

Company Registration No. 550374 (England and Wales)

AIRFLOW DEVELOPMENTS LIMITED
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2006

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AIRFLOW DEVELOPMENTS LIMITED
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AIRFLOW DEVELOPMENTS LIMITED
DIRECTORS AND OFFICERS

DIRECTORS

J. W. Johnson-Watts
J. R. H. Stevenson-Hamilton

SECRETARY

J. R. H. Stevenson-Hamilton

COMPANY NUMBER

550374 (England and Wales)

REGISTERED OFFICE

Lancaster Road
High Wycombe
Buckinghamshire
HP12 3QP

AUDITORS

HW, Chartered Accountants
Sterling House
5 Buckingham Place
Bellfield Road West
High Wycombe
Buckinghamshire
HP13 5HQ

BANKERS

HSBC Bank PLC
1 Corn Market
High Wycombe
Buckinghamshire
HP11 2AY

AIRFLOW DEVELOPMENTS LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2006

The directors submit their report and the financial statements of Airflow Developments Limited for the year ended 31st March 2006.

Principal activities

The principal activity of the group during the year continued to be that of the manufacture and distribution of air measuring equipment, fans and domestic ventilation.

During the year Airflow Developments Limited sold its instrumentation division.

Review of the business

Key performance indicators:

	FY'06	FY'05	FY'04
Profitability Ratios			
Gross Profit (GP) %	49.45%	57.59%	58.43%
Operating Profit (OP) %	0.94%	(3.25)%	0.85%
Return on Capital Employed	65.41%	(8.93)%	3.03%
Liquidity Ratios			
Current Ratio	2.40 : 1	1.29 : 1	2.00 : 1
Quick Ratio	1.75 : 1	0.69 : 1	1.06 : 1
Stability Ratio			
Gearing	0.31 : 1	0.82 : 1	0.63 : 1

The sale of the instrument manufacturing division on the 1st August 2005 represented a significant change to the structure and commercial position of the group. With a favourable offer price and the forecast of significant costs to develop a new range of instruments, it was decided that the sale of the instrumentation division was in the best interests of the company and shareholders.

The sale of the instrumentation division has had a significant positive affect on the group as the ratios highlight. Whilst the GP% has fallen (instruments had a higher GP% than fans) the OP % has improved. This has resulted from the reduction of costs and the dedicated focus on the core fans business.

The focus has been rewarded by strong growth in the continuing activities of the business, turnover of which increased by 25% over the previous year. The principal driver of this has been the highly successful range of iCon ventilation fans which continues to take market share. The group is also proud of its strong international presence, with 47% of sales coming from outside the United Kingdom.

The liquidity of the group has also significantly improved. The interests of the shareholders are being maximised with the sale proceeds being used to facilitate the development of further business interests.

With the increase in the value of shareholders funds, and no significant change in group borrowings, the gearing of the Group has also improved significantly. This strong financial position is facilitating the development of the fans business (commercial and domestic) with a renewed commercial fervour.

AIRFLOW DEVELOPMENTS LIMITED
DIRECTORS' REPORT (continued)
FOR THE YEAR ENDED 31 MARCH 2006

Review of the business

The greatest challenge that the group faces is to maintain and improve margins in the face of increasing worldwide commodity and raw material prices, whilst at the same time improving sales volumes. With a reputation for quality which is the envy of its competitors, and an innovative product range in the iCon fans which is still in the early years of its product life cycle, the company is well placed to do this. In addition, the company continues successfully to work with supplier partners both to contain cost increases, and to research and develop better and more efficient ways to build all of its products.

FY'07 management accounts show that the group is being successful in coping with the commercial pressures discussed above.

Results and dividends

Ordinary dividends of £206,000 (2005: £208,000) were proposed and paid during the year.

Directors

The following directors have held office since 1 April 2005:-

J. W. Johnson-Watts
J. R. H. Stevenson-Hamilton

Directors' interest in shares and debentures

Directors' beneficial interests in the shares of the company, including family interests, were as follows:-

	Ordinary share of £1 each	
	31 March 2006	1 April 2005
J. W. Johnson-Watts	26,190	26,190
J. R. H. Stevenson-Hamilton	26,190	26,190

	Redeemable 6% Preference shares of £1 each	
	31 March 2006	1 April 2005
J. W. Johnson-Watts	-	370,000
J. R. H. Stevenson-Hamilton	-	370,000

The interests in ordinary shares of J. W. Johnson-Watts and J. R. H. Stevenson-Hamilton are held in two trusts in which they have an interest.

