

Shelbourne Reynolds Engineering Limited

Report and Financial Statements

Year Ended

30 September 2007

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Company Number 1055939

SHELBOURNE REYNOLDS ENGINEERING LIMITED

Annual report and financial statements for the year ended 30 September 2007

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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 UK Audit LLP
Abbotsgate House, Hollow Road, Bury St Edmunds, Suffolk, IP32 7FA

SHELBOURNE REYNOLDS ENGINEERING LIMITED

Report of the directors for the year ended 30 September 2007

The directors present their report together with the audited financial statements for the year ended 30 September 2007

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 £245,647 (2006 – loss of £326,720) for the year and sales of £8,388,435 (2006 - £6,314,938)

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 near 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

Charitable and political contributions

During the year the company made charitable contributions of £1,610 (2006 - £524)

SHELBOURNE REYNOLDS ENGINEERING LIMITED

Report of the directors for the year ended 30 September 2007 (*Continued*)

Directors

The directors of the company during the year were as follows

Russian Shelbourne Limited
KH Shelbourne (resigned 30 April 2007)
N Smith
N Gorbunov
AV Kuznetsov
A Kuznetsov

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 £819,272. However, in the absence of a recent valuation this excess cannot be readily quantified.

Directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to

- a select suitable accounting policies and then apply them consistently,
- b make judgements and estimates that are reasonable and prudent,
- c 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 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 2007 (*Continued*)

Auditors

Baker Tilly UK Audit LLP has indicated its willingness to continue in office

By order of the Board

A handwritten signature in black ink, appearing to be 'N Smith', written over a horizontal line.

N Smith
Director

24.07.08

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 2007 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

BAKER TILLY UK AUDIT LLP

Registered Auditors and

Chartered Accountants

Abbotsgate House

Hollow Road

Bury St Edmunds

Suffolk

IP32 7FA

25.07.08

SHELBOURNE REYNOLDS ENGINEERING LIMITED

Profit and loss account for the year ended 30 September 2007

| | Note | 2007 £ | 2006 £ |
|--|-------------|-------------------------|-------------------------|
| Turnover | 2 | 8,388,435 | 6,314,938 |
| Cost of sales | | <u>(6,607,107)</u> | <u>(4,791,000)</u> |
| Gross profit | | 1,781,328 | 1,523,938 |
| Administrative expenses | | <u>(1,916,846)</u> | <u>(1,763,471)</u> |
| Operating loss | 5 | (135,518) | (239,533) |
| Interest payable and similar charges | 6 | <u>(110,129)</u> | <u>(87,187)</u> |
| Loss on ordinary activities before taxation | | (245,647) | (326,720) |
| Taxation on loss on ordinary activities | 7 | <u>23,520</u> | <u>57,202</u> |
| Loss on ordinary activities after taxation | 17 | <u>(222,127)</u> | <u>(269,518)</u> |

All amounts relate to continuing activities

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

The notes on pages 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 2007

| | 2007 | 2006 |
|--|------------------|------------------|
| | £ | £ |
| Note of historical cost profit and losses | | |
| Reported loss on ordinary activities before taxation | (245,647) | (326,720) |
| Difference between an historical cost depreciation charge and the actual depreciation charge of the period calculated on the revalued amount | 1,972 | 1,972 |
| Historical cost loss on ordinary activities before taxation | (243,675) | (324,748) |
| Historical cost loss for the year after taxation | (220,155) | (267,540) |

