

Shelbourne Reynolds Engineering Limited

Report and Financial Statements

Period from 1 November 2004 to

30 September 2005

155 939



SHELBOURNE REYNOLDS ENGINEERING LIMITED

Annual report and financial statements for the period ended 30 September 2005

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Directors

KH Shelbourne
R Shelbourne
E Taylor
CJ Bloomfield
N Smith

Secretary and registered office

R Shelbourne
Shepherds Grove Industrial Estate, Stanton, Bury St Edmunds, Suffolk, IP31 2AR

Company number

1055939

Auditors

Baker Tilly, 87 Guildhall Street, Bury St Edmunds, Suffolk, IP33 1PU

SHELBOURNE REYNOLDS ENGINEERING LIMITED

Report of the directors for the period ended 30 September 2005

The directors present their report together with the audited financial statements for the period ended 30 September 2005.

Results and dividends

The profit and loss account is set out on page 4 and shows the profit for the period.

The directors do not recommend the payment of a final dividend.

Principal activity, trading review and future developments

The principal activity of the company and group in the period was the manufacture and sale of agricultural machinery.

The directors are pleased to report that the company has continued the progress made last year, and as forecast returned to sound profitability. The enlarged product range is now making a real contribution and we expect these benefits to continue having an overall positive effect on the business.

Whilst our market place continues to be difficult with pressure on margins we expect the current year to build on the last years good results with again a positive result for the company.

Charitable and political contributions

During the period the company made charitable contributions of £455.

Directors

The directors of the company during the period and their interests in the ordinary share capital of the company were:

	£1 ordinary shares fully paid	
	30 September 2005	31 October 2004
KH Shelbourne	-	-
R Shelbourne	-	-
E Taylor	3,047	3,047
CJ Bloomfield	-	-
N Smith	-	-

In addition, at 30 September 2005 KH Shelbourne and R Shelbourne were potential beneficiaries of a trust which held 120,000 £1 ordinary shares (2004 – 120,000) and R Shelbourne was also a potential beneficiary of another trust which held a further 85,714 £1 ordinary shares (2004 - 85,714).

Certain directors have share options under the Enterprise Management Incentive Scheme as follows:

	Options at 1 November 2004	Options granted in the period	Options outstanding at 30 September 2005	Exercise price per share £	Date from which exercisable	Expiry date
CJ Bloomfield	5,966	-	5,966	£4.51	31/08/2007	31/08/2011
E Taylor	5,966	-	5,966	£4.51	31/08/2007	31/08/2011
N Smith	5,966	-	5,966	£4.51	31/08/2007	31/08/2011

SHELBOURNE REYNOLDS ENGINEERING LIMITED

Report of the directors for the period ended 30 September 2005 (*Continued*)

Research and development

The group has a policy of continued development of its current products and also for the design and development of new products. These costs are charged to the profit and loss account and are disclosed in note 5.

Land and buildings

The directors are of the opinion that the market value of the property is in excess of the net book value of £861,576. However, in the absence of a recent valuation this excess cannot be readily quantified.

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and group and of the profit or loss of the group for that period. 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 group 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 group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

Baker Tilly have expressed their willingness to continue in office and are deemed to be re-appointed in accordance with the elective resolutions in place.

By order of the Board



R Shelbourne
Secretary

03.03.06

SHELBOURNE REYNOLDS ENGINEERING LIMITED

Independent auditors' report to the shareholders of Shelbourne Reynolds Engineering Limited

We have audited the financial statements on pages 4 to 20.

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

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards 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 United Kingdom Auditing Standards.

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 group is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards 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 group'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 of the state of affairs of the company and the group as at 30 September 2005 and of the group's profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.