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution proposing that HW, Chartered Accountants be reappointed as auditors of the company will be put to the Annual General Meeting.

AIRFLOW DEVELOPMENTS LIMITED
DIRECTORS' REPORT (continued)
FOR THE YEAR ENDED 31 MARCH 2006

Directors' responsibilities

The directors are responsible for preparing the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Company law requires 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 the group and of the profit or loss of the group for that period. In preparing those financial statements, directors are required to:


- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- 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 requirements of 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.

Statement of disclosure to the auditor

- (a) so far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware, and
- (b) they have taken all the steps that they ought to have taken as directors in order to make them aware of any relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the board


.....
J. R. H. Stevenson-Hamilton
Director

Date: 26 February 2007

**AIRFLOW DEVELOPMENTS LIMITED
INDEPENDENT AUDITORS' REPORT TO
THE MEMBERS OF AIRFLOW DEVELOPMENTS LIMITED**

We have audited the financial statements on pages 6 to 26. These financial statements have been prepared under the historical cost convention and the accounting policies set out on pages 11 and 12.

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 auditor's 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

As described in the Statement of Directors' Responsibilities on page 4 the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company 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 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.

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 affairs of the company and of the group at 31 March 2006 and of the group's profit for the year then ended and 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

HW, Chartered Accountants

HW, Chartered Accountants

Registered Auditor

7th March 2007

Sterling House
5 Buckingham Place
Bellfield Road West
High Wycombe
Buckinghamshire
HP 13 5HQ

AIRFLOW DEVELOPMENTS LIMITED AND SUBSIDIARY UNDERTAKINGS

**CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2006**

	Notes	2006	2005
		£	£
			as restated
Turnover	1		
Continuing operations		7,268,860	5,820,381
Discontinued activities		<u>979,592</u>	<u>2,818,144</u>
		8,248,452	8,638,525
Cost of sales	2	<u>(4,169,384)</u>	<u>(3,663,639)</u>
Gross profit		4,079,068	4,974,885
Other operating expenses (net)	2	<u>(4,001,747)</u>	<u>(5,256,021)</u>
OPERATING PROFIT/(LOSS)			
Continuing operations		164,316	(97,074)
Discontinued activities		<u>(86,995)</u>	<u>(184,062)</u>
		77,321	(281,136)
Exceptional items	12	<u>2,425,491</u>	<u>120,133</u>
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE INTEREST		2,502,812	(161,003)
Interest receivable and similar Income	3	5,629	995
Interest payable and similar charges	4	<u>(72,804)</u>	<u>(77,365)</u>
PROFIT / (LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION	6	2,435,637	(237,373)
Taxation	7	<u>558,527</u>	<u>51,599</u>
PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION	8	<u>2,994,164</u>	<u>(185,774)</u>

AIRFLOW DEVELOPMENTS LIMITED AND SUBSIDIARY UNDERTAKINGS

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 MARCH 2006**


	2006	2005
	£	as restated £
Profit/(Loss) for the financial year	2,994,164	(185,774)
Currency translation gains on foreign currency net investments	<u>12,033</u>	<u>13,182</u>
Total profits/(losses) recognised since last annual report	<u><u>3,006,197</u></u>	<u><u>(172,592)</u></u>

AIRFLOW DEVELOPMENTS LIMITED AND SUBSIDIARY UNDERTAKINGS

CONSOLIDATED BALANCE SHEET AS AT 31 MARCH 2006

	Notes	2006 £	2005 as restated £
FIXED ASSETS			
Tangible assets	10	<u>862,523</u>	<u>1,046,203</u>
CURRENT ASSETS			
Stocks	13	866,462	1,553,161
Debtors	15	3,847,707	1,667,999
Cash at bank and in hand		<u>359,477</u>	<u>144,667</u>
		5,073,646	3,365,827
CREDITORS: Amounts falling due within one year	17	<u>(2,109,956)</u>	<u>(2,609,339)</u>
NET CURRENT ASSETS		<u>2,963,690</u>	<u>756,488</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		3,826,213	1,802,691
CREDITORS: Amounts falling due after more than one year	19	(313,803)	(339,243)
PROVISION FOR LIABILITIES AND CHARGES	21	<u>(1,317)</u>	<u>(12,552)</u>
		<u>3,511,093</u>	<u>1,450,896</u>
CAPITAL AND RESERVES			
Called up share capital	22	52,380	792,380
Other reserves	23	740,000	-
Profit and loss account	23	<u>2,718,713</u>	<u>658,516</u>
SHAREHOLDERS' FUNDS	25	<u>3,511,093</u>	<u>1,450,896</u>
Equity interests		3,511,093	710,896
Non-equity interests		-	740,000
		<u>3,511,093</u>	<u>1,450,896</u>