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

SHELBOURNE REYNOLDS ENGINEERING LIMITED

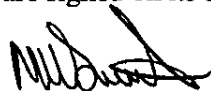
Balance sheet at 30 September 2007

| | Note | 2007 | 2006 |
|--|------|------------------|------------------|
| | | £ | £ |
| Fixed assets | | | |
| Intangible assets | 8 | - | 1,100 |
| Tangible assets | 9 | 969,867 | 993,888 |
| Investments | 10 | 33,025 | 16,258 |
| | | <u>1,002,892</u> | <u>1,011,246</u> |
| Current assets | | | |
| Stocks | 11 | 2,220,362 | 2,418,906 |
| Debtors | 12 | | |
| Gross debtors subject to financing | | 373,792 | 377,504 |
| Less Non-returnable proceeds | | (4,423) | (131,744) |
| | | <u>369,369</u> | <u>245,760</u> |
| Other debtors (including £65,343 (2006 £218,323) due after one year) | | 917,182 | 993,915 |
| | | <u>1,286,551</u> | <u>1,239,675</u> |
| Cash at bank and in hand | | 159,041 | 95,263 |
| | | <u>3,665,954</u> | <u>3,753,844</u> |
| Creditors: amounts falling due within one year | 13 | (1,808,069) | (1,730,797) |
| Net current assets | | <u>1,857,885</u> | <u>2,023,047</u> |
| Total assets less current liabilities | | <u>2,860,777</u> | <u>3,034,293</u> |
| Creditors: amounts falling due after more than one year | 14 | (697,497) | (648,886) |
| Net assets | | <u>2,163,280</u> | <u>2,385,407</u> |
| Capital and reserves | | | |
| Called up share capital | 16 | 298,278 | 298,278 |
| Share premium account | 17 | 470,235 | 470,235 |
| Revaluation reserve | 17 | 79,896 | 81,868 |
| Profit and loss account | 17 | 1,314,871 | 1,535,026 |
| Shareholder's funds | 18 | <u>2,163,280</u> | <u>2,385,407</u> |

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

24.07.08

and



N Smith
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 2007

| | Note | 2007 £ | 2006 £ |
|--|------|-----------|-----------|
| Net cash inflow/(outflow) from operating activities | 23 | 119,413 | (95,938) |
| Returns on investments and servicing of finance | | | |
| Interest paid | | (91,825) | (93,795) |
| Interest on hire purchase agreements | | (2,725) | (1,256) |
| | | (94,550) | (95,051) |
| Capital expenditure | | | |
| Payments to acquire tangible fixed assets | | (23,443) | (17,498) |
| Receipts from sales of tangible fixed assets | | 9,601 | 750 |
| Payments to acquire subsidiary undertaking | | (16,767) | - |
| | | (30,609) | (16,748) |
| Cash outflow before financing | | (5,746) | (207,737) |
| Financing | | | |
| Issue of ordinary share capital | | - | 80,719 |
| Loans advanced | 25 | 250,000 | 97,000 |
| Loans repaid | 25 | (24,250) | (158,333) |
| Capital element of hire purchase contracts and finance lease rentals | 24 | (19,740) | (8,089) |
| | | 206,010 | 11,297 |
| Increase/(decrease) in cash | 24 | 200,264 | (196,440) |

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 2007

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 2007 (*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.

Warranty provisions

Provision is made for liabilities arising in respect of specific warranty claims.

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 2007 *(Continued)*

3 Employees

| | 2007 £ | 2006 £ |
|--|------------------|------------------|
| Staff costs (including directors) consist of | | |
| Wages and salaries | 2,116,399 | 1,793,978 |
| Social security costs | 196,249 | 165,022 |
| | <u>2,312,648</u> | <u>1,959,000</u> |

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

| | 2007 Number | 2006 Number |
|-----------------------|----------------|----------------|
| Office and management | 34 | 31 |
| Manufacturing | 64 | 56 |
| | <u>98</u> | <u>87</u> |

4 Directors

| | 2007 £ | 2006 £ |
|--------------------------------------|-----------|-----------|
| Directors' emoluments consist of | | |
| Remuneration for management services | 231,176 | 197,790 |

Emoluments of the highest paid director were £52,625 (2006 - £62,944)

5 Operating loss

| | 2007 £ | 2006 £ |
|---|-----------|-----------|
| This has been arrived at after charging/(crediting) | | |
| Depreciation of tangible fixed assets | 89,196 | 140,399 |
| Amortisation of intangible fixed assets | 1,100 | 13,206 |
| Foreign exchange loss | 137,841 | 68,597 |
| Profit on sale of fixed assets | (5,703) | (750) |
| Operating lease rentals - office equipment | 6,711 | 9,755 |
| - motor vehicles | 10,478 | - |
| Research and development costs | 32,580 | 46,545 |
| Auditors remuneration - audit | 17,250 | 15,500 |
| - other services | 8,255 | 10,680 |

SHELBOURNE REYNOLDS ENGINEERING LIMITED

Notes forming part of the financial statements for the year ended 30 September 2007 (Continued)

