

Shelbourne Reynolds Engineering Limited

Report and Financial Statements

Year Ended

30 September 2006

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Company Number 1055939

SHELBOURNE REYNOLDS ENGINEERING LIMITED

Annual report and financial statements for the year ended 30 September 2006

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Directors

Russian Shelbourne Limited
N Gorbunov
AV Kuznetsov
A Kuznetsov
N Smith

Secretary and registered office

GHS Brunton, 2-3 Cursitor Street, London, EC4 1NE

Company number

1055939

Auditors

Baker Tilly, Abbotsgate House, Hollow Road, Bury St Edmunds, Suffolk, IP32 7FA

SHELBOURNE REYNOLDS ENGINEERING LIMITED

Report of the directors for the year ended 30 September 2006

The directors present their report together with the audited financial statements for the year ended 30 September 2006

Business review and principal activities

The company's principal activity during the year continued to be the manufacture and sale of agricultural machinery

Shelbourne Reynolds Engineering Limited ("the company") operates from premises in Stanton, Suffolk

The results for the year show a pre-tax loss of £326,720 (2005 – profit of £168,832) for the year and sales of £6,314,938 (2005 - £7,149,330)

During the year Russian Shelbourne Limited purchased the entire share capital of the company

The directors do not recommend the payment of a final dividend

Future outlook

The directors remain confident that the company will return to profitability in the future and continue to research and develop its core market

Principal risks and uncertainties

The management of the business and the execution of the company's strategy are subject to a number of risks

The key business risks affecting the company are considered to be new technological developments, decline in the agricultural market and fluctuations in foreign exchange rates

Key performance indicators

Given the straightforward nature of the business, the company's directors are of the opinion that analysis using KPI's is not necessary for an understanding of the development, performance or position of the business

Comparative period

The comparative period shows the results of the company from 1 November 2004 to 30 September 2005

Charitable and political contributions

During the year the company made charitable contributions of £524 (2005 - £455)

SHELBOURNE REYNOLDS ENGINEERING LIMITED

Report of the directors for the year ended 30 September 2006 *(Continued)*

Directors

The directors of the company during the year were as follows

Russian Shelbourne Limited	(appointed 15 May 2006)
KH Shelbourne	(resigned 30 April 2007)
R Shelbourne	(resigned 18 May 2006)
E Taylor	(resigned 15 May 2006)
CJ Bloomfield	(resigned 15 May 2006)
N Smith	
N Gorbunov	(appointed 15 May 2006)
AV Kuznetsov	(appointed 14 February 2006)
A Kuznetsov	(appointed 15 May 2006)

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 £840,424. 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.

Statement as to disclosure of information to auditors

The directors who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditors are unaware. Each of the directors has confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditors.

SHELBOURNE REYNOLDS ENGINEERING LIMITED

Report of the directors for the year ended 30 September 2006 *(Continued)*

Auditors

The directors, having been notified of the cessation of the partnership known as Baker Tilly, resolved that Baker Tilly UK Audit LLP be appointed as successor auditor with effect from 1 April 2007, in accordance with the provisions of the Companies Act 1989, s26(5) Baker Tilly UK Audit LLP has indicated its willingness to continue in office

By order of the Board



24 July 2007

WT Stockler

On behalf of Russian Shelbourne Limited, director

SHELBOURNE REYNOLDS ENGINEERING LIMITED

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

We have audited the financial statements on pages 5 to 20

This report is made solely to the company's member 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 member those matters we are required to state to the member 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 member, 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 (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

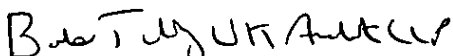
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and 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 the company's affairs at 30 September 2006 and of its loss 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.



