Company Registration No: 2985657

ANDREWS SYKES HIRE LIMITED

Report and Financial Statements

31 December 2006

ANDREWS SYKES HIRE LIMITED

REPORT AND FINANCIAL STATEMENTS 2006

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REPORT AND FINANCIAL STATEMENTS 2006

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

K E J Ford
P T Wood

COMPANY SECRETARY

M J Calderbank ACA

REGISTERED OFFICE

Premier House
Darlington Street
Wolverhampton
WV1 4JJ

BANKERS

National Westminster Bank plc

SOLICITORS

FBC
6 – 10 George Street
Snow Hill
Wolverhampton
WV2 4DN

AUDITOR

Deloitte & Touche LLP
Chartered Accountants
Birmingham
United Kingdom

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the 52 weeks ended 31 December 2006

PRINCIPAL ACTIVITY

The company's principal activity is the hire and sale of environmental control equipment including air conditioning, pumping and heating equipment

BUSINESS REVIEW

The company performed ahead of both budget and last year Taking the year as a whole, turnover increased by over 20% to £43 6 million resulting in an operating profit of £13 0 million, up by 34% compared with 2005 This good trading performance was partially due to favourable weather conditions but also due to business strategies implemented by management during the year

The heating hire business performed well during the early part of 2006 due to a long but typical British winter However the 2006/2007 winter was considerably milder and consequently the heating division did not achieve the same level of returns in the final quarter of 2006 as it managed in the same period in 2005

Conversely, the pumping division faced a difficult challenge at the start of the year due to the abnormally low winter tables caused by many months of low rainfall, particularly in the South-east A strong sales focus was introduced to stimulate demand for the Sykes Pumps brand and, through a combination of additional investment in a new generation of super silenced, environmentally improved pumps that exceed the highest market standards and the provision of service level agreements to customers that are second to none, we continued to win new customers and protect our market share Several major contracts were gained in this period, which will continue to provide revenue throughout the next 3 years The dry weather came to an end in the final quarter of 2006 with heavier rainfalls raising the water table back to more normal levels, thereby stimulating even more demand for our products

Demand was still on the increase as the year came to an end, which allows optimism for another good performance during the next financial year 2007 is a very special year for the Sykes Pumps brand as it celebrates its 150 year anniversary, having been established by Henry Sykes in London during 1857

The air conditioning hire division performed very well throughout the summer months A warm early summer meant our equipment went out on hire early and by offering customer incentives to enter into relatively long term rental agreements, the level of revenue was maintained into the start of the autumn The results were further enhanced by the investment into the development of central contact centres This enabled a much larger number of calls to be handled efficiently during the peak summer months, which together with a large investment in modern design, latest technology, portable air conditioning units, allowed us to increase the number of units in the rental fleet by well over 50%, whilst maintaining high utilisation figures

The specialist hire division had a successful year This division markets and manages our range of specialist chiller and boiler units, each of which have single units of up to 500kw in capacity During 2006 a separate team of sales specialists was recruited to provided added focus and expertise to the division This, along with the extra investment in new units and further development of our service team, has given the company a competitive edge in this growing market With further investment planned for 2007, this will allow entry into other markets and applications

An increase in marketing activity was made throughout 2006 and will continue into 2007 During the year a new corporate website was designed and launched, this will continue to be developed throughout the coming year Further radio and sports sponsorship provided an increase in market awareness for the company's major brands and will continue into 2007 with a special focus on the 150 year anniversary of the Sykes Pump brand

The company will continue to concentrate on its core product range of pumping, cooling and heating equipment to take advantage of any extremes of weather conditions whenever they arise Investment will continue to focus on products that have increased efficiency and have major environmental advantages when compared to conventional units At the same time we will control our cost base to ensure that a satisfactory level of profits can be achieved even with average weather conditions We will also be assessing new products and services and will introduce these at the appropriate time

DIRECTORS' REPORT (CONTINUED)