Approved by the board on 26 February 2007


J. R. H. Stevenson-Hamilton
Director

AIRFLOW DEVELOPMENTS LIMITED

**COMPANY BALANCE SHEET
AS AT 31 MARCH 2006**

	Notes	2006 £	2005 as restated £
FIXED ASSETS			
Tangible assets	11	822,663	1,007,909
Investments	12	<u>75,892</u>	<u>75,892</u>
		<u>898,555</u>	<u>1,083,801</u>
CURRENT ASSETS			
Stocks	14	482,100	1,274,102
Debtors	16	3,735,784	1,673,120
Cash at bank and in hand		<u>273,019</u>	<u>46,630</u>
		<u>4,490,903</u>	<u>2,993,852</u>
CREDITORS: Amounts falling due within one year	18	<u>(1,818,572)</u>	<u>(2,458,882)</u>
NET CURRENT ASSETS		<u>2,672,331</u>	<u>534,970</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>3,570,886</u>	<u>1,618,771</u>
CREDITORS: Amounts falling due after more than one year	20	(653,133)	(674,370)
PROVISION FOR LIABILITIES AND CHARGES	21	<u>(42,692)</u>	<u>(46,995)</u>
		<u>2,875,061</u>	<u>897,406</u>
CAPITAL AND RESERVES			
Called up share capital	22	52,380	792,380
Other reserves	24	740,000	-
Profit and loss account	24	<u>2,082,681</u>	<u>105,026</u>
SHAREHOLDERS' FUNDS	26	<u>2,875,061</u>	<u>897,406</u>
Equity interests		2,875,061	157,406
Non-equity interests		<u>-</u>	<u>740,000</u>
		<u>2,875,061</u>	<u>897,406</u>

Approved by the board on 26 February 2007


J. R. H. Stevenson-Hamilton
Director

AIRFLOW DEVELOPMENTS LIMITED AND SUBSIDIARY UNDERTAKINGS

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2006**

	Notes	2006 £	2005 as restated £
Cash (outflow)/inflow from operating activities	27a	(902,828)	474,027
Returns on investments and servicing of finance	27b	(67,175)	(76,371)
Taxation		48,334	60,846
Capital expenditure and financial investment	27b	2,455,432	(358,039)
Dividends paid		(206,000)	(208,000)
CASH INFLOW/(OUTFLOW) BEFORE USE OF LIQUID RESOURCES AND FINANCING		1,327,763	(107,537)
Financing	27b	(1,107,611)	(298,336)
INCREASE/(DECREASE) IN CASH IN THE YEAR	27c	220,152	(405,873)
		2006 £	2005 £
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT			
Increase/(decrease) in cash in the year		220,152	(405,873)
Cash outflow from decrease in debt		139,756	30,398
Change in net debt resulting from cash flows		359,908	(375,475)
MOVEMENT IN NET DEBT IN THE PERIOD		359,908	(375,475)
NET (DEBT) AT 1 APRIL 2005		(1,090,252)	(714,777)
NET (DEBT) AT 31 MARCH 2006	27c	(730,344)	(1,090,252)

AIRFLOW DEVELOPMENTS LIMITED AND SUBSIDIARY UNDERTAKINGS

ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2006

1. Basis of accounting

The financial statements are prepared under the historical cost convention.

2. Basis of consolidation

The consolidated financial statements incorporate those of Airflow Developments Limited and all of its subsidiary undertakings for the year. No profit and loss account has been presented for Airflow Developments Limited as permitted by Section 230 of the Companies Act 1985.

3. Turnover

Turnover represents amounts receivable for goods and services net of VAT and trade discounts.

4. Research and Development

Research and development expenditure is written off to the profit and loss account in the year in which it is incurred.

5. Tangible fixed assets and depreciation

Fixed assets other than freehold land are stated at historical cost less depreciation.