BAKER TILLY

*Chartered Accountants
and Registered Auditors*
87 Guildhall Street
Bury St Edmunds
Suffolk
IP33 1PU

7 March 2006

SHELBOURNE REYNOLDS ENGINEERING LIMITED**Consolidated profit and loss account for the period ended 30 September 2005**

	Note	Period ended 30 September 2005 £	Year ended 31 October 2004 £
Turnover	2	7,149,330	7,975,823
Cost of sales		(4,999,396)	(6,006,605)
Gross profit		2,149,934	1,969,218
Administrative expenses		(1,863,729)	(2,053,763)
Operating profit/(loss)	5	286,205	(84,545)
Interest receivable		443	-
Interest payable and similar charges	6	(85,712)	(86,099)
Profit/(loss) on ordinary activities before taxation		200,936	(170,644)
Taxation on profit/(loss) on ordinary activities	7	(32,923)	42,688
Profit/(loss) for the period	17	168,013	(127,956)

All amounts relate to continuing activities.

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

SHELBOURNE REYNOLDS ENGINEERING LIMITED

Consolidated statement of total recognised gains and losses and note of historical cost profit and losses for the period ended 30 September 2005

	Period ended 30 September 2005 £	Year ended 31 October 2004 £
Consolidated statement of total recognised gains and losses		
Profit/(loss) for the period	168,013	(127,956)
Exchange differences on foreign currency net investment	326	(10,061)
Total recognised gains and losses for the period	<u>168,339</u>	<u>(138,017)</u>
 Note of historical cost profit and losses		
Reported profit/(loss) on ordinary activities before taxation	200,936	(170,644)
Difference between an historical cost depreciation charge and the actual depreciation charge of the period calculated on the revalued amount	1,808	1,972
Historical cost profit/(loss) on ordinary activities before taxation	<u>202,744</u>	<u>(168,672)</u>
Historical cost profit/(loss) for the period retained after taxation	<u>169,821</u>	<u>(125,984)</u>

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

SHELBOURNE REYNOLDS ENGINEERING LIMITED

Consolidated balance sheet at 30 September 2005

	Note	30 September 2005 £	31 October 2004 £
Fixed assets			
Intangible assets	8	14,306	26,411
Tangible assets	9	1,147,181	1,230,982
		<u>1,161,487</u>	<u>1,257,393</u>
Current assets			
Stocks	11	2,407,624	2,187,197
Debtors:	12		
Gross debtors subject to financing		565,354	528,546
Less: Non-returnable proceeds		(171,379)	(274,759)
		<u>393,975</u>	<u>253,787</u>
Other debtors		729,773	740,821
		<u>1,123,748</u>	<u>994,608</u>
Cash at bank and in hand		231,021	55,636
		<u>3,762,393</u>	<u>3,237,441</u>
Creditors: amounts falling due within one year	13	(1,554,264)	(1,969,131)
Net current assets		<u>2,208,129</u>	<u>1,268,310</u>
Total assets less current liabilities		<u>3,369,616</u>	<u>2,525,703</u>
Creditors: amounts falling due after more than one year	14	(657,322)	-
Provision for liabilities and charges			
Deferred taxation	15	(18,252)	-
Net assets		<u>2,694,042</u>	<u>2,525,703</u>
Capital and reserves			
Called up share capital	16	280,380	280,380
Share premium account		407,414	407,414
Revaluation reserve	17	83,840	85,648
Profit and loss account	17	1,922,408	1,752,261
Shareholders' funds	18	<u>2,694,042</u>	<u>2,525,703</u>

All shareholders' funds relate to equity interests.