BAKER TILLY UK AUDIT LLP

*Chartered Accountants
and Registered Auditors*

Abbotsgate House
Hollow Road
Bury St Edmunds
Suffolk
IP32 7FA

26 July 2007

SHELBOURNE REYNOLDS ENGINEERING LIMITED

Profit and loss account for the year ended 30 September 2006

	Note	Year ended 30 September 2006 £	Period ended 30 September 2005 £
Turnover	2	6,314,938	7,149,330
Cost of sales		(4,791,000)	(5,153,075)
Gross profit		1,523,938	1,996,255
Administrative expenses		(1,763,471)	(1,742,581)
Operating (loss)/profit	5	(239,533)	253,674
Interest receivable		-	443
Interest payable and similar charges	6	(87,187)	(85,285)
(Loss)/profit on ordinary activities before taxation		(326,720)	168,832
Taxation on loss/profit on ordinary activities	7	57,202	(33,621)
(Loss)/profit for the year	17	(269,518)	135,211

All amounts relate to continuing activities

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

The previous period relates to the 11 months from 1 November 2004 to 30 September 2005

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

SHELBOURNE REYNOLDS ENGINEERING LIMITED

Note of historical cost profit and losses for the year ended 30 September 2006

	Year ended 30 September 2006	Period ended 30 September 2005
Note of historical cost profit and losses		
Reported (loss)/profit on ordinary activities before taxation	(326,720)	168,832
Difference between an historical cost depreciation charge and the actual depreciation charge of the period calculated on the revalued amount	<u>1,972</u>	<u>1,808</u>
Historical cost (loss)/profit on ordinary activities before taxation	<u>(324,748)</u>	<u>170,640</u>
Historical cost (loss)/profit for the year after taxation	<u>(267,540)</u>	<u>137,019</u>

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

SHELBOURNE REYNOLDS ENGINEERING LIMITED

Balance sheet at 30 September 2006

	Note	30 September 2006 £	30 September 2005 £
Fixed assets			
Intangible assets	8	1,100	14,306
Tangible assets	9	993,888	1,099,609
Investments	10	16,258	16,258
		<u>1,011,246</u>	<u>1,130,173</u>
Current assets			
Stocks	11	2,418,906	2,407,624
Debtors	12		
Gross debtors subject to financing		377,504	565,354
Less Non-returnable proceeds		(131,744)	(171,379)
		<u>245,760</u>	<u>393,975</u>
Other debtors (including £218,323 (2005 £nil) due after one year)		993,915	727,546
		<u>1,239,675</u>	<u>1,121,521</u>
Cash at bank and in hand		95,263	173,097
		<u>3,753,844</u>	<u>3,702,242</u>
Creditors: amounts falling due within one year	13	(1,730,797)	(1,582,635)
Net current assets		<u>2,023,047</u>	<u>2,119,607</u>
Total assets less current liabilities		<u>3,034,293</u>	<u>3,249,780</u>
Creditors: amounts falling due after more than one year	14	(648,886)	(657,322)
Provision for liabilities and charges			
Deferred taxation	15	-	(18,252)
Net assets		<u>2,385,407</u>	<u>2,574,206</u>
Capital and reserves			
Called up share capital	16	298,278	280,380
Share premium account	17	470,235	407,414
Revaluation reserve	17	81,868	83,840
Profit and loss account	17	1,535,026	1,802,572
Shareholder's funds	18	<u>2,385,407</u>	<u>2,574,206</u>

All shareholder's funds relate to equity interests

The financial statements were approved by the Board and authorised for issue on 24 July 2007 and are signed on its behalf by



WT Stockler

On behalf of Russian Shelbourne Limited, director

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

SHELBOURNE REYNOLDS ENGINEERING LIMITED

Cash flow statement for the year ended 30 September 2006

	Note	2006 £	2005 £
Net cash outflow from operating activities	21	(95,938)	(182,459)
Returns on investments and servicing of finance			
Interest received		-	443
Interest paid		(95,051)	(86,129)
		(95,051)	(85,686)
Capital expenditure			
Payments to acquire tangible fixed assets		(17,498)	(47,994)
Receipts from sales of tangible fixed assets		750	1,800
		(16,748)	(46,194)
Cash outflow before use of liquid resources and financing		(207,737)	(314,339)
Financing			
Issue of ordinary share capital		80,719	-
Loans advanced		97,000	750,000
Loans repaid		(158,333)	(74,417)
Capital element of hire purchase contracts and finance lease rentals	23	(8,089)	(6,989)
		11,297	668,594
(Decrease)/increase in cash	23	(196,440)	354,255