RESULTS AND DIVIDENDS

The results for the period are set out in the profit and loss account on page 9

The directors did not declare an interim dividend (2005 £Nil) and total dividends paid during the year of £Nil (2005 £7,650,000) have been charged against reserves as shown in note 16 to the financial statements

The directors do not recommend the payment of a final dividend (2005 £nil)

DIRECTORS

The directors who served during the financial period and subsequently are as follows

K E J Ford
R J Stevens (resigned 1 March 2006)
P T Wood (appointed 2 March 2006)

KEY PERFORMANCE INDICATORS (KPIs)

The KPIs are as follows

- Average turnover per employee
- Operating profit as a percentage of turnover
- Operating cash flow* as a percentage of operating assets** employed
- Operating profit divided by net interest charge
- Hire fleet asset utilisation

* Operating cash flow before defined benefit scheme contributions

** Operating assets are net assets employed, excluding pension liabilities, inter company loans, deferred and current tax balances and cash

RISK MANAGEMENT

The Company's principal risks are as follows

Strategic risks

The main strategic risk facing the business is the weather The demand for the company's products is, to some extent, influenced by the weather but this risk is managed and mitigated by the following actions

- The company has a diverse product range of pumps, heaters and air conditioning and environmental control equipment which enables it to take maximum advantage of any extremes in weather conditions whenever they arise
- For several years the company has followed a policy of reducing its fixed costs and linking them to a sustainable level of turnover This enables the company to achieve a satisfactory level of profits in non-extreme weather conditions
- The company continues to develop its share of the specialist hire and rental markets which have good margins and growth potential Certain segments of these markets are also less weather dependent thereby reducing the company's reliance on favourable weather conditions

Other strategic risks are increased competition from competitors and industry changes impacting on customer demand These are managed by investing in new environmentally friendly technically advanced products and equipment and providing service levels that are recognised as being among the best in the industry

DIRECTORS' REPORT (CONTINUED)

Financial risks

There have been no changes during the year, or since the year end, to the type of financial risks faced by the company or, with the exception of the interest rate risk, to the company's management of those risks

Interest rate risks

The company is partially funded by inter group loans on which interest is charged at variable rates based on LIBOR The directors consider that the company's exposure to fluctuations in interest rates is currently not significant given the group's financial arrangements

The group's borrowings of £25 million are subject to floating rates based on LIBOR plus a margin of between 0 5% and 1 25% To minimise the impact of any large increases in LIBOR and to take advantage of low market interest rates prevailing at the time, during July 2006 an interest rate cap was taken out by the parent company based on a nominal loan value of £20 million The effect of this cap is to limit the group's exposure to LIBOR to a maximum of 5 5% applied to the nominal cap value or actual loan value, whichever is the lesser The cap takes effect from January 2007 until the loans are repaid in July 2010

Funding and liquidity

The group has the above secured loan facilities amounting to £25 million which are fully utilised There are no unsecured short term loans

The group also has an undrawn net overdraft facility of £2 million which may be used for working capital requirements At 31 December 2006 the group had cash at bank of £10 2 million Cash balances are held in current accounts to fund working capital requirements Whenever surplus funds are identified they are placed on short term deposit Therefore, the directors currently consider the company's liquidity risk to be minimal, given the group's funding facilities

Credit risk

The company's main exposure to credit risk is with regard to recoverability of trade debtors However, management consider that the carrying value reflects their recoverable amount

Information technology

In order to remain competitive management recognise the need to invest in appropriate IT equipment and software Consequently the main communication network, website and data capture systems are all being constantly reviewed and updated to ensure they remain at the forefront of industry standards

PENSION SCHEME DEFICIT

As set out in note 17 to the financial statements, the present value of the company's share of the pension scheme liabilities calculated in accordance with FRS 17 is £36 8 million which, after deducting pension scheme assets of £30 8 million, results in a pre tax deficit of £6 million Management are currently working with the pension scheme trustees to maximise the return from the pension scheme assets and to match that return with the pension scheme liabilities as they crystallise in order to minimise the exposure to the company