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

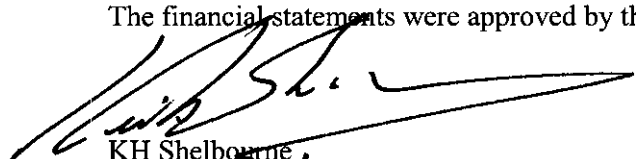
SHELBOURNE REYNOLDS ENGINEERING LIMITED

Company balance sheet at 30 September 2005

	Note	30 September 2005		31 October 2004	
		£	£	£	£
Fixed assets					
Intangible assets	8		14,306		26,411
Tangible assets	9		1,099,609		1,191,560
Investments	10		16,258		16,258
			<u>1,130,173</u>		<u>1,234,229</u>
Current assets					
Stocks	11	2,407,624		2,187,197	
Debtors:	12				
Gross debtors subject to financing		565,354		528,546	
Less: Non-returnable proceeds		(171,379)		(274,759)	
		<u>393,975</u>		<u>253,787</u>	
Other debtors		727,546		740,509	
		<u>1,121,521</u>		<u>994,296</u>	
Cash at bank and in hand		173,097		-	
		<u>3,702,242</u>		<u>3,181,493</u>	
Creditors: amounts falling due within one year	13	(1,582,635)		(1,976,727)	
Net current assets			<u>2,119,607</u>		<u>1,204,766</u>
Total assets less current liabilities			<u>3,249,780</u>		<u>2,438,995</u>
Creditors: amounts falling due after more than one year	14	(657,322)		-	
Provision for liabilities and charges					
Deferred taxation	15	(18,252)		-	
Net assets			<u>2,574,206</u>		<u>2,438,995</u>
Capital and reserves					
Called up share capital	16	280,380		280,380	
Share premium account		407,414		407,414	
Revaluation reserve	17	83,840		85,648	
Profit and loss account	17	1,802,572		1,665,553	
Shareholders' funds	18		<u>2,574,206</u>		<u>2,438,995</u>

All shareholders' funds relate to equity interests.

The financial statements were approved by the Board on 03.03.06



KH Shelbourne
Director



R Shelbourne
Director

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

SHELBOURNE REYNOLDS ENGINEERING LIMITED

Consolidated cash flow statement for the period ended 30 September 2005

	Note	2005 £	2004 £
Net cash (outflow)/inflow from operating activities	22	(163,003)	247,846
Returns on investments and servicing of finance			
Interest received		443	-
Interest paid		(85,868)	(86,255)
		(85,425)	(86,255)
Taxation			
Corporation tax received/(paid)		788	(1,423)
Capital expenditure			
Payments to acquire tangible fixed assets		(72,995)	(26,965)
Receipts from sales of tangible fixed assets		8,584	-
		(64,411)	(26,965)
Cash (outflow)/inflow before use of liquid resources and financing		(312,051)	133,203
Financing			
Loans advanced	24	750,000	60,000
Loans repaid	24	(74,417)	(52,707)
Capital element of hire purchase contracts and finance lease rentals	24	(6,989)	(26,852)
		668,594	(19,559)
Increase in cash	24	<u>356,543</u>	<u>113,644</u>

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

SHELBOURNE REYNOLDS ENGINEERING LIMITED

Notes forming part of the financial statements for the period ended 30 September 2005

1 Accounting policies

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, and are in accordance with applicable accounting standards. The following principal accounting policies have been applied:

Consolidation

The consolidated financial statements incorporate the results of Shelbourne Reynolds Engineering Limited and its subsidiary undertaking, Shelbourne Reynolds, Inc, as at 30 September 2005 using the acquisition method of accounting.

Turnover

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

Manufacturing and distribution rights

Manufacturing and distribution rights acquired are capitalised and amortised over the directors' estimate of their useful economic lives, being 5 years.

Tangible fixed assets

Tangible fixed assets are stated at cost or valuation. Where existing unimpaired tangible fixed assets were previously stated at valuation the group took advantage of the transitional provisions in FRS 15 to retain these book values. Where an asset that was previously revalued is disposed of, its book value is eliminated and an appropriate transfer made from the revaluation reserve to the profit and loss account.

Depreciation

Depreciation is provided to write off the cost or valuation, less estimated residual values, of all fixed assets, except freehold land, evenly over their expected useful lives. It is calculated at the following rates:

Freehold buildings	-	over 40 years
Plant and machinery	-	over 5 to 8 years
Computers and tooling	-	over 3 years
Motor vehicles and office equipment	-	over 3 to 5 years

Investments

Investments are carried at cost less any permanent diminution in value.