6 Interest payable and similar charges

| | 2007 £ | 2006 £ |
|---|----------------|----------------|
| Bank loans and overdraft | 91,028 | 79,665 |
| Interest on parent loan | 12,315 | - |
| Finance leases and hire purchase contracts | 2,725 | 1,256 |
| Debt factoring interest | 19,078 | 32,664 |
| Other interest | 4,061 | 6,266 |
| | <u>129,207</u> | <u>119,851</u> |
| Less: Debt factoring interest included in cost of sales | (19,078) | (32,664) |
| | <u>110,129</u> | <u>87,187</u> |

7 Taxation

| | 2007 £ | 2006 £ |
|--|-----------------|-----------------|
| UK corporation tax | | |
| - current year | 2,873 | - |
| | <u>2,873</u> | <u>-</u> |
| Total current tax | 2,873 | - |
| Deferred tax | | |
| Origination and reversal of timing differences | (26,393) | (57,202) |
| | <u>(26,393)</u> | <u>(57,202)</u> |
| Taxation on loss on ordinary activities | (23,520) | (57,202) |
| | <u>(23,520)</u> | <u>(57,202)</u> |

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

| | 2007 £ | 2006 £ |
|--|------------------|------------------|
| Loss on ordinary activities before tax | (245,647) | (326,720) |
| | <u>(245,647)</u> | <u>(326,720)</u> |
| Loss on ordinary activities multiplied by standard rate of Corporation tax in the UK of 19.5% (2006 - 19%) | (47,901) | (62,077) |
| | <u>(47,901)</u> | <u>(62,077)</u> |
| Effects of | | |
| Expenses not allowed for tax purposes | 816 | 11,968 |
| Capital allowances in excess of depreciation | (5,005) | 8,516 |
| Tax losses (utilised)/created | (8,034) | 48,686 |
| Statutory deduction for provision of shares to employees | - | (41,667) |
| Transfer pricing adjustment | 62,997 | 34,574 |
| | <u>62,997</u> | <u>34,574</u> |
| Current tax charge for the year | 2,873 | - |
| | <u>2,873</u> | <u>-</u> |

SHELBOURNE REYNOLDS ENGINEERING LIMITED

Notes forming part of the financial statements for the year ended 30 September 2007 (*Continued*)

8 Intangible fixed assets

| | Manufacturing & distribution rights £ |
|---------------------------------|--|
| <i>Cost</i> | |
| At 1 October 2006 | |
| and at 30 September 2007 | 94,934 |
| <i>Amortisation</i> | |
| At 1 October 2006 | 93,834 |
| Charge for the year | 1,100 |
| At 30 September 2007 | 94,834 |
| <i>Net book value</i> | |
| At 30 September 2007 | - |
| At 30 September 2006 | 1,100 |

9 Tangible assets

| | Freehold land and buildings £ | Motor vehicles £ | Plant and machinery £ | Office equipment £ | Total £ |
|-----------------------------|--|------------------------|-----------------------------|--------------------------|------------------|
| <i>Cost or valuation</i> | | | | | |
| At 1 October 2006 | 1,149,383 | 153,825 | 2,105,507 | 420,003 | 3,828,718 |
| Additions | - | 34,299 | 29,514 | 5,260 | 69,073 |
| Disposals | - | (59,564) | - | - | (59,564) |
| At 30 September 2007 | 1,149,383 | 128,560 | 2,135,021 | 425,263 | 3,838,227 |
| <i>Depreciation</i> | | | | | |
| At 1 October 2006 | 308,959 | 113,502 | 2,021,923 | 390,446 | 2,834,830 |
| Charge for the year | 21,152 | 17,422 | 32,027 | 18,595 | 89,196 |
| Disposals | - | (55,666) | - | - | (55,666) |
| At 30 September 2007 | 330,111 | 75,258 | 2,053,950 | 409,041 | 2,868,360 |
| <i>Net book value</i> | | | | | |
| At 30 September 2007 | 819,272 | 53,302 | 81,071 | 16,222 | 969,867 |
| At 30 September 2006 | 840,424 | 40,323 | 83,584 | 29,557 | 993,888 |