HEALTH, SAFETY AND THE ENVIRONMENT

The company aims to achieve world class performance in health, safety and environmental issues by eliminating injuries, work related ill-health and minimising the effect of our activities on the environment Health and Safety Officers are appointed at each location and receive periodic training to keep abreast of both legislative requirements and technological advances The Company aims to continually improve its performance in order to meet changing business and regulatory requirements The Company is working toward the environment standard ISO14001 during 2007

EMPLOYMENT OF DISABLED PERSONS

The company makes every reasonable effort to give disabled applicants and existing employees who become disabled, equal opportunities for work, training and career development in keeping with their individual aptitudes and abilities

DIRECTORS' REPORT (CONTINUED)

EMPLOYEE INVOLVEMENT

The company recognises the need to ensure effective communications with employees Policies and procedures have been developed to suit the needs of each operating unit, taking into account factors such as numbers employed and location, including newsletters and communication meetings

REMUNERATION POLICY AND INCENTIVE SCHEMES

The company's policy is designed to attract, retain and motivate employees of the high calibre required to ensure that the company is managed successfully to the benefit of the shareholders

PAYMENT TO SUPPLIERS

The company agrees payment terms with its suppliers when it enters into binding purchase contracts The company seeks to abide by the payment terms agreed with suppliers whenever it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions The company does not have a standard or code which deals specifically with the payment of suppliers The average number of creditor days outstanding at 31 December 2006 was 54 days (2005 55 days)

ANNUAL GENERAL MEETING

The company has passed an elective resolution to dispense with the holding of an annual general meeting

AUDITOR

In the case of each of the persons who are directors of the company at the date when this report was approved

- So far as each director is aware, there is no relevant audit information (that is, information needed by the company's auditors in connection with preparing their report) of which the company's auditors are unaware
- Each director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company s auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985

The company has elected to dispense with the obligation to appoint auditors annually and, accordingly, Deloitte & Touche LLP shall be deemed to be re-appointed as auditors for a further term under the provisions of section 386(2) of the Companies Act 1985

Approved by the Board of Directors
and signed by order of the Board

M J Calderbank ACA

Company Secretary

Premier House
Darlington Street
Wolverhampton
WV1 4JJ

27 July 2007

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable United Kingdom law and regulations

United Kingdom company law requires the directors to prepare financial statements for each financial year Under the law they have elected to prepare the financial statement in accordance with United Kingdom Accounting Standards

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit and loss for that period

In preparing the financial statements the directors are required to

- Select suitable accounting policies and apply them consistently,
- Make judgements 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, and
- Prepare the financial statements on a going concern basis unless it is appropriate 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 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 prevention and detection of fraud and other irregularities

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ANDREWS SYKES HIRE LIMITED

We have audited the financial statements of Andrews Sykes Hire Limited for the 52 weeks ended 31 December 2006 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the reconciliation of the movement in shareholder funds and the related notes 1 to 20 These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

The directors' 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 are properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements

In addition we 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

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ANDREWS SYKES HIRE LIMITED (CONTINUED)

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its profit for the period 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

Deloitte + Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditor
Birmingham
UK
27 July 2007

PROFIT AND LOSS ACCOUNT
52 weeks ended 31 December 2006

	Note	52 weeks ended 31 December 2006 £000	52 weeks ended 31 December 2005 £000
TURNOVER	2	43,570	35,435
Cost of sales		(16,814)	(14,034)
Gross profit		26,756	21,401
Distribution costs		(8,360)	(6,904)
Administrative expenses (including exceptional items of £93,000, 2005 £nil)	3	(5,367)	(4,810)
OPERATING PROFIT	4	13,029	9,687
Net interest payable	5	(275)	(312)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		12,754	9,375
Tax on profit on ordinary activities	8	(3,914)	(2,976)
PROFIT FOR THE FINANCIAL PERIOD		8,840	6,399

The results are derived from continuing activities in both periods

The accompanying notes are an integral part of this profit and loss account

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
52 weeks ended 31 December 2006