Stocks

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items. Cost includes all direct expenditure and an appropriate proportion of production related fixed and variable overheads. Net realisable value is based on estimated selling price less additional costs to completion and disposal.

Factored debts

Where factored debts can be separately identified and the factoring house has no recourse to the other assets of the company, a linked presentation is adopted.

SHELBOURNE REYNOLDS ENGINEERING LIMITED

Notes forming part of the financial statements for the period ended 30 September 2005 (*Continued*)

1 Accounting policies (*Continued*)

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

The results of overseas operations and their balance sheets are translated into sterling at the rates ruling on the balance sheet date. Exchange differences which arise from translation of the opening net assets and results of foreign subsidiary undertakings are taken to reserves.

Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxation profits and its results as stated in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the period in which timing differences are expected to reverse, based on the tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Leasing and hire purchase agreements

Where assets are financed by leasing agreements that give rights approximating to ownership (finance leases or hire purchase contracts), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum payments payable during the term. The corresponding commitments are shown as amounts payable. Depreciation on the relevant assets is charged to the profit and loss account.

Payments are analysed between capital and interest components so that the interest element of the payment is charged to the profit and loss account over the period of the agreement and represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable.

Annual rentals under operating leases are charged to the profit and loss account as incurred.

Research and development

Expenditure on research and development is written off in the year in which it is incurred.

Grants

Grants of a revenue nature are credited to income in the period to which they relate.

Share based employee remuneration

When shares and share options are granted to employees a charge is made to the group profit and loss account and a reserve created in capital and reserves to record the fair value of the awards in accordance with UITF Abstract 17 "Employee Share Schemes".

2 Turnover

Turnover is wholly attributable to the principal activity of the group.

A geographical analysis of turnover has not been disclosed as, in the opinion of the directors, it would be seriously prejudicial to the group's interests.

SHELBOURNE REYNOLDS ENGINEERING LIMITED

Notes forming part of the financial statements for the period ended 30 September 2005 (Continued)

3 Employees

	2005 £	2004 £
Staff costs (including directors) consist of:		
Wages and salaries	1,776,570	2,328,655
Social security costs	157,962	209,781
	<u>1,934,532</u>	<u>2,538,436</u>

The average monthly number of employees of the group during the period, including directors, was as follows:

	2005 Number	2004 Number
Office and management	36	39
Manufacturing	66	75
	<u>102</u>	<u>114</u>

4 Directors

	2005 £	2004 £
Directors' emoluments consist of:		
Remuneration for management services	<u>196,109</u>	<u>250,928</u>
Emoluments of the highest paid director:		
Emoluments	<u>58,812</u>	<u>103,367</u>

5 Operating profit/(loss)

	2005 £	2004 £
This has been arrived at after charging/(crediting):		
Depreciation of tangible fixed assets	175,045	193,049
Amortisation of intangible fixed assets	12,105	13,206
Foreign exchange loss	37,317	76,442
Auditors' remuneration	13,900	13,500
(Profit)/loss on sale of fixed assets	(8,584)	1,327
Operating lease rentals - office equipment	8,337	11,014
Research and development costs	55,835	31,357
Debt factoring administration charge	20,688	15,113
Debt factoring interest	14,846	13,511
Redundancy costs	-	30,542

SHELBOURNE REYNOLDS ENGINEERING LIMITED

Notes forming part of the financial statements for the period ended 30 September 2005 (Continued)

6 Interest payable and similar charges

	2005 £	2004 £
Bank loans and overdraft	83,319	74,126
Other interest	1,843	5,178
Finance leases and hire purchase contracts	550	6,795
Debt factoring interest	14,846	13,511
	<u>100,558</u>	<u>99,610</u>
Less: Debt factoring interest included in cost of sales	(14,846)	(13,511)
	<u>85,712</u>	<u>86,099</u>