Depreciation is provided at rates calculated to write each asset down to its estimated residual value over its expected useful life, as follows:-

Freehold buildings	2% Straight line
Plant and machinery	10% Straight line or over the life of the asset
Fixtures, fittings and equipment	10%/ 12.5% / 20% Straight line or over the life of the asset
Motor vehicles	25% Straight line – vans & lorries
	33.3% Straight line – cars

6. Investments

Fixed asset investments are stated at cost less provision or diminution in value.

7. Stock and work in progress

Stock and work in progress are valued at the lower of cost and net realisable value. Cost of finished goods and work in progress includes overheads appropriate to the stage of manufacture. Net realisable value is based upon estimated selling price less further costs expected to be incurred to completion and disposal. A provision is made for obsolete and slow moving items.

8. Leasing and hire purchase

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible assets and depreciated over the shorter of the lease term and their useful lives. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. *The finance element of the rental payment is charged to the profit and loss account so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.*

Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

AIRFLOW DEVELOPMENTS LIMITED AND SUBSIDIARY UNDERTAKINGS

ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2006

9. Pension Contributions

The pension costs charged in the financial statements represent the contribution payable by the company during the year in accordance with FRS 17.

10. Foreign currency translation

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

Assets, liabilities and results of overseas subsidiaries are translated at the rate ruling at the balance sheet date. Exchange differences arising are dealt with through reserves.

11. Deferred Taxation

Deferred tax is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. The deferred tax balance has not been discounted.

AIRFLOW DEVELOPMENTS LIMITED AND SUBSIDIARY UNDERTAKINGS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

1. Turnover

The group's turnover was derived from the group's principal activities. Turnover can be analysed as follows:-

	2006 £	2005 £
UK	4,388,600	4,843,090
Overseas	3,859,852	3,795,435
	<u>8,248,452</u>	<u>8,638,525</u>

2. Cost of sales and net operating expenses

	2006 £	2005 £
Cost of sales		
Continuing	3,839,173	2,667,622
Discontinued	330,211	996,017
Total	<u>4,169,384</u>	<u>3,663,639</u>
Net operating expenses		
Administrative and distribution: continuing	3,356,355	3,297,226
discontinued	753,624	2,022,937
Other operating income	(90,984)	(47,393)
continued	(17,248)	(16,749)
discontinued		
Total	<u>4,001,747</u>	<u>5,256,021</u>

3. Interest receivable and similar income

	2006 £	2005 £
Other interest	<u>5,629</u>	<u>995</u>

4. Interest payable and similar charges

	2006 £	2005 £
Hire purchase/finance leases	2,684	3,915
Other interest	<u>70,120</u>	<u>73,450</u>
	<u>72,804</u>	<u>77,365</u>

AIRFLOW DEVELOPMENTS LIMITED AND SUBSIDIARY UNDERTAKINGS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2006**

5. Employees

	2006 No.	2005 No.
The average weekly number of persons (including directors) employed by the group during the period was:		
Manufacturing	26	43
Non-manufacturing	70	85
	<u>96</u>	<u>128</u>
	2006 £	2005 £
Staff costs:		
Wages and salaries (inc. social security costs)	2,456,178	2,993,804
Other pension costs	48,977	41,715
	<u>2,505,155</u>	<u>3,035,519</u>
	2006 £	2005 £
Directors' emoluments:		
Emoluments for qualifying services	<u>9,400</u>	<u>12,438</u>

The number of directors for whom retirement benefits are accruing under money purchase schemes amounted to 2 (2005: 2).

6. Profit/(loss) on ordinary activities before taxation

	2006 £	2005 £
Profit/(Loss) on ordinary activities before taxation is stated after charging:		
Depreciation and amounts written off tangible fixed assets: Charge for the year:		
owned	145,406	192,371
leased	14,154	4,751
Auditors' remuneration	10,000	17,891
Operating lease rentals	152,662	406,000
(Profit)/Loss on disposal of fixed assets	(5,803)	2,202
(Profit)/loss on foreign exchange	<u>15,955</u>	<u>4,934</u>