	52 weeks ended 31 December 2006 £000	52 weeks ended 31 December 2005 £000
Profit for the financial period	8,840	6,399
Actual return less expected return on pension scheme assets	516	2,492
Experience gains and losses arising on the pension scheme liabilities	(303)	(4)
Changes in assumptions underlying the present value in scheme liabilities	(1,782)	(3,255)
UK deferred tax attributable to the pension scheme assets and liabilities	471	230
Total recognised gains and losses relating to the financial period transferred to reserves (note 16)	7,742	5,862

Movements in reserves are set out in note 16 on page 21

ANDREWS SYKES HIRE LIMITED

BALANCE SHEET
31 December 2006

	Note	31 December 2006		31 December 2005	
		£000	£000	£000	£000
FIXED ASSETS					
Tangible assets	10		10,633		7,738
CURRENT ASSETS					
Stocks	11	3,075		3,248	
Debtors – amounts falling due within one year	12	12,500		9,604	
Cash at bank and in hand		8,962		8,302	
		24,537		21,154	
CREDITORS: amounts falling due within one year	13	(17,475)		(19,099)	
NET CURRENT ASSETS			7,062		2,055
TOTAL ASSETS LESS CURRENT LIABILITIES BEING NET ASSETS EXCLUDING PENSION LIABILITY			17,695		9,793
Pension liability	17		(4,235)		(4,075)
NET ASSETS INCLUDING PENSION LIABILITY			13,460		5,718
CAPITAL AND RESERVES					
Called-up share capital	14		5,580		5,580
Share premium account	15		103		103
Profit and loss account	16		7,777		35
SHAREHOLDERS' FUNDS			13,460		5,718

These financial statements were approved by the Board of Directors on 27 July 2007

Signed on behalf of the Board of Directors

K E J Ford

Director

The accompanying notes are an integral part of this balance sheet

RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS
52 weeks ended 31 December 2006

	52 weeks ended 31 December 2006 £000	52 weeks ended 31 December 2005 £000
Profit for the financial period	8,840	6,399
Dividends paid	-	(7,650)
Actual return less expected return on pension scheme assets	516	2,492
Experience gains and losses arising on the pension scheme liabilities	(303)	(4)
Changes in assumptions underlying the present value in scheme liabilities	(1,782)	(3,255)
UK deferred tax attributable to the pension scheme assets and liability adjustments	471	230
Net increase/(decrease) in shareholders' funds	7,742	(1,788)
Shareholders' funds at beginning of the period	5,718	7,506
Shareholders' funds at the end of the period	13,460	5,718

NOTES TO THE FINANCIAL STATEMENTS
52 weeks ended 31 December 2006

1. ACCOUNTING POLICIES

The financial statements are prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards The principal accounting policies are summarised below They have all been applied consistently throughout the year and the preceding year

Related party transactions

Under FRS 8 the company is exempt from the requirement to disclose related party transactions with the Andrews Sykes Group and its associated undertakings on the grounds that it is a wholly owned subsidiary undertaking of Andrews Sykes Group plc

Turnover

Turnover represents the net amount receivable from external customers (excluding VAT) for the hire and sale of environmental control products after deducting trade discounts Turnover is recognised on despatch for the sale of goods and, for hire items, over the period of hire

Tangible fixed assets

Tangible fixed assets are shown at cost less accumulated depreciation Depreciation is provided on a straight line basis as to write off the original cost, less estimated residual value, of tangible fixed assets over their estimated useful lives as follows

Short leasehold land and buildings	- over the period of the lease
Equipment for hire	- 10% to 33%
Plant, machinery and vehicles	- 7 5% to 33%

Stocks

Stocks are stated at the lower of cost and net realisable value Cost is based on the actual purchase invoice price Provision is made for obsolete, slow moving or defective items calculated on a stock turnover basis where appropriate

Taxation

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

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law Timing differences arise from the inclusion of items of income and expenditure in the taxation computations in periods different from those in which they are included in the financial statements Deferred tax assets are not recognised to the extent that it is regarded as more likely than not that they will be recovered Deferred tax assets and liabilities are not discounted

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
52 weeks ended 31 December 2006