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 year ended 30 September 2006

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:

Group accounts

The company is exempt from the requirement to prepare group accounts by virtue of section 228 of the Companies Act 1985, on the basis that it is a medium sized group.

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 company 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 year ended 30 September 2006 (*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.

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.

2 Turnover

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

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

SHELBOURNE REYNOLDS ENGINEERING LIMITED

Notes forming part of the financial statements for the year ended 30 September 2006 (*Continued*)

3 Employees

	2006 £	2005 £
Staff costs (including directors) consist of		
Wages and salaries	1,793,978	1,713,573
Social security costs	165,022	157,962
	<u>1,959,000</u>	<u>1,871,535</u>

The average monthly number of employees of the company during the year, including directors, was as follows

	2006 Number	2005 Number
Office and management	31	33
Manufacturing	56	66
	<u>87</u>	<u>99</u>

4 Directors

	2006 £	2005 £
Directors' emoluments consist of		
Remuneration for management services	<u>197,790</u>	<u>196,109</u>

During the year 3 directors exercised their share options

5 Operating (loss)/profit

	2006 £	2005 £
This has been arrived at after charging/(crediting)		
Depreciation of tangible fixed assets	140,399	156,779
Amortisation of intangible fixed assets	13,206	12,105
Foreign exchange loss	68,597	10,637
Profit on sale of fixed assets	(750)	(1,800)
Operating lease rentals - office equipment	9,755	8,337
Research and development costs	46,545	55,835
Debt factoring administration charge	8,211	20,688
Auditors remuneration - audit	15,500	13,900
- other services	<u>10,680</u>	<u>4,555</u>

SHELBOURNE REYNOLDS ENGINEERING LIMITED

Notes forming part of the financial statements for the year ended 30 September 2006 (Continued)

6 Interest payable and similar charges

	2006 £	2005 £
Bank loans and overdraft	79,665	82,892
Finance leases and hire purchase contracts	1,256	550
Debt factoring interest	32,664	14,846
Other interest	6,266	1,843
	<u>119,851</u>	<u>100,131</u>
Less: Debt factoring interest included in cost of sales	(32,664)	(14,846)
	<u>87,187</u>	<u>85,285</u>

7 Taxation

	2006 £	2005 £
UK corporation tax - current year	-	-
	<u>-</u>	<u>-</u>
Transfer (from)/to deferred tax	(57,202)	33,621
Taxation on loss/profit on ordinary activities	<u>(57,202)</u>	<u>33,621</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

	2006 £	2005 £
(Loss)/profit on ordinary activities before tax	<u>(326,720)</u>	<u>168,832</u>
(Loss)/profit on ordinary activities multiplied by standard rate of Corporation tax in the UK of 19% (2005 - 30%)	(62,077)	50,650
Effects of		
Expenses not allowed for tax purposes	11,968	1,828
Depreciation in excess of capital allowances	8,516	12,344
Tax losses carried forward/(utilised)	48,686	(64,822)
Statutory deduction for provision of shares to employees	(41,667)	-
Transfer pricing adjustment	34,574	-
	<u>-</u>	<u>-</u>
Current tax charge for the year	-	-

SHELBOURNE REYNOLDS ENGINEERING LIMITED

Notes forming part of the financial statements for the year ended 30 September 2006 (*Continued*)

