

Registration number 01962034

Armfield Limited

Directors' Report and Financial Statements
for the Year Ended 31 December 2006

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Armfield Limited

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Armfield Limited

Directors' Report for the Year Ended 31 December 2006

The directors present their report and the audited financial statements for the year ended 31 December 2006

Directors' responsibilities

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

Directors are required by company law to prepare financial statements which give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit or loss of the company for the period ending on that date. In preparing those financial statements, directors are required to

- select suitable accounting policies and apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- prepare the financial statements on a 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 enable them to ensure the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information. The directors confirm that there is no relevant information that they know of and which they know the auditors are unaware of

Principal activity and business review

The principal activity of the company is the design and supply of research and training equipment for use mainly in the fields of water resource engineering, process engineering and food technology

We aim to present a balanced and comprehensive review of the development and performance of our business during the year and its position at the year end. Our review is consistent with the size and nature of our business and is written in the context of the risks and uncertainties we face

As a manufacturer and exporter of engineering teaching and research equipment, the company continues to sell to educational establishments, government bodies and the R&D departments of major food, drink and flavourings businesses around the world. The company's activities are organised so that educational and industrial sales forces are split, all other activities are combined

We consider that our key financial performance indicators are those that communicate the financial performance and strength of the company as a whole, being turnover and gross margin

The turnover of the company analysed on a geographical basis was

	2006	2005
	£	£
UK	621,000	1,117,000
Europe	845,000	941,000
Rest of world	4,882,000	4,710,000
Total	<u>6,348,000</u>	<u>6,769,000</u>

Armfield Limited
Directors' Report for the Year Ended 31 December 2006

continued

and by market sector

	2006 £	2005 £
Educational	4,998,000	5,046,000
Industrial	1,350,000	1,723,000
Total	<u>6,348,000</u>	<u>6,769,000</u>

Educational Sales continue to fluctuate annually, following the worldwide trend in the timing of major projects. Delays in some projects expected to mature in the year kept sales at the 2005 level although orders for the year finished strongly, being £600k more than sales, and prospects for 2007 are good. Industrial sales showed strong sales in emerging markets, in particular again in 2006 in China, but a tapering off in the more developed countries. Competition among the small number of manufacturers in this market remains aggressive.

The increase in the number of spares orders, attributable in part to a streamlined order processing system generates only a relatively small volume of sales, albeit at normal margins, but is seen as a vital part of the service the company provides to its customers. Annual service contracts for equipment supplied to industrial customers are similarly small in value at present but important in maintaining both customer satisfaction and communication.

Although the reported gross profit for 2006 at 43.7% of turnover was less than that achieved in 2005 (45.3%) the 2005 figure was distorted by additional recoveries derived from the conclusion of projects which were contracted in 2004. The actual gross margin achieved on sales in both 2005 and 2006 was almost identical.

The reported operating profits in 2005 and 2006 are both affected by significant accounting adjustments required under FRS 17 Retirement benefits and FRS 20 Share based payments. The operating loss for 2006 of £7,823 was a profit of £165,672 before net FRS 17 and FRS 20 adjustments of £173,495 (2005's operating profit of £351,400 was a profit of £67,290 before net FRS 17 and FRS 20 adjustments of £284,110).

The business environment in which the company operates is governed more than most by international political events and uncertainties. The strong pound currently affects overseas pricing and margins although the company strives to fix exchange rates on specific contracts wherever possible. Developing countries continue to provide the biggest challenges and the biggest opportunities, with particular growth expected in the next few years in Eastern Europe. The competition faced in both Market sectors is from a small number of foreign competitors operating in the same niche market-places.

We continue to develop new products for our educational market and to use the internet as a powerful marketing tool. The industrial market has been the area with the greatest potential for growth and a combined marketing and development plan is designed to maximise this potential, although all of these plans are subject to unforeseen future external events.

Post balance sheet events

No events have occurred since the year end which require reporting or disclosing in the financial statements.

Results and dividend

The results for the company are set out in the financial statements.

An interim ordinary dividend of £60,000 was paid during the year.

Research and development

The company will continue its policy of investment in research and development in order to retain a competitive position in the market.

Armfield Limited

Directors' Report for the Year Ended 31 December 2006

continued

Fixed assets

In the opinion of the directors no fixed assets have a significant difference in value between the book value reported and the market value

Charitable donations

During the year the company made charitable donations of £876

Directors and their interests

The directors who held office during the year and their beneficial interest in the shares of the company were as follows

Ordinary shares of £1 each

	As at 31 December 2006 No	As at 1 January 2006 No
C J Addis	50,909	50,909
S F Farrow	50,909	50,909
E E Sansom	-	-
S Studdart	-	-

Preference shares of £1 each

	As at 31 December 2006 No.	As at 1 January 2006 No
C J Addis	-	-
S F Farrow	-	-
E E Sansom	-	-
S Studdart	-	-

An Enterprise Management Investment Scheme existed for 2 directors, the details of which are shown below

Share options

	Number of options during the year				Exercise price	Market price at date of exercise	Date from which exercisable	Expiry date
Director								
	At start of year	Granted	Exercised	Lapsed	At end of year	£/p	£/p	
E E Sansom	2721	0	0	0	2721	36 75	0 00	6 February 2004 5 February 2014
S Studdart	2721	0	0	0	2721	36 75	0 00	6 February 2004 5 February 2014