1. ACCOUNTING POLICIES (continued)

Leased assets

Rental costs arising from operating leases are charged to the profit and loss account in the periods to which they relate

Foreign currency

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account

Pensions

Defined Benefit Scheme

As disclosed in note 17 the group previously operated a defined benefit pension scheme for the majority of employees This scheme was closed to new entrants and all existing members became deferred members on 31 December 2002

The interest cost and the expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses

Defined benefit schemes are funded, with the assets of the scheme held separately from these of the company, in separate trustee administered funds 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 The actuarial valuations are obtained at least triennially and are updated 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

Defined contribution schemes

Employer contributions are charged to the profit and loss account on an accruals basis

Cash flow statement

Under FRS 1 (revised), the company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary undertaking of a UK parent

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
52 weeks ended 31 December 2006

2. SEGMENTAL ANALYSIS

The company's turnover and operating profit derive from its principal activities, the hire, sale and service of a range of equipment including portable heating, air conditioning, drying, ventilation and pumps originating within the United Kingdom

The company's turnover can be analysed as follows

	52 weeks ended 31 December 2006 £000	52 weeks ended 31 December 2005 £000
Hire	36,891	29,775
Sales, service and installation	6,679	5,660
	43,570	35,435

The company's integrated nature does not permit a meaningful analysis of profit before interest and tax or net assets by the above product groups

The geographical analysis of turnover by destination is as follows

	52 weeks ended 31 December 2006 £000	52 weeks ended 31 December 2005 £000
United Kingdom	41,951	35,015
Rest of Europe	1,120	128
Middle East & Africa	156	31
The Americas	343	261
	43,570	35,435

3. EXCEPTIONAL ADMINISTRATIVE EXPENSES

	52 weeks ended 31 December 2006 £000	52 weeks ended 31 December 2005 £000
Redundancy and reorganisation payments	93	-

The above costs relate to redundancy payments and legal costs incurred following the termination of the employment contracts of senior employees during the period

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
52 weeks ended 31 December 2006

4. OPERATING PROFIT

Operating profit is stated after charging/(crediting):	52 weeks ended 31 December 2006 £000	52 weeks ended 31 December 2005 £000
Depreciation of tangible fixed assets		
- owned	3,293	3,191
Profit on sale of tangible fixed assets	(309)	(254)
Operating lease rentals		
- plant and machinery	18	19
- external property rents	738	743
Auditors' remuneration		
- Fees payable to the company's auditors in respect of the audit of the company's accounts	31	40
- Fees payable to the company's auditors in respect of non-audit services - taxation	17	-

5. NET INTEREST PAYABLE

	52 weeks ended 31 December 2006 £000	52 weeks ended 31 December 2005 £000
Interest receivable and similar income		
Interest charged to other group companies	(51)	(315)
Bank interest receivable	(409)	(440)
	(460)	(755)
Interest payable and similar charges		
Net FRS 17 defined benefit pension scheme interest charge (note 17)	43	225
Interest payable to group companies	665	837
Other interest	27	5
	735	1,067
Net interest payable	275	312

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
52 weeks ended 31 December 2006

6. STAFF COSTS

The average monthly number of persons employed by the company, including directors, during the period was as follows

	52 weeks ended 31 December 2006 No.	52 weeks ended 31 December 2005 No.
Hire, distribution and administration	314	314

Their aggregate remuneration comprised

	52 weeks ended 31 December 2006 £000	52 weeks ended 31 December 2005 £000
Wages and salaries	8,196	8,110
Social security costs	826	809
Other pension costs (see note 17)	208	234
	9,230	9,153

7. DIRECTORS' REMUNERATION

The total amount paid by the company in respect of directors' remuneration is analysed as follows

	52 weeks ended 31 December 2006 £000	52 weeks ended 31 December 2005 £000
Emoluments as executives of the company		
Emoluments	229	62
Company contributions to money purchase schemes	12	5
	241	67

The emoluments of the directors who are also directors of Andrews Sykes Group plc are disclosed in that company's financial statements and are not included above