8 Intangible fixed assets

	Manufacturing & distribution rights £
<i>Cost</i>	
At 1 October 2005 and at 30 September 2006	<u>94,934</u>
<i>Amortisation</i>	
At 1 October 2005	80,628
Charge for the year	<u>13,206</u>
At 30 September 2006	<u>93,834</u>
<i>Net book value</i>	
At 30 September 2006	<u>1,100</u>
At 30 September 2005	<u>14,306</u>

9 Tangible assets

	Freehold land and buildings £	Motor vehicles £	Plant and machinery £	Office equipment £	Total £
<i>Cost or valuation</i>					
At 1 October 2005	1,149,383	150,736	2,100,135	411,227	3,811,481
Additions	-	20,530	5,372	8,776	34,678
Disposals	-	(17,441)	-	-	(17,441)
At 30 September 2006	<u>1,149,383</u>	<u>153,825</u>	<u>2,105,507</u>	<u>420,003</u>	<u>3,828,718</u>
<i>Depreciation</i>					
At 1 October 2005	287,807	108,221	1,956,479	359,365	2,711,872
Charge for the year	21,152	22,722	65,444	31,081	140,399
Disposals	-	(17,441)	-	-	(17,441)
At 30 September 2006	<u>308,959</u>	<u>113,502</u>	<u>2,021,923</u>	<u>390,446</u>	<u>2,834,830</u>
<i>Net book value</i>					
At 30 September 2006	<u>840,424</u>	<u>40,323</u>	<u>83,584</u>	<u>29,557</u>	<u>993,888</u>
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>

SHELBOURNE REYNOLDS ENGINEERING LIMITED

Notes forming part of the financial statements for the year ended 30 September 2006 (Continued)

9 Tangible assets (continued)

Freehold land and buildings are stated at	2006 £	2005 £
Open market value – 1990	900,000	900,000
Cost of additions since 1990	249,383	249,383
	<u>1,149,383</u>	<u>1,149,383</u>
The historical cost net book value of freehold land and buildings is		
Cost	1,033,405	1,033,405
Accumulated depreciation based on historical cost	(274,849)	(255,669)
	<u>758,556</u>	<u>777,736</u>

Freehold land and buildings includes land at a valuation of £303,320 (2005 - £303,320) which is not depreciated by the company

The company 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 £28,211 (2005 - £22,912) in respect of assets held under finance leases and hire purchase contracts. The related depreciation charge for the year was £9,373 (2005 - £10,607).

10 Investments

	Subsidiary undertaking £
Cost	
At 1 October 2005 and 30 September 2006	<u>16,258</u>

Shelbourne Reynolds Engineering Limited owns 100% of the 25,000 common \$1 stock 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.

The aggregate amount of capital and reserves of Shelbourne Reynolds Inc as at 30 September 2006 was \$207,968. The loss for the year was \$39,131.

11 Stocks

	2006 £	2005 £
Raw materials and consumables	192,552	201,390
Work in progress	1,069,100	1,337,279
Goods held for resale	1,157,254	868,955
	<u>2,418,906</u>	<u>2,407,624</u>

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

SHELBOURNE REYNOLDS ENGINEERING LIMITED

Notes forming part of the financial statements for the year ended 30 September 2006 (Continued)

12 Debtors

	2006 £	2005 £
Trade debtors subject to financing	377,504	565,354
Less Non-returnable proceeds	(131,744)	(171,379)
	<u>245,760</u>	<u>393,975</u>
Other trade debtors	874,101	623,657
Trade debtors	1,119,861	1,017,632
Director's loan (see note 19)	-	26,324
Other debtors	89,725	41,123
Prepayments and accrued income	30,089	36,442
	<u>1,239,675</u>	<u>1,121,521</u>

Included in other trade debtors is an amount of £179,373 (2005 £nil) falling due after more than one year. Included within other debtors is a deferred taxation asset of £38,950 (2005 £nil) due after more than one year. All other 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 company 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 company in any other way.