AIRFLOW DEVELOPMENTS LIMITED AND SUBSIDIARY UNDERTAKINGS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

7. Taxation

	2006 £	2005 £
Current year tax:		
Foreign tax	8,979	(740)
Prior years:		
UK corporation tax	<u>(56,246)</u>	<u>(50,859)</u>
Current tax charge	(47,267)	(51,599)
Deferred tax credit	<u>(511,260)</u>	<u>-</u>
	<u>(558,527)</u>	<u>(51,599)</u>
Factors affecting tax charge for the period		
Profit/(loss) on ordinary activities before taxation	<u>2,415,224</u>	<u>(237,373)</u>
Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 19% (2005: 30%)	<u>458,892</u>	<u>(71,212)</u>
Effects of:		
Expenses not deductible	1,321	5,828
Depreciation in excess of capital allowances	976	3,431
Chargeable gains	36,326	10,354
R&D tax refund	(6,241)	-
Non-taxable gains	(472,051)	-
Adjustments for prior years	(56,246)	-
Foreign tax adjustment	<u>(10,244)</u>	<u>-</u>
	<u>(506,159)</u>	<u>19,613</u>
Current tax charge	<u>(47,267)</u>	<u>(51,599)</u>

Airflow Developments Limited has estimated losses of £2,759,883 (2005: £2,630,069) available for carry forward against future trading profits.

8. Profit/(Loss) on Ordinary Activities after Taxation

The profit/(loss) in the accounts of the parent company amounted to £2,923,655 (2005: (£73,449)).

9. Dividends

	2006 £	2005 £
Ordinary interim paid	206,000	208,000
	<u>206,000</u>	<u>208,000</u>

AIRFLOW DEVELOPMENTS LIMITED AND SUBSIDIARY UNDERTAKINGS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

10. Tangible fixed assets – group

	Land and buildings	Plant and machinery	Fixtures, fittings and equipment	Motor vehicles	Total
	£	£	£	£	£
Cost					
1 st April 2005	364,580	1,002,561	3,493,427	80,811	4,941,379
Additions	-	1,689	54,457	-	56,146
Disposals	-	(273,079)	(198,591)	(16,060)	(487,730)
31 March 2006	<u>364,580</u>	<u>731,171</u>	<u>3,349,293</u>	<u>64,751</u>	<u>4,509,795</u>
Depreciation					
At 1 April 2005	51,599	817,190	2,959,463	66,924	3,895,176
Charge for the year	7,100	42,408	104,116	5,936	(159,560)
Disposals	-	(234,351)	(159,374)	(13,739)	(407,464)
31 March 2006	<u>58,699</u>	<u>625,247</u>	<u>2,904,205</u>	<u>59,121</u>	<u>3,647,272</u>
Net book value					
31 March 2006	<u>305,881</u>	<u>105,924</u>	<u>445,088</u>	<u>5,630</u>	<u>862,523</u>
At 31 March 2005	<u>312,981</u>	<u>185,371</u>	<u>533,964</u>	<u>13,887</u>	<u>1,046,203</u>

Included above are assets held under finance leases or hire purchase contracts as follows:

	Net book value	Depreciation charge for the year
	£	£
Fixtures, fittings and equipment		
31 March 2006	<u>29,345</u>	<u>14,154</u>
31 March 2005	<u>68,537</u>	<u>4,751</u>

AIRFLOW DEVELOPMENTS LIMITED AND SUBSIDIARY UNDERTAKINGS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

11. Tangible fixed assets – company

	Land and buildings	Plant and machinery	Fixtures, fittings and equipment	Motor vehicles	Total
	£	£	£	£	£
Cost					
1 st April 2005	355,293	917,100	3,369,010	34,758	4,676,161
Additions	-	-	39,245	-	39,245
Disposals	-	270,399	(211,276)	-	(481,675)
31 March 2006	<u>355,293</u>	<u>646,701</u>	<u>3,196,979</u>	<u>34,758</u>	<u>4,233,731</u>
Depreciation					
At 1 April 2005	51,576	743,597	2,839,909	33,171	3,668,253
On disposals	-	(233,549)	(170,653)	-	(404,202)
Charge for the year	6,951	38,292	100,187	1,587	147,017
31 March 2006	<u>58,527</u>	<u>548,340</u>	<u>2,769,443</u>	<u>34,758</u>	<u>3,411,068</u>
Net book value					
31 March 2006	<u>296,766</u>	<u>98,361</u>	<u>427,536</u>	<u>-</u>	<u>822,663</u>
At 31 March 2005	<u>303,717</u>	<u>173,504</u>	<u>529,101</u>	<u>1,587</u>	<u>1,007,909</u>

Included above are assets held under finance leases or hire purchase contracts as follows:

	Net book value	Depreciation charge for the year
	£	£
Fixtures, fittings and equipment		
31 March 2006	<u>29,345</u>	<u>14,154</u>
31 March 2005	<u>68,537</u>	<u>4,751</u>

AIRFLOW DEVELOPMENTS LIMITED AND SUBSIDIARY UNDERTAKINGS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

12. Fixed asset investments – company

Shares in
group
undertakings
£

At 31 March 2006

75,892

Holdings of more than 20%

The company holds more than 20% of the share capital of the following companies:

Company	Country of registration or incorporation	Shares held Class	%
Subsidiary undertakings:			
Airflow Lufttechnik GmbH	Germany	Ordinary	100
Stemshire Motors and Drives	UK	Ordinary	100

The principal activity of Airflow Lufttechnik GmbH is similar to that of Airflow Developments Limited. Stemshire Motors and Drives is a dormant company.

The aggregate amount of capital and reserves and the results of these undertakings for the last relevant financial year were as follows:

	Capital and reserves £	Profit/(loss) for the year £
Airflow Lufttechnik GmbH	394,786	50,096
Stemshire Motors and Drives	<u>342,922</u>	<u>-</u>

During the year the company sold its instrumentation division for net proceeds of £2,425,491.

13. Stocks and work in progress – group

	2006 £	2005 £
Raw materials and consumables	289,638	850,617
Work in progress	-	102,379
Finished goods and goods for resale	<u>576,825</u>	<u>600,165</u>
	<u>866,463</u>	<u>1,553,161</u>

14. Stocks and works in progress – company

	2006 £	2005 £
Raw materials and consumables	289,638	850,617
Work in progress	-	102,379
Finished goods and goods for resale	<u>192,462</u>	<u>321,106</u>
	<u>482,100</u>	<u>1,274,102</u>

AIRFLOW DEVELOPMENTS LIMITED AND SUBSIDIARY UNDERTAKINGS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

15. Debtors – group

	2006 £	2005 £
Trade debtors	1,348,995	1,501,344
Other debtors	1,745,284	9,150
Prepayments and accrued income	191,309	106,646
Corporation tax	50,859	50,859
Deferred tax	511,260	-
	<u>3,847,707</u>	<u>1,667,999</u>

The deferred tax asset is recoverable over a period of more than one year (see note 21).

16. Debtors – company

	2006 £	2005 £
Trade debtors	1,025,423	1,238,366
Amounts owed by subsidiary undertakings	231,613	279,808
Other debtors	1,745,284	9,150
Prepayments and accrued income	171,345	94,937
Corporation tax	50,859	50,859
Deferred tax	511,260	-
	<u>3,735,784</u>	<u>1,673,120</u>

The deferred tax asset is recoverable over a period of more than one year (see note 21).

17. Creditors: Amounts falling due within one year - group

	2006 £	2005 £
Bank loans and overdrafts	43,628	48,970
Factoring balance	718,382	829,884
Obligations under finance lease and hire purchase contracts	14,008	16,821
Trade creditors	962,282	885,920
Corporation tax	8,979	-
Other taxes and social security costs	104,046	112,312
Other creditors	258,631	715,432
	<u>2,109,956</u>	<u>2,609,339</u>

Net obligations under finance leases and hire purchase contracts are secured by fixed charges on the assets concerned.

Bank loans and overdraft and the balance due to the factoring company are secured by fixed and floating charges over the assets of Airflow Developments Limited.

AIRFLOW DEVELOPMENTS LIMITED AND SUBSIDIARY UNDERTAKINGS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

18. Creditors: Amounts falling due within one year - company

	2006 £	2005 £
Bank loans and overdrafts	43,628	48,970
Factoring balance	718,382	829,884
Obligations under finance lease and hire purchase contracts	14,008	16,821
Trade creditors	802,765	826,238
Accruals and deferred income	76,082	19,614
Other taxes and social security costs	85,726	86,484
Other creditors	77,981	108,334
Directors current accounts	-	288,537
CVA creditors	-	234,000
	<u>1,818,572</u>	<u>2,458,882</u>

19. Creditors: Amounts falling due after more than one year – group

	2006 £	2005 £
Bank loan	313,803	325,236
Obligation under hire purchase contracts	-	14,008
	<u>313,806</u>	<u>339,243</u>

Net obligations under finance leases and hire purchase contracts are secured by fixed charges on the assets concerned.

Bank loans and overdraft and the balance due to the factoring company are secured by fixed and floating charges over the assets of Airflow Developments Limited.