The emoluments of the highest paid director amounted to £149,000 (2005 £62,000) and company contributions of £7,000 (2005 £5,000) were paid into a money purchase scheme on his behalf

Pension retirement benefits accrued to 3 directors during the financial period (2005 2) in respect of qualifying services in the Andrews Sykes Group plc defined benefit pension scheme

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
52 weeks ended 31 December 2006

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

(i) Analysis of tax charge on ordinary activities

	52 weeks ended 31 December 2006 £000	52 weeks ended 31 December 2005 £000
Current tax:		
UK corporation tax and group relief at 30% based on the taxable profit for the period	3,013	1,852
Adjustment in respect of previous periods	648	76
Total current tax	3,661	1,928
Deferred tax:		
Origination and reversal of timing differences in the current year	909	1,131
Adjustments in respect of previous periods	(656)	(83)
Total deferred tax (see note 12)	253	1,048
Tax on profit on ordinary activities	3,914	2,976

(ii) Factors affecting tax charge for the current period

The tax charge for the current period differs to that resulting by applying the standard rate of corporation tax of 30% (2005 - 30%) to the profit on ordinary activities before tax The differences are explained below

	52 weeks ended 31 December 2006 £000	52 weeks ended 31 December 2005 £000
Profit on ordinary activities before taxation	12,754	9,375
Tax at 30% thereon	3,826	2,813
Adjustment in respect of previous periods	648	76
Capital allowances (in excess of)/less than depreciation	(115)	70
Expenses not deductible for tax purposes	86	169
Profit on disposal of fixed asset	(93)	(76)
Movement on short term timing differences	(691)	(1,124)
Current tax charge for the period	3,661	1,928

It has been announced that the UK corporation tax rate applicable to the company is expected to change from 30% to 28% from 1 April 2008 The deferred tax asset has been calculated at 30% in accordance with FRS 19 Any timing differences which reverse before 1 April 2008 and will be charged or relieved at 30% Any timing differences which exist at 1 April 2008 will reverse at 28% As a result of the uncertainty of when the deferred tax asset will reverse it is not possible to calculate the full financial impact of this change

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
52 weeks ended 31 December 2006

9. DIVIDENDS PAID AND PROPOSED ON EQUITY SHARES

	52 weeks ended 31 December 2006 £000	52 weeks ended 31 December 2005 £000
Final dividend in respect of the previous year declared and paid during the current year		
Dividend of £Nil (2005 £1 371) per share	-	7,650

10. TANGIBLE FIXED ASSETS

	Short leasehold land and buildings £000	Equipment for hire £000	Plant, machinery and vehicles £000	Total £000
Cost				
At the beginning of the period	389	22,556	7,209	30,154
Additions	-	5,250	1,117	6,367
Disposals	-	(2,147)	(517)	(2,664)
Transfers from group undertakings	-	-	41	41
At the end of the period	389	25,659	7,850	33,898
Depreciation				
At the beginning of the period	332	16,103	5,981	22,416
Charge for period	4	2,543	746	3,293
Disposals	-	(1,981)	(496)	(2,477)
Transfers from group undertakings	-	-	33	33
At the end of the period	336	16,665	6,264	23,265
Net book value				
At 31 December 2006	53	8,994	1,586	10,633
At 31 December 2005	57	6,453	1,228	7,738

11. STOCKS

	31 December 2006 £000	31 December 2005 £000
Finished goods and goods for resale	3,075	3,248

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
52 weeks ended 31 December 2006

12. DEBTORS

Debtors due within one year:	**31 December 2006 £000**	**31 December 2005 £000**
Trade debtors	9,819	6,873
Amounts owed by group undertakings	711	1,056
Prepayments and accrued income	947	801
Deferred tax asset	1,023	874
	12,500	9,604

The deferred taxation asset is analysed as follows

	31 December 2006 £000	**31 December 2005 £000**
Tax written down value of plant and equipment in excess of the accounts written down value	170	396
Other short term timing differences	853	478
	1,023	874