7 Taxation

	2005 £	2004 £
UK corporation tax		
- current year	-	-
Overseas tax receivable		
- current year	7,591	741
- prior year	(8,289)	(8,060)
	<u>(698)</u>	<u>(7,319)</u>
Transfer from deferred tax	33,621	(35,369)
Taxation on profit/(loss) on ordinary activities	<u>32,923</u>	<u>(42,688)</u>

The tax assessed for the period is different from that calculated at the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2005 £	2004 £
Profit/(loss) on ordinary activities before tax	<u>200,936</u>	<u>(170,644)</u>
Profit/(loss) on ordinary activities multiplied by standard rate of Corporation tax in the UK of 30%	60,281	(51,193)
Effects of:		
Expenses not allowed for tax purposes	1,828	3,745
Depreciation in excess of capital allowances	9,606	13,671
Tax losses (utilised)/carried forward	(64,822)	33,777
UK and overseas tax rate differences	698	741
Adjustments in respect of prior years	(8,289)	(8,060)
	<u>(698)</u>	<u>(7,319)</u>
Current tax credit for the year		

SHELBOURNE REYNOLDS ENGINEERING LIMITED

Notes forming part of the financial statements for the period ended 30 September 2005 (*Continued*)

8 Intangible fixed assets

<i>Company and group</i>	Manufacturing & distribution rights £
<i>Cost</i>	
At 1 November 2004	
and at 30 September 2005	<u>94,934</u>
<i>Amortisation</i>	
At 1 November 2004	68,523
Charge for the period	<u>12,105</u>
At 30 September 2005	<u>80,628</u>
<i>Net book value</i>	
At 30 September 2005	<u>14,306</u>
At 31 October 2004	<u>26,411</u>

9 Tangible assets

<i>(1) Group</i>	Freehold land and buildings £	Motor vehicles £	Plant and machinery £	Office equipment £	Total £
<i>Cost or valuation</i>					
At 1 November 2004	1,131,766	263,849	2,101,677	400,679	3,897,971
Foreign exchange differences	-	3,324	458	161	3,943
Additions	17,617	43,550	11,524	17,138	89,829
Disposals	-	(60,570)	-	(299)	(60,869)
At 30 September 2005	<u>1,149,383</u>	<u>250,153</u>	<u>2,113,659</u>	<u>417,679</u>	<u>3,930,874</u>
<i>Depreciation</i>					
At 1 November 2004	268,688	187,994	1,885,343	324,964	2,666,989
Foreign exchange differences	-	2,041	393	94	2,528
Charge for the period	19,119	34,451	83,211	38,264	175,045
Disposals	-	(60,570)	-	(299)	(60,869)
At 30 September 2005	<u>287,807</u>	<u>163,916</u>	<u>1,968,947</u>	<u>363,023</u>	<u>2,783,693</u>
<i>Net book value</i>					
At 30 September 2005	<u>861,576</u>	<u>86,237</u>	<u>144,712</u>	<u>54,656</u>	<u>1,147,181</u>
At 31 October 2004	<u>863,078</u>	<u>75,855</u>	<u>216,334</u>	<u>75,715</u>	<u>1,230,982</u>

SHELBOURNE REYNOLDS ENGINEERING LIMITED

Notes forming part of the financial statements for the period ended 30 September 2005 (*Continued*)

9 Tangible assets (*continued*)

Freehold land and buildings are stated at:	2005 £	2004 £
Open market value – 1990	900,000	900,000
Cost of additions since 1990	249,383	231,766
	<u>1,149,383</u>	<u>1,131,766</u>
The historical cost net book value of freehold land and buildings is:		
Cost	1,033,405	1,015,788
Accumulated depreciation based on historical cost	(255,669)	(238,358)
	<u>777,736</u>	<u>777,430</u>

Freehold land and buildings includes land at a valuation of £303,320 (2004 - £303,320) which is not depreciated by the group.