Freehold land and buildings are stated at

| | 2007 £ | 2006 £ |
|------------------------------|------------------|------------------|
| Open market value – 1990 | 900,000 | 900,000 |
| Cost of additions since 1990 | 249,383 | 249,383 |
| | 1,149,383 | 1,149,383 |

SHELBOURNE REYNOLDS ENGINEERING LIMITED

Notes forming part of the financial statements for the year ended 30 September 2007 (Continued)

9 Tangible assets (continued)

The historical cost net book value of freehold land and buildings is

| | 2007 £ | 2006 £ |
|---|----------------|----------------|
| Cost | 1,033,405 | 1,033,405 |
| Accumulated depreciation based on historical cost | (294,029) | (274,849) |
| Historical cost net book value | <u>739,376</u> | <u>758,556</u> |

Freehold land and buildings includes land at a valuation of £303,320 (2006 - £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 £66,011 (2006 - £28,211) in respect of assets held under finance leases and hire purchase contracts. The related depreciation charge for the year was £12,700 (2006 - £9,373).

10 Investments

| | Subsidiary undertaking £ |
|----------------------|--------------------------------|
| Cost | |
| At 1 October 2006 | 16,258 |
| Additions | 16,767 |
| At 30 September 2007 | <u>33,025</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.

In addition, it purchased 25,000 shares (100%) of the €1 stock of Shelbourne Europe GmbH, a company registered in Germany. The company is dormant.

The aggregate amount of capital and reserves of Shelbourne Reynolds Inc as at 30 September 2007 was \$269,307. The profit for the year was \$36,339. The aggregate amount of capital and reserves of Shelbourne Europe GmbH was €25,000, with no profit or loss.

11 Stocks

| | 2007 £ | 2006 £ |
|-------------------------------|------------------|------------------|
| Raw materials and consumables | 148,657 | 192,552 |
| Work in progress | 1,208,804 | 1,069,100 |
| Goods held for resale | 862,900 | 1,157,254 |
| | <u>2,220,362</u> | <u>2,418,906</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 2007 (Continued)

12 Debtors

| | 2007 £ | 2006 £ |
|------------------------------------|------------------|------------------|
| Trade debtors subject to financing | 373,792 | 377,504 |
| Less Non-returnable proceeds | (4,423) | (131,744) |
| | <u>369,369</u> | <u>245,760</u> |
| Other trade debtors | 729,651 | 874,101 |
| | <u>1,099,020</u> | <u>1,119,861</u> |
| Trade debtors | 100,284 | 89,725 |
| Other debtors | 87,247 | 30,089 |
| Prepayments and accrued income | <u>1,286,551</u> | <u>1,239,675</u> |

Included in other trade debtors is an amount of £nil (2006 £179,373) falling due after more than one year. Included within other debtors is a deferred tax asset of £65,343 (2006 £38,950) 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

| | 2007 £ | 2006 £ |
|--|------------------|------------------|
| Bank overdraft (secured) | 394,093 | 530,579 |
| Bank mortgage (secured – see note 14) | - | 10,667 |
| Bank loan (secured – see note 14) | - | 24,250 |
| Loan from parent undertaking (see note 19) | 227,900 | - |
| Obligations under finance leases and hire purchase contracts (secured - see note 14) | 21,371 | 11,325 |
| Amounts due to subsidiary undertaking (see note 19) | 22,020 | 22,429 |
| Trade creditors | 914,581 | 946,370 |
| Corporation tax | 2,873 | - |
| Other taxes and social security costs | 63,602 | 48,501 |
| Other creditors | 36,739 | 46,223 |
| Accruals | 124,890 | 90,453 |
| | <u>1,808,069</u> | <u>1,730,797</u> |

The overdraft is secured by a debenture together with a fixed charge over the company's property.

