006 £
Directors' emoluments	231,941	136,467
Company contributions to money purchase pension schemes	19,425	13,839
	<u>251,366</u>	<u>150,306</u>

There were 2 directors in the company's defined contribution pension scheme during the year (2006 - 2)

The number of directors who exercised share options was 2 (2006 - 2)

The total amount payable to the highest paid director in respect of emoluments was £135,270 (2006 - £103,618) Company pension contributions of £10,878 (2006 - £10,398) were made to a money purchase scheme on his behalf

The highest paid director exercised share options during the year

6 Interest payable and similar charges

	2007 £	2006 £
Bank loans and overdrafts	-	2,507
	<u>-</u>	<u>2,507</u>

Sun Hydraulics Limited

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

7 Taxation on profit on ordinary activities

	2007 £	2007 £	2006 £	2006 £
<i>UK Corporation tax</i>				
Current tax on profits of the year	377,019		343,991	
Adjustment in respect of previous periods	250		(4,309)	
	<u> </u>		<u> </u>	
Total current tax		377,269		339,682
<i>Deferred tax</i>				
Origination and reversal of timing differences		16,247		(11,145)
		<u> </u>		<u> </u>
Taxation on profit on ordinary activities		393,516		328,537
		<u> </u>		<u> </u>

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

	2007 £	2006 £
Profit on ordinary activities before tax	1,639,218	1,123,997
	<u> </u>	<u> </u>
Profit on ordinary activities at the standard rate of corporation tax in the UK of 30% (2006 - 30%)	491,765	337,199
Effect of		
Expenses not deductible for tax purposes	-	(1,745)
Depreciation for period in excess of capital allowances	(111,943)	(6,351)
Non taxable income	(8,110)	-
Adjustment to tax charge in respect of previous periods	250	(4,309)
Other timing differences	5,307	14,888
	<u> </u>	<u> </u>
Current tax charge for period	377,269	339,682
	<u> </u>	<u> </u>

8 Dividends

	2007 £	2006 £
Ordinary shares		
Interim paid of £Nil (2006 - £1 16) per share	-	501,316
	<u> </u>	<u> </u>

Sun Hydraulics Limited

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

9 Tangible fixed assets

	Freehold land and buildings £	Plant and machinery £	Office equipment £	Total £
<i>Cost</i>				
At 1 January 2007	3,000,274	5,514,075	807,365	9,321,714
Additions	204,938	1,013,540	194,551	1,413,029
Disposals	-	(402,348)	(16,287)	(418,635)
	<u>3,205,212</u>	<u>6,125,267</u>	<u>985,629</u>	<u>10,316,108</u>
<i>Depreciation</i>				
At 1 January 2007	1,004,204	3,722,899	669,612	5,396,715
Provided for the year	91,051	403,848	63,284	558,183
Disposals	-	(396,302)	(16,287)	(412,589)
	<u>1,095,255</u>	<u>3,730,445</u>	<u>716,609</u>	<u>5,542,309</u>
<i>Net book value</i>				
At 31 December 2007	<u>2,109,957</u>	<u>2,394,822</u>	<u>269,020</u>	<u>4,773,799</u>
At 31 December 2006	<u>1,996,070</u>	<u>1,791,176</u>	<u>137,753</u>	<u>3,924,999</u>

10 Stocks

	2007 £	2006 £
Raw materials and consumables	151,592	214,083
Work in progress	27,123	28,579
Finished goods and goods for resale	654,306	525,468
	<u>833,021</u>	<u>768,130</u>

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 2007 (Continued)****11 Debtors**

	2007 £	2006 £
Trade debtors	1,829,153	1,334,709
Amounts owed by group undertakings	28,359	85,279
Amounts owed by fellow subsidiary undertakings	37,262	23,947
Other debtors	284,481	184,240
Prepayments and accrued income	120,088	96,384
	<hr/>	<hr/>
	2,299,343	1,724,559
	<hr/>	<hr/>

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

12 Creditors: amounts falling due within one year

	2007 £	2006 £
Trade creditors	481,596	290,511
Amounts owed to group undertakings	526,599	373,872
Corporation tax	124,269	51,952
Other taxation and social security	157,865	145,356
Other creditors	68,043	72,078
Accruals and deferred income	57,286	57,317
	<hr/>	<hr/>
	1,415,658	991,086
	<hr/>	<hr/>

Other creditors include £54,303 (2006 £43,516) in respect of share-based payments (see note 19)

Sun Hydraulics Limited

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

13 Provisions for liabilities

		Deferred taxation £
At 1 January 2007		263,397
Charged to profit and loss account		16,247
		<hr/>
At 31 December 2007		279,644
		<hr/>
<i>Deferred taxation</i>		
	2007	2006
	£	£
Accelerated capital allowances	299,687	274,543
Profit and loss account movement arising during the year	-	(8,537)
Adjustments in respect of prior years	-	(2,609)
Other timing differences	(20,043)	-
	<hr/>	<hr/>
	279,644	263,397
	<hr/>	<hr/>

14 Share capital

	2007	Authorised	Allotted, called up	and fully paid
	£	2006	2007	2006
		£	£	£
Ordinary shares of £1 each	2,000,000	2,000,000	1,140,000	1,140,000
	<hr/>	<hr/>	<hr/>	<hr/>

15 Reserves

	Profit and loss account £
At 1 January 2007	5,002,220
Profit for the year	1,245,702
	<hr/>
At 31 December 2007	6,247,922
	<hr/>

Sun Hydraulics Limited

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

16 Reconciliation of movements in shareholders' funds

	2007 £	2006 £
Profit for the year	1,245,702	795,460
Dividends	-	(501,316)
	<hr/>	<hr/>
Net additions to shareholders' funds	1,245,702	294,144
Opening shareholders' funds	6,142,220	5,848,076
	<hr/>	<hr/>
Closing shareholders' funds	7,387,922	6,142,220
	<hr/>	<hr/>

17 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 £118,606 (2006: £117,612).

18 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 2007 (Continued)

19 Share-based cash settled payments

At 31 December 2007 the company participated in two share-based payment schemes in respect of certain of its employees, as follows

Scheme 1

	Plan 1	Plan 2
Date of grant	9 December 2005	10 October 2006
Number granted	4,623	4,260
Nature of shares	Phantom shares	Phantom shares
Vesting dates - one third of the shares granted	9 December 2006	10 October 2007
vest on each of the following dates	9 December 2007	10 October 2008
	9 December 2008	10 October 2009
Vesting Conditions	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 £156,823 (2006 £54,325) has been expensed through the profit and loss account in respect of these plans

Scheme 2

In 2007 the company's ultimate parent implemented a new restricted share scheme throughout the group to replace the previous phantom schemes shown above. Details of the new scheme are as given below

Assuming the vesting conditions are met, at each vesting date employees receive an amount equal to the number of shares they have been allocated multiplied by the share price of the ultimate parent company's shares at the date of grant

Employees are restricted on the sales of the shares, with the shares issued in any one year restricted on a 3 year annual basis, with a third of the shares able to be sold after each year has passed

The effect this would have on a knowledgeable, willing market participant's valuation of the shares would be minimal, as the shares are actively traded in a liquid market with virtually all the rights that any other shareholder would have including dividends

As such, in line with the FRS 20 guidelines the shares deemed value, is equal to the share price at the vesting date, as the impact the transfer restrictions would have is minimal

A management charge is then received from the parent company splitting the charge over the 3 year period of the restricted shares issued in any given year. An amount of £7,342 (2006 £nil) has been expensed through the profit and loss account in respect of these plans

Sun Hydraulics Limited

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

20 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