The movement on the deferred tax account during the period was as follows

	£000
At the beginning of the period	874
Profit and loss account charge (note 8)	(253)
Effect of pension payments less than actuarial charges	(69)
Deferred tax attributable to pension asset and liability adjustments posted to reserves	471
At the end of the period at 30%	1,023

A deferred tax asset has been recognised as the directors consider that there will be sufficient taxable profits generated by the company in the next 12 months to ensure its recovery

There was no unprovided deferred tax at the end of either period

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
52 weeks ended 31 December 2006

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 December 2006 £000	31 December 2005 £000
Bank overdraft	-	81
Trade creditors	4,205	2,998
Amounts owed to group undertakings	8,309	12,668
Other creditors		
- UK corporation tax payable	1,464	775
- Other taxes and social security	750	689
- Other creditors	23	247
Group relief	336	58
Accruals and deferred income	2,388	1,583
	17,475	19,099

All inter company loans are repayable on demand Interest is charged at the LIBOR rate plus 0 75%

14. CALLED-UP SHARE CAPITAL

	31 December 2006 £	31 December 2005 £
Authorised		
6,000,000 ordinary shares of £1 each	6,000,000	6,000,000
Called-up, allotted and fully paid		
5,580,002 ordinary shares of £1 each	5,580,002	5,580,002

15. SHARE PREMIUM ACCOUNT

	£000
At 31 December 2005 and 31 December 2006	103

Goodwill previously written off through capital reconstruction against share premium is as follows	
Arising on acquisition of trade and assets	16,897

16. PROFIT AND LOSS ACCOUNT

	£000
At the beginning of the period	35
Total recognised gains and losses relating to the period	7,742
At the end of the period	7,777

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
52 weeks ended 31 December 2006

17. RETIREMENT BENEFIT OBLIGATIONS

Defined Contribution Scheme

On 1 January 2003 a new pension scheme was introduced, the Andrews Sykes Stakeholder Pension Plan, to which the majority of UK employees are eligible The scheme is managed on behalf of the Group by Legal & General Both the employer and employee contribution rates vary generally based upon the individuals' length of service within the company The employer's contribution rates vary from 3% to 10% the current average being 4 5% The profit and loss account charge in the current year amounted to £208,000 (52 weeks ended 31 December 2005 £234,000)

Defined benefit pension scheme

The company is also party to the Group Defined Benefit Pension Scheme which was closed to future accrual as at 31 December 2002 The assets of the defined benefits pension scheme continue to be held in a separate trustee administered fund

The Group are making additional contributions in accordance with the 2005 Schedule of Contributions to remove the funding deficit in the Group Pension Scheme With effect from 1 October 2005 the current monthly contribution was increased to £125,000 from its previous level of £60,000, as approved by independent actuaries

In addition to the regular monthly contributions, lump sum payments totalling £3 35 million were also paid into the pension scheme by the Group last year following the tender offer and the disposals of certain subsidiary undertakings These contributions were agreed with both the Pensions Regulator and the Pension Scheme Trustees before being made

Assumptions

The last full actuarial valuation was carried out at 31 December 2004 A qualified independent actuary has updated the results from this valuation to calculate the deficit as disclosed below

The major assumptions used in this valuation to determine the present value of the scheme's liabilities were as follows

	31 December 2006	**31 December 2005**	**31 December 2004**
Rate of increases in pensionable salaries	N/A	N/A	N/A
Rate of increase in pensions in payment	3 00%	2 75%	2 75%
Discount rate applied to scheme liabilities	5 40%	5 00%	5 50%
Inflation assumption	3 00%	2 75%	2 75%

The major assumptions used to determine the expected future return on the scheme's assets, were as follows

Long term rate of return on			
UK equities	7 50%	7 50%	7 50%
Bonds	4 80%	4 30%	5 00%
Cash	4 60%	4 10%	4 00%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescales covered, may not necessarily be borne out in practice

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
52 weeks ended 31 December 2006

17. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

Valuations

The proportion of the fair value of the schemes assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the proportion of the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and are inherently uncertain, attributable to the company were as stated below