20. Creditors: Amounts falling due after more than one year – company

	2006 £	2005 £
Obligation under finance leases and hire purchase contracts	-	14,008
Amounts due to subsidiary undertakings	653,133	660,362
	<u>653,133</u>	<u>674,370</u>

21. Provisions for liabilities and charges – group and company

	German Pension Provision £	Company Warranty Remedial Provision £	Group Total £
Balance at 1 April 2005	(34,443)	46,995	12,552
Transfer to/(from) profit and loss account	(6,932)	(4,303)	(11,235)
Balance at 31 March 2006	<u>(41,375)</u>	<u>42,692</u>	<u>1,317</u>

The warranty provision is expected to reverse over a period of greater than one year.

AIRFLOW DEVELOPMENTS LIMITED AND SUBSIDIARY UNDERTAKINGS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2006**

21. Provisions for liabilities and charges – group and company (continued)

2006
£

The deferred tax asset (included in debtors, note 15
and note 16) is made up as follows:

Profit and loss account (511,260)

2006
£

2005
£

Accelerated capital allowances
Tax losses available

13,119

(524,379)

-

-

(511,260)

-

22. Share capital

2006
£

2005
£

Authorised

80,000 Ordinary shares of £1 each

80,000

80,000

740,000 Redeemable 6% Preference shares of £1 each

740,000

740,000

820,000

820,000

Allotted, issued and fully paid

52,380 Ordinary shares of £1 each

52,380

52,380

740,000 Redeemable 6% Preference shares of £1 each

-

740,000

52,380

792,380

The Preference Shares were redeemed during the year at par.

23. Statement of movement on reserves – group

Capital
redemption
reserve

Profit &
loss
account

Balance at 1 April 2004

-

994,708

Retained profit / (loss) for year

-

(380,592)

Prior year adjustment

-

44,400

Balance at 1 April 2005

-

658,516

Movement during year

740,000

-

Retained profit for the year

-

2,994,164

Redemption of Preference Shares

-

(740,000)

Ordinary interim dividend paid

-

(206,000)

Currency translation gains on foreign currency
net investments

-

12,033

Balance at 31 March 2006

740,000

2,718,713

AIRFLOW DEVELOPMENTS LIMITED AND SUBSIDIARY UNDERTAKINGS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

23. Statement of movement on reserves – group (continued)

The prior year adjustment relates to a proposed dividend of £44,400 recognised in the accounts prior to 31 March 2006 as a liability on the balance sheet and an appropriation of profit. Following implementation of the Companies Act (International Accounting Standards and other amendments) Regulations 2004 and FRS 21, events after the Balance Sheet date, dividends can only be recognised in the accounts when they represent an obligation, which is when they are approved in general meeting. In order to show comparable figures for the current and previous year, the proposed dividend, which remains unpaid, has been removed from the accounts.

24. Statement of movement on reserves – company

	Capital redemption reserve	Profit & loss account
Balance at 1 April 2004	-	342,075
Retained profit / (loss) for year	-	(281,449)
Prior year adjustment	-	44,400
Balance at 1 April 2005	-	105,026
Movement during year	740,000	-
Retained profit for the year	-	2,923,655
Redemption of Preference Shares	-	(740,000)
Ordinary interim dividend paid	-	(206,000)
Currency translation gains on foreign currency net investments	-	12,033
Balance at 31 March 2006	740,000	2,082,681

The prior year adjustment relates to a proposed dividend of £44,400 recognised in the accounts prior to 31 March 2006 as a liability on the balance sheet and an appropriation of profit. Following implementation of the Companies Act (International Accounting Standards and other amendments) Regulations 2004 and FRS 21, events after the Balance Sheet date, dividends can only be recognised in the accounts when they represent an obligation, which is when they are approved in general meeting. In order to show comparable figures for the current and previous year, the proposed dividend, which remains unpaid, has been removed from the accounts.