The group has previously taken advantage of the transitional arrangements contained in FRS 15 with regard to revalued fixed assets. Accordingly, the freehold land and buildings valuation has not been updated. The last valuation of freehold land and buildings took place in 1990.

The net book value of tangible fixed assets includes an amount of £22,912 (2004 - £45,242) in respect of assets held under finance leases and hire purchase contracts. The related depreciation charge for the period was £10,607 (2004 - £12,064).

(2) Company	Freehold land and buildings £	Motor vehicles £	Plant and machinery £	Office equipment £	Total £
<i>Cost or valuation</i>					
At 1 November 2004	1,131,766	170,914	2,088,922	396,191	3,787,793
Additions	17,617	20,962	11,213	15,036	64,828
Disposals	-	(41,140)	-	-	(41,140)
At 30 September 2005	<u>1,149,383</u>	<u>150,736</u>	<u>2,100,135</u>	<u>411,227</u>	<u>3,811,481</u>
<i>Depreciation</i>					
At 1 November 2004	268,688	130,862	1,874,337	322,346	2,596,233
Charge for the period	19,119	18,499	82,142	37,019	156,779
Disposals	-	(41,140)	-	-	(41,140)
At 30 September 2005	<u>287,807</u>	<u>108,221</u>	<u>1,956,479</u>	<u>359,365</u>	<u>2,711,872</u>
<i>Net book value</i>					
At 30 September 2005	<u>861,576</u>	<u>42,515</u>	<u>143,656</u>	<u>51,862</u>	<u>1,099,609</u>
At 31 October 2004	<u>863,078</u>	<u>40,052</u>	<u>214,585</u>	<u>73,845</u>	<u>1,191,560</u>

SHELBOURNE REYNOLDS ENGINEERING LIMITED

Notes forming part of the financial statements for the period ended 30 September 2005 (Continued)

10 Investments

<i>Company</i>	Subsidiary undertaking £
<i>Cost</i>	
At 1 November 2004 and 30 September 2005	16,258

Shelbourne Reynolds Engineering Limited owns 100% of the 25,000 common \$1 shares of Shelbourne Reynolds, Inc, a company registered in the United States of America, in the state of Kansas. Its principal activity during the year was the distribution and servicing of Shelbourne Reynolds Engineering Limited products in the USA.

11 Stocks

<i>Company and Group</i>	2005 £	2004 £
Raw materials and consumables	201,390	211,451
Work in progress	1,337,279	1,113,750
Goods held for resale	868,955	861,996
	2,407,624	2,187,197

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

12 Debtors

	Group		Company	
	2005 £	2004 £	2005 £	2004 £
Trade debtors subject to financing	565,354	528,546	565,354	528,546
Less: Non-returnable proceeds	(171,379)	(274,759)	(171,379)	(274,759)
	393,975	253,787	393,975	253,787
Other trade debtors	625,884	631,378	623,657	631,066
Trade debtors	1,019,859	885,165	1,017,632	884,853
Director's loan (see note 19)	26,324	9,291	26,324	9,291
Other debtors	41,123	41,040	41,123	41,040
Prepayments and accrued income	36,442	59,112	36,442	59,112
	1,123,748	994,608	1,121,521	994,296

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

During the year the company factored certain debts. Under the terms of this factoring arrangement, an interest in those debts was sold in exchange for cash. Interest on the factored debts is calculated on the daily balances on the account using a rate of 2% above Base Rate for sterling balances and 1.5% above Base Rate for all other balances.

The group is not obliged and does not intend to support any losses arising from the assigned debts against which cash has been advanced. The providers of the finance have confirmed in writing that in the event of default in payment by a debtor, they will seek repayment of cash advanced only from the remainder of the pool of debts in which they hold an interest, and that repayment will not be required from the group in any other way.