13 Creditors: amounts falling due within one year

	2006 £	2005 £
Bank overdraft (secured)	530,579	411,973
Bank mortgage	10,667	-
Bank loan (secured – see note 14)	24,250	25,583
Loan (secured)	-	60,000
Obligations under finance leases and hire purchase contracts (secured - see note 14)	11,325	4,465
Amounts due to subsidiary undertaking (see note 19)	22,429	31,503
Trade creditors	946,370	793,292
Other taxes and social security costs	48,501	45,030
Other creditors	46,223	38,935
Accruals	90,453	171,854
	<u>1,730,797</u>	<u>1,582,635</u>

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

SHELBOURNE REYNOLDS ENGINEERING LIMITED

Notes forming part of the financial statements for the year ended 30 September 2006 (Continued)

14 Creditors: amounts falling due after more than one year

	2006 £	2005 £
Bank mortgage (secured)	639,333	650,000
Obligations under hire purchase contracts (secured)	9,553	7,322
	<u>648,886</u>	<u>657,322</u>

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

The bank mortgage and bank loan are 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.

	2006 £	2005 £
Due in one to two years		
Bank mortgage	16,443	17,043
Obligations under hire purchase contracts	9,553	5,144
Due in two to five years		
Bank mortgage	64,556	79,741
Obligations under hire purchase contracts	-	2,178
Due after five years		
Bank mortgage	558,334	553,216
	<u>648,886</u>	<u>657,322</u>

15 Provisions for liabilities and charges

	£
<i>Deferred taxation</i>	
At 1 October 2005	18,252
Profit and loss account transfer	(57,202)
At 30 September 2006 (included within other debtors)	<u>(38,950)</u>
	Provided in accounts
	2006 2005
Accelerated capital allowances	9,736 18,252
Tax losses carried forward	(48,686) -
	<u>(38,950)</u> <u>18,252</u>

SHELBOURNE REYNOLDS ENGINEERING LIMITED

Notes forming part of the financial statements for the year ended 30 September 2006 *(Continued)*

16 Called up share capital

	Authorised		Allotted, called up and fully paid	
	2006 £	2005 £	2006 £	2005 £
Ordinary shares of £1 each	<u>600,000</u>	<u>600,000</u>	<u>298,278</u>	<u>280,380</u>

During the year, the following share options were exercised 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

17 Reserves

	Share premium £	Revaluation reserve £	Profit and loss account £
At 1 October 2005	407,414	83,840	1,802,572
Loss for the year	-	-	(269,518)
Depreciation transfer	-	(1,972)	1,972
Exercise of share options	62,821	-	-
At 30 September 2006	<u>470,235</u>	<u>81,868</u>	<u>1,535,026</u>

18 Reconciliation of movements in shareholders' funds

	2006 £	2005 £
(Loss)/profit for the year	(269,518)	135,211
Proceeds on exercise of share options	80,719	-
	<u>(188,799)</u>	<u>135,211</u>
Opening shareholders' funds	2,574,206	2,438,995
Closing shareholder's funds	<u>2,385,407</u>	<u>2,574,206</u>

SHELBOURNE REYNOLDS ENGINEERING LIMITED

Notes forming part of the financial statements for the year ended 30 September 2006 (*Continued*)

19 Related party transactions and controlling interest

During the year the entire share capital was purchased by Russian Shelbourne Limited, a company incorporated in England and Wales

Transactions with directors

As at 30 September 2006 K Shelbourne owed the company £Nil (2005 - £26,324) The maximum balance outstanding during the year was £26,324 Interest was not charged on the outstanding balance during the year

During the year £60,000 was repaid to the K & R Pension Scheme Interest of £3,743 (2005 - £4,232) was paid by the company in respect of this loan during the year As at 30 September 2006 the company owed the K & R Pension Scheme £Nil (2005 - £60,000) The K & R Pension Scheme is established for the benefit of KH and R Shelbourne, directors of the company during the year