25. Reconciliation of movement in shareholders' funds – group

	2006	2005
	£	£ (as restated)
Profit/(loss) for the financial year	2,994,164	(185,774)
Currency exchange movement	12,033	13,182
Dividends	(206,000)	(208,000)
Redemption of preference shares	(740,000)	-
Net addition/(depreciation) in shareholders' funds	2,060,197	(380,592)
Opening shareholders' funds	1,450,896	1,831,488
Closing shareholders' funds	3,511,093	1,450,896

AIRFLOW DEVELOPMENTS LIMITED AND SUBSIDIARY UNDERTAKINGS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2006**

26. Reconciliation of movement in shareholders' funds – company	2006	2005
	£	£
		(as restated)
Profit/(loss) for the financial year	2,923,655	(73,449)
Dividends	(206,000)	(208,000)
Redemption of preference shares	(740,000)	
	<hr/>	<hr/>
Net addition/(depletion) in shareholders' funds	1,977,655	(281,449)
Opening shareholders' funds	897,406	1,178,855
	<hr/>	<hr/>
Closing shareholders' funds	2,875,061	897,406
	<hr/>	<hr/>

AIRFLOW DEVELOPMENTS LIMITED AND SUBSIDIARY UNDERTAKINGS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2006**

27. Cash flows

	2006	2005
	£	£
a) Reconciliation of operating profit to net cash inflow from operating activities		
Operating Profit/(Loss)	77,321	(281,136)
Depreciation	159,560	197,122
Loss on sale of fixed assets	(5,803)	2,202
(Increase)/decrease in stocks and work in progress	686,699	(55,025)
Decrease/(increase) in debtors	(1,617,589)	(131,539)
(Decrease)/increase in creditors	(191,781)	627,441
(Decrease)/increase in provisions	(11,235)	(5,171)
Exceptional items	-	120,133
	<u>(902,828)</u>	<u>474,027</u>
b) Analysis of cash flows for headings netted in the cash flow		
	2006	2005
	£	£
Returns on investments and servicing of finance:		
Interest received	5,629	994
Interest paid	(72,804)	(77,365)
Net cash (outflow) for returns on investment and servicing of finance	<u>(67,175)</u>	<u>(76,371)</u>
Capital expenditure and financial investment:		
Purchase of tangible fixed assets	(56,146)	(361,763)
Sale of tangible fixed assets	86,087	3,696
Sale of division	2,425,491	-
Net cash inflow/(outflow) for capital expenditure and financial investment	<u>2,455,432</u>	<u>(358,039)</u>
Financing:		
Capital element of hire purchase paid	(16,821)	(25,009)
Capital element of loans	(239,188)	(65,327)
Other short term loans	(111,602)	(208,000)
Redemption of shares	(740,000)	-
Net cash inflow/(outflow) from financing	<u>(1,107,611)</u>	<u>(298,336)</u>

AIRFLOW DEVELOPMENTS LIMITED AND SUBSIDIARY UNDERTAKINGS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

27. Cash flows (continued)

c)	At 1 April 2005	Cash flows	At 31 March 2006
Net cash:			
Cash at bank and in hand	144,667	214,810	359,477
Bank overdraft and loan	(48,970)	5,342	(43,628)
Factoring balance	(829,884)	111,502	(718,382)
Net cash	(734,187)	331,654	(402,533)
Debt:			
Amounts falling due less than 1 year	(16,821)	2,813	(14,008)
Amounts falling due after 1 year	(339,244)	25,441	(313,803)
	<u>(1,090,252)</u>	<u>359,908</u>	<u>(730,344)</u>

28. Pension commitments – group

The group makes contributions to employees' personal pension plans.

The pension cost charge represents contributions payable by the group to the plans and amounted to £33,915 (2005: £21,770).

29. Financial commitments – company

At 31 March 2006 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings	
	2006	2005
	£	£
Expiry date:		
Within one year	-	-
Between two and five years	-	-
In over five years	263,000	262,280
	<u>263,000</u>	<u>262,280</u>
	Other	
	2006	2005
	£	£
Expiry date:		
Within one year	-	10,446
Between two and five years	46,000	50,718
	<u>46,000</u>	<u>61,164</u>

30. Transactions with directors

At the balance sheet date, the company was owed £615,218 (2005: £142,497 owed to the director) and £614,271 (2005: £146,040 owed to director) by the directors J W Johnson-Watts and J R H Stevenson-Hamilton respectively. These loans bear no interest, have no fixed repayment terms and are included within debtors due within one year. These amounts were repaid after the year end.

AIRFLOW DEVELOPMENTS LIMITED AND SUBSIDIARY UNDERTAKINGS

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2006**

31. Control

The company is under joint control of the directors.

32. Related party transactions

During the year the company made a loan of £420,000 to the Wyse Group Limited, a company owned by the directors of Airflow. This loan is non-interest bearing and has no fixed repayment terms.