SHELBOURNE REYNOLDS ENGINEERING LIMITED

Notes forming part of the financial statements for the year ended 30 September 2007 (*Continued*)

14 Creditors: amounts falling due after more than one year

| | 2007 £ | 2006 £ |
|---|----------------|----------------|
| Loan from parent undertaking (see note 19) | 22,100 | - |
| Bank mortgage (secured) | 650,000 | 639,333 |
| Obligations under hire purchase contracts (secured) | 25,397 | 9,553 |
| | <u>697,497</u> | <u>648,886</u> |

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

| | 2007 £ | 2006 £ |
|---|----------------|----------------|
| Due in one to two years | | |
| Bank mortgage | - | 16,443 |
| Loan from parent undertaking | 22,100 | - |
| Obligations under hire purchase contracts | 18,524 | 9,553 |
| Due in two to five years | | |
| Bank mortgage | - | 64,556 |
| Obligations under hire purchase contracts | 6,873 | - |
| Due after five years | | |
| Bank mortgage | 650,000 | 558,334 |
| | <u>697,497</u> | <u>648,886</u> |

The bank mortgage and bank loan are secured on the company's freehold land and buildings. Following the year end the company's debt was restructured and is now repayable in monthly instalments over 30 years and interest is charged at 1.6% above Base Rate (previously repayable over 20 years, at 1.09% above Base Rate).

15 Provisions for liabilities and charges

| | £ |
|---|-----------------|
| <i>Deferred taxation</i> | |
| At 1 October 2006 (asset included within other debtors) | (38,950) |
| Profit and loss account transfer | (26,393) |
| | <hr/> |
| At 30 September 2007 (included within other debtors) | (65,343) |
| | <hr/> |

| | Provided | |
|--------------------------------|-----------------|-----------------|
| | 2007 | 2006 |
| | £ | £ |
| Accelerated capital allowances | (14,379) | 9,736 |
| Tax losses | (50,964) | (48,686) |
| | <hr/> | <hr/> |
| | (65,343) | (38,950) |

SHELBOURNE REYNOLDS ENGINEERING LIMITED

Notes forming part of the financial statements for the year ended 30 September 2007 *(Continued)*

16 Called up share capital

| | Authorised | | Allotted, called up and fully paid | |
|----------------------------|----------------|----------------|------------------------------------|----------------|
| | 2007 £ | 2006 £ | 2007 £ | 2006 £ |
| Ordinary shares of £1 each | <u>600,000</u> | <u>600,000</u> | <u>298,278</u> | <u>298,278</u> |

17 Reserves

| | Share premium £ | Revaluation reserve £ | Profit and loss account £ |
|-----------------------|--------------------|--------------------------|------------------------------|
| At 1 October 2006 | 470,235 | 81,868 | 1,535,026 |
| Loss for the year | - | - | (222,127) |
| Depreciation transfer | - | (1,972) | 1,972 |
| At 30 September 2007 | <u>470,235</u> | <u>79,896</u> | <u>1,314,871</u> |

18 Reconciliation of movements in shareholder's funds

| | 2007 £ | 2006 £ |
|---------------------------------------|--------------------------------------|--------------------------------------|
| Loss for the year | (222,127) | (269,518) |
| Proceeds on exercise of share options | - | 80,719 |
| Opening shareholder's funds | <u>(222,127)</u> <u>2,385,407</u> | <u>(188,799)</u> <u>2,574,206</u> |
| Closing shareholder's funds | <u>2,163,280</u> | <u>2,385,407</u> |

SHELBOURNE REYNOLDS ENGINEERING LIMITED

Notes forming part of the financial statements for the year ended 30 September 2007 (Continued)

19 Related party transactions and controlling interest

Transactions with related companies

During the year, sales of £975,562 (2006 - £110,615) were made to Russian Shelbourne Limited. The balance overpaid at the year end and therefore due to Russian Shelbourne Limited was £15,941 (2006 £nil).

During the year Russian Shelbourne Limited loaned Shelbourne Reynolds Engineering Limited £250,000 (2006 £nil). This is an unsecured loan, with interest being charged at 1% above Barclays Bank plc base rate. The loan was to be repayable by 2012 but has been amended subsequently, as noted below.

Shelbourne Reynolds Inc, a 100% subsidiary incorporated in America, charged £330,383 (2006 £256,021) to Shelbourne Reynolds Engineering Limited for handling charges during the year. At the year end there was a net creditor of £6,079 (2006 - £22,429) in respect of these transactions. In addition, goods were sold to Shelbourne Reynolds Inc for £55,628 (2006 £nil) and purchased from them for £134,393 (2006 £nil).