SHELBOURNE REYNOLDS ENGINEERING LIMITED

Notes forming part of the financial statements for the period ended 30 September 2005 (*Continued*)

13 Creditors: amounts falling due within one year

	Group		Company	
	2005	2004	2005	2004
	£	£	£	£
Overdraft (secured)	411,973	593,131	411,973	593,131
Bank loan (secured – see note 14)	25,583	-	25,583	-
Loan (secured)	60,000	60,000	60,000	60,000
Obligations under finance leases and hire purchase contracts (secured - see note 14)	4,465	1,942	4,465	1,942
Amounts due to subsidiary undertaking	-	-	31,503	12,091
Trade creditors	792,779	1,054,494	793,292	1,053,553
Corporation tax	3,645	3,555	-	-
Other taxes and social security costs	45,030	44,611	45,030	44,612
Other creditors	38,935	21,736	38,935	21,736
Accruals	171,854	189,662	171,854	189,662
	<u>1,554,264</u>	<u>1,969,131</u>	<u>1,582,635</u>	<u>1,976,727</u>

The overdraft is secured by a debenture together with a fixed charge over the company's property. The loan is secured on specific assets of the company.

14 Creditors: amounts falling due after more than one year

	2005	2004
	£	£
<i>Company and Group</i>		
Bank mortgage (secured)	650,000	-
Obligations under hire purchase contracts (secured)	7,322	-
	<u>657,322</u>	<u>-</u>

The obligations under hire purchase contracts are secured on the underlying assets.

The bank mortgage is secured on the company's freehold land and buildings. It is repayable in monthly instalments over 20 years, interest is charged at 1.09% over Base Rate.

	2005	2004
	£	£
Due in one to two years		
Bank mortgage	17,043	-
Obligations under hire purchase contracts	5,144	-
Due in two to five years		
Bank mortgage	79,741	-
Obligations under hire purchase contracts	2,178	-
Due after five years		
Bank mortgage	553,216	-
	<u>657,322</u>	<u>-</u>

SHELBOURNE REYNOLDS ENGINEERING LIMITED

Notes forming part of the financial statements for the period ended 30 September 2005 (*Continued*)

15 Provisions for liabilities and charges

Company and Group

Deferred taxation

	£
At 1 November 2004 (included within other debtors)	(15,369)
Profit and loss account transfer	33,621
	<u>18,252</u>
At 30 September 2005	<u>18,252</u>

	Provided in accounts 2005	2004
Accelerated capital allowances	18,252	25,685
Tax losses carried forward	-	(41,054)
	<u>18,252</u>	<u>(15,369)</u>

16 Called up share capital

	Authorised 2005 £	2004 £	Allotted, called up and fully paid 2005 £	2004 £
Ordinary shares of £1 each	<u>600,000</u>	<u>600,000</u>	<u>280,380</u>	<u>280,380</u>

At 30 September 2005 the following share options were outstanding in respect of the ordinary shares:

Date of grant	Number of shares	Period for exercise of option	Price per share
2004	17,898	August 2007 - August 2011	£4.51

SHELBOURNE REYNOLDS ENGINEERING LIMITED

Notes forming part of the financial statements for the period ended 30 September 2005 *(Continued)*

17 Reserves

<i>(1) Group</i>	Revaluation reserve £	Profit and loss account £
At 1 November 2004	85,648	1,752,261
Profit for the period	-	168,013
Depreciation transfer	(1,808)	1,808
Exchange differences on foreign currency net investment	-	326
At 30 September 2005	83,840	1,922,408

<i>(2) Company</i>	Revaluation reserve £	Profit and loss account £
At 1 November 2004	85,648	1,665,553
Profit for the period	-	135,211
Depreciation transfer	(1,808)	1,808
At 30 September 2005	83,840	1,802,572