During the year the following directors exercised share options in the company

	Date of grant	Number of shares	Price per share
N Smith	2004	5,966	£4 51
C Bloomfield	2004	5,966	£4 51
E Taylor	2004	5,966	£4 51

Transactions with related companies

During the year, sales of £110,615 (2005 - £Nil) were made to Russian Shelbourne Limited The balance outstanding at the year end was £Nil (2005 £Nil)

Shelbourne Reynolds Inc, a 100% subsidiary incorporated in America, charged £256,021 (2005 - £272,656) to Shelbourne Reynolds Engineering Limited for handling charges during the year At the year end there was a net creditor of £22,429 (2005 - £31,503) in respect of these transactions

AV Kuznetsov is a director of Inteko-Agrotech LLC, a company incorporated in Russia Victor Baturin is also the ultimate controlling party Inteko-Agrotech LLC During the year goods were sold to Inteko-Agrotech LLC for £357,720 At 30 September 2006 Inteko-Agrotech LLC owed the company £282,821 and is included in trade debtors of which £179,373 falls due after more than one year

Ultimate parent company

The ultimate parent company is Russian Shelbourne Limited Up to 18 May 2006 there was no parent company

Controlling party

The ultimate controlling party is Victor Baturin By virtue of his majority shareholding in the ultimate parent company, Russian Shelbourne Limited

K Shelbourne was the ultimate controlling party up to 18 May 2006 by virtue of his majority shareholding in the company

SHELBOURNE REYNOLDS ENGINEERING LIMITED

Notes forming part of the financial statements for the year ended 30 September 2006 *(Continued)*

20 Commitments under operating leases

As at 30 September 2006, the company had annual commitments under non-cancellable operating leases in respect of office equipment as set out below

	2006 £	2005 £
Operating leases which expire		
Within one year	3,544	3,544
In two to five years	15,997	6,232
	<u>19,541</u>	<u>9,776</u>

21 Reconciliation of operating (loss)/profit to net cash outflow from operating activities

	2006 £	2005 £
Operating (loss)/profit	(239,533)	253,674
Depreciation of tangible fixed assets	140,399	156,779
Amortisation of intangible fixed assets	13,206	12,105
Profit on sale of tangible fixed assets	(750)	(1,800)
Decrease/(increase) in stocks	(11,282)	(220,427)
Increase in debtors	(79,204)	(127,225)
Increase/(decrease) in creditors	81,226	(255,565)
Net cash outflow from operating activities	<u>(95,938)</u>	<u>(182,459)</u>

22 Reconciliation of net cashflow to movement in net debt

	2006 £	2005 £
(Decrease)/increase in cash in the year	(196,440)	354,255
Cashflow from change in debt	61,333	(675,583)
Cashflow from finance leases and hire purchase contracts	8,089	6,989
New hire purchase contracts	(17,180)	(16,834)
Change in net debt	<u>(144,198)</u>	<u>(331,172)</u>
Net debt at 30 September 2005	<u>(986,246)</u>	<u>(655,074)</u>
Net debt at 30 September 2006	<u>(1,130,444)</u>	<u>(986,246)</u>

SHELBOURNE REYNOLDS ENGINEERING LIMITEDNotes forming part of the financial statements for the year ended 30 September 2006 *(Continued)***23 Analysis of changes in cash and net debt**

	At 30 September 2005 £	Cash Flows £	Non cashflow movements £	At 30 September 2006 £
Cash at bank and in hand	173,097	(171,622)	-	1,475
Overdraft	(411,973)	(24,818)	-	(436,791)
		(196,440)	-	
Debt due within one year	(85,583)	61,333	(10,667)	(34,917)
Debt due after one year	(650,000)	-	10,667	(639,333)
Finance leases and hire purchase contracts	(11,787)	8,089	(17,180)	(20,878)
Total	(986,246)	(127,018)	(17,180)	(1,130,444)