AV Kuznetsov is a director of Inteko-Agrotech LLC, a company incorporated in Russia. During the year goods were sold to Inteko-Agrotech LLC for £10,200 (2006 - £357,720). At 30 September 2007 Inteko-Agrotech LLC owed the company £175,210 (2006 - £282,821) and is included in trade debtors, of which £175,210 (2006 - £179,373) falls due after more than one year.

Since the year end the Inteko-Agrotech LLC debt, by then amounting to £205,800 (€259,310), has been paid by Russian Shelbourne Limited on behalf of Inteko-Agrotech LLC. To achieve this the £205,800 has been offset against the £250,000 loan to Shelbourne Reynolds Engineering Limited. The remaining balance of £44,200 is to be repaid in two equal instalments by September 2009. In view of this, the ageing of the related debtors and creditors at 30 September 2007 has been amended in these financial statements to reflect the revised timing of settlement of the respective amounts.

Ultimate parent company

The ultimate parent company is Russian Shelbourne Limited, a company incorporated in England and Wales.

Controlling party

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

SHELBOURNE REYNOLDS ENGINEERING LIMITED

Notes forming part of the financial statements for the year ended 30 September 2007 *(Continued)*

20 Commitments under operating leases

As at 30 September 2007, the company had annual commitments under non-cancellable operating leases, none of which relates to land & buildings, as set out below

| | 2007 £ | 2006 £ |
|--|---------------|---------------|
| Operating leases which expire: | | |
| Within one year | - | 3,544 |
| In two to five years | 15,998 | 15,507 |
| After five years | 1,997 | - |
| Net cash inflow/(outflow) from operating activities | 17,995 | 19,051 |

21 Capital commitments

| | 2007 £ | 2006 £ |
|---------------------------------|-----------|-----------|
| Contracted but not provided for | 40,856 | - |

22 Forward currency contracts

The company enters into forward currency contracts to manage currency exposure that arises on sales. At year end, the company was contracted to sell \$1,200,000(USD) for £504,427 at the contract rates. The forward contract rates mature at various dates between October 2007 and March 2008.

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

| | 2007 £ | 2006 £ |
|--|----------------|-----------------|
| Operating loss | (135,518) | (239,533) |
| Depreciation of tangible fixed assets | 89,196 | 140,399 |
| Amortisation of intangible fixed assets | 1,100 | 13,206 |
| Profit on sale of tangible fixed assets | (5,703) | (750) |
| Decrease/(increase) in stocks | 198,544 | (11,282) |
| Increase in debtors | (20,483) | (79,204) |
| (Decrease)/increase in creditors | (7,723) | 81,226 |
| Net cash inflow/(outflow) from operating activities | 119,413 | (95,938) |

Notes forming part of the financial statements for the year ended 30 September 2007 *(Continued)*

SHELBOURNE REYNOLDS ENGINEERING LIMITED

24 Reconciliation of net cashflow to movement in net debt

| | 2007 £ | 2006 £ |
|--|-------------|-------------|
| Increase / (decrease) in cash in the year | 200,264 | (196,440) |
| Cash (outflow) / inflow from (decrease) / increase in debt and lease financing | (206,010) | 69,422 |
| Change in net debt resulting from cash flows | (5,746) | (127,018) |
| New hire purchase contracts | (45,630) | (17,180) |
| Movement in net debt in the period | (51,376) | (144,198) |
| Net debt at 1 October 2006 | (1,130,444) | (986,246) |
| Net debt at 30 September 2007 | (1,181,820) | (1,130,444) |

25 Analysis of changes in cash and net debt

| | At 1 October 2006 £ | Cash flow £ | Other non- cash changes £ | At 30 September 2007 £ |
|--|------------------------------|-------------------|------------------------------------|---------------------------------|
| Cash at bank and in hand | 95,263 | 63,778 | - | 159,041 |
| Overdraft | (530,579) | 136,486 | - | (394,093) |
| | (435,316) | 200,264 | - | (235,052) |
| Debt due within one year | (34,917) | 24,250 | 10,667 | - |
| Debt due after one year | (639,333) | (250,000) | (10,667) | (900,000) |
| Finance leases and hire purchase contracts | (20,878) | 19,740 | (45,630) | (46,768) |
| Total | (1,130,444) | (5,746) | (45,630) | (1,181,820) |