18 Reconciliation of movements in shareholders' funds

	2005 £	2004 £
<i>(1) Group</i>		
Profit/(loss) for the period	168,013	(127,956)
Exchange differences on foreign currency net investment	326	(10,061)
Net increase/(reduction) in shareholders' funds	168,339	(138,017)
Opening shareholders' funds	2,525,703	2,663,720
Closing shareholders' funds	2,694,042	2,525,703
<i>(2) Company</i>		
Profit/(loss) for the period	135,211	(139,977)
Opening shareholders' funds	2,438,995	2,578,972
Closing shareholders' funds	2,574,206	2,438,995

SHELBOURNE REYNOLDS ENGINEERING LIMITED

Notes forming part of the financial statements for the period ended 30 September 2005 (*Continued*)

19 Related party transactions and controlling interest

The group is exempt from disclosing related party transactions with group undertakings as they are eliminated on consolidation. The company is also exempt from such disclosures as its own financial statements are presented together with the consolidated financial statements.

The company and group are under the control of KH Shelbourne and R Shelbourne.

Transactions with directors

At the beginning of the year, K Shelbourne, a director, owed the company £9,291. During the period he received individual advances totalling £26,324 from the company, and repaid £9,291. The balance outstanding at the period end of £26,324 represents amounts not repaid to the company at the period end.

The maximum balance outstanding during the period was £30,839.

Interest was not charged on the outstanding balance during the period.

At the period end an amount of £60,000 was owed to the K & R Pension Scheme. Interest of £4,232 was paid by the company in respect of this loan during the period.

The K & R Pension Scheme is established for the benefit of KH and R Shelbourne, directors of the company.

20 Commitments under operating leases

As at 30 September 2005, the group had annual commitments under non-cancellable operating leases in respect of office equipment as set out below:

	2005 £	2004 £
Operating leases which expire:		
Within one year	3,544	820
In two to five years	6,232	4,024
	<u>9,776</u>	<u>4,844</u>

21 Other financial commitments

As at 30 September 2005, the group had entered into foreign exchange contracts to sell \$3,000,000 for £1,665,849.

SHELBOURNE REYNOLDS ENGINEERING LIMITED

Notes forming part of the financial statements for the period ended 30 September 2005 (Continued)

22 Reconciliation of operating loss to net cash (outflow)/inflow from operating activities

	2005 £	2004 £
Operating profit/(loss)	286,205	(84,545)
Depreciation of tangible fixed assets	175,045	193,049
Amortisation of intangible fixed assets	12,105	13,206
(Profit)/loss on sale of tangible fixed assets	(8,584)	1,327
(Increase)/decrease in stocks	(220,427)	73,843
(Increase)/decrease in debtors	(144,509)	315,461
Decrease in creditors	(261,749)	(259,454)
Exchange loss on translation of foreign investments	(1,089)	(5,041)
Net cash (outflow)/inflow from operating activities	(163,003)	247,846

23 Reconciliation of net cashflow to movement in net debt

	2005 £	2004 £
Increase in cash in the period	356,543	113,644
Cashflow from change in debt	(675,583)	(7,293)
Cashflow from finance leases and hire purchase contracts	6,989	26,852
New hire purchase contracts	(16,834)	-
Change in net debt	(328,885)	133,203
Net debt at 31 October 2004	(599,437)	(732,640)
Net debt at 30 September 2005	(928,322)	(599,437)

24 Analysis of changes in cash and net debt

	At 31 October 2004 £	Cash Flows £	Non cashflow movements £	At 30 September 2005 £
Cash at bank and in hand	55,636	175,385	-	231,021
Overdraft	(593,131)	181,158	-	(411,973)
		356,543	-	
Debt due within one year	(60,000)	(25,583)	-	(85,583)
Debt due after one year	-	(650,000)	-	(650,000)
Finance leases and hire purchase contracts	(1,942)	6,989	(16,834)	(11,787)
Total	(599,437)	(312,051)	(16,834)	(928,322)