	31 December 2006 £000	31 December 2005 £000	31 December 2004 £000
UK equities	17,677	15,729	14,285
Bonds	12,942	12,281	6,836
Cash	151	254	132
Total market value of assets	30,770	28,264	21,253
Present value of scheme liabilities	(36,820)	(34,085)	(30,042)
Deficit in the scheme – pension liability	(6,050)	(5,821)	(8,789)
Related deferred tax	1,815	1,746	2,637
Net pension liability	(4,235)	(4,075)	(6,152)

The movement in the deficit during the period was as follows

	31 December 2006 £000	31 December 2005 £000	31 December 2004 £000
Deficit in the scheme at the beginning of the period	(5,821)	(8,789)	(8,818)
Contributions	1,383	3,960	499
Other finance costs (note 5)	(43)	(225)	(241)
Actuarial loss	(1,569)	(767)	(229)
Deficit in the scheme at the end of the period	(6,050)	(5,821)	(8,789)

The following amounts have been included in net interest payable

	31 December 2006 £000	31 December 2005 £000
Expected return on pension scheme assets	1,635	1,399
Interest on pension scheme liabilities	(1,678)	(1,624)
	(43)	(225)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
52 weeks ended 31 December 2006

17. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

Amounts recognised in statement of total recognised gains and losses	**31 December 2006 £000**	**31 December 2005 £000**
The amounts included in the statement of total recognised gains and losses were		
Actuarial return less expected return on scheme assets	516	2,492
Experience gains and losses arising on scheme liabilities	(303)	(4)
Changes in assumptions underlying the present value of scheme liabilities	(1,782)	(3,255)
Actuarial loss recognised in the statement of total recognised gains and losses	(1,569)	(767)

History of experience gains and losses	**31 December 2006 £000**	**31 December 2005 £000**	**31 December 2004 £000**	**27 December 2003 £000**
Experience between the expected and actual return on scheme assets				
Amount	516	2,492	327	876
Percentage of scheme assets	1 7%	8 8%	1 5%	4 4%
Experience gains and losses arising on scheme liabilities				
Amount	(303)	(4)	(556)	114
Percentage of present value of scheme liabilities	(0 8%)	0 0%	(1 8%)	0 4%
Effects to changes in the demographic and financial assumptions underlying the present value of the scheme liabilities				
Amount	(1,782)	(3,255)	-	(3,123)
Percentage of present value of scheme liabilities	(4 8%)	(9 6%)	0 0%	(10 9%)
Total amount recognised in statement of total recognised gains and losses				
Amount	(1,569)	(767)	(229)	(2,133)
Percentage of present value of scheme liabilities	(4 3%)	(2 3%)	(0 8%)	(7 4%)

18. LEASE COMMITMENTS

	Land and buildings		**Other**	
	31 December 2006 £000	**31 December 2005 £000**	**31 December 2006 £000**	**31 December 2005 £000**
Expiring				
Within one year	56	28	5	1
Between two and five years inclusive	166	206	13	18
In five years or more	529	479	-	-
	751	713	18	19

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
52 weeks ended 31 December 2006

19. CAPITAL COMMITMENTS AND CONTINGENCIES

As at 31 December 2006 the company had capital commitments of £134,000 (31 December 2005 £Nil)

As at 31 December 2006 the company held letters of credit of £41,249 (31 December 2005 £Nil)

20. CONTROLLING PARTIES

The company is a subsidiary undertaking of Andrews Sykes Group plc, a company registered in England and Wales

The only UK group in which the results of Andrews Sykes Hire Limited are consolidated is that headed by Andrews Sykes Group plc whose principal place of business is Premier House, Darlington Street, Wolverhampton WV1 4JJ The consolidated accounts for this group are available to the public and may be obtained from the aforementioned address

As at 27 July 2007, EOI SYKES Sarl, which is incorporated in Luxembourg, held 81 65% of the ordinary share capital of Andrews Sykes Group plc and is therefore that company's immediate parent company The ultimate holding company is the Tristar Corporation, a company incorporated in The Republic of Panama The ultimate controlling party is Mr J G Murray