Armfield Limited
Directors' Report for the Year Ended 31 December 2006

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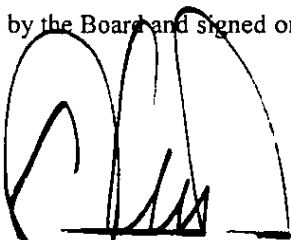
Auditors

The auditors, Princecroft Willis LLP, will be proposed for re-appointment in accordance with section 385 of the Companies Act 1985

Approved by the Board and signed on its behalf by

C J Addis
Director

Date


14 June 07

Independent Auditors' Report to the Members of Armfield Limited

We have audited the financial statements of Armfield Limited for the year ended 31 December 2006 set out on pages 7 to 25. These financial statements have been prepared in accordance with the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

As described in the statement of Directors' responsibilities on page 1, the company's directors are responsible for the preparation of financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you 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 transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes an 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.

**Independent Auditors' Report to the Members of
Armfield Limited**

continued

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

Fleet Court
New Fields
Stinsford Road
Poole
Dorset
BH17 0NF

Princecroft Willis LLP

Princecroft Willis LLP
Chartered Accountants & Registered Auditors

20 June 2007

Armfield Limited
Profit and Loss Account for the Year Ended 31 December 2006

	Note	2006 £	2005 <i>as restated</i> £
Turnover	2	6,347,813	6,769,397
Cost of sales		(3,564,277)	(3,677,795)
Gross profit		<u>2,783,536</u>	<u>3,091,602</u>
Administrative expenses		(2,791,359)	(2,740,202)
Operating (loss)/profit	3	<u>(7,823)</u>	<u>351,400</u>
Other interest receivable and similar income		41,174	50,690
Interest payable and similar charges	7	(78,000)	(58,000)
(Loss)/profit on ordinary activities before taxation		<u>(44,649)</u>	<u>344,090</u>
Tax on (loss)/profit on ordinary activities	8	(22,630)	(28,461)
(Loss)/profit for the financial year		<u>(67,279)</u>	<u>315,629</u>
Dividends	9	(60,000)	-
Retained (loss)/profit for the financial year		<u>(127,279)</u>	<u>315,629</u>

Turnover and operating (loss)/profit derive wholly from continuing operations

There is no material difference between the result reported above and the result on an unmodified historical cost basis

The notes on pages 11 to 25 form an integral part of these financial statements

Armfield Limited

Statement of Total Recognised Gains and Losses for the Year Ended 31 December 2006

	2006	2005
	£	as restated £
Net (loss)/profit for the year	(67,279)	315,629
Deferred tax movement on pension scheme deficit	(35,000)	384,000
Actuarial gain/(loss) on pension scheme liability	363,000	(649,000)
Prior year adjustment - FRS 17 (see note 4)	-	865,000
Prior year adjustment - FRS 20 (see note 4)	11,480	5,860
Total gains for the year	<u>272,201</u>	<u>921,489</u>

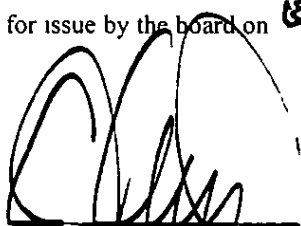
The notes on pages 11 to 25 form an integral part of these financial statements

Armfield Limited
Balance Sheet as at 31 December 2006

		2006		2005 <i>as restated</i>	
	Note	£	£	£	£
Fixed assets					
Tangible assets	10		99,813		95,865
Investments	11		<u>187,153</u>		<u>187,153</u>
			286,966		283,018
Current assets					
Stocks	12	761,221		773,707	
Debtors	13	1,173,521		818,519	
Cash at bank and in hand		<u>949,942</u>		<u>1,196,994</u>	
		2,884,684		2,789,220	
Creditors. Amounts falling due within one year	14	<u>(1,049,217)</u>		<u>(1,074,026)</u>	
Net current assets			<u>1,835,467</u>		<u>1,715,194</u>
Total assets less current liabilities			2,122,433		1,998,212
Creditors. Amounts falling due after more than one year	15		<u>(180,000)</u>		<u>(180,000)</u>
Net assets excluding pension liability			1,942,433		1,818,212
Pension liability	21				
Defined benefit scheme			<u>(815,000)</u>		<u>(897,000)</u>
Net assets including pension liability			<u>1,127,433</u>		<u>921,212</u>
Capital and reserves					
Called up share capital	16		101,818		101,818
Capital redemption reserve	17		726,182		726,182
EMI share option scheme reserve	17		16,980		11,480
Profit and loss reserve	17		<u>282,453</u>		<u>81,732</u>
Equity shareholders' funds	18		<u>1,127,433</u>		<u>921,212</u>

Authorised for issue by the board on **18.6.07** and signed on its behalf by

C J Addis
Director



S F Farrow
Director



The notes on pages 11 to 25 form an integral part of these financial statements

Armfield Limited

Cash Flow Statement for the Year Ended 31 December 2006

		2006		2005	
	Note	£	£	£	£
Net cash flow from operating activities	22		(44,980)		504
Returns on investment and servicing of finance	23		(36,826)		(7,310)
Taxation	23		(34,321)		-
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(93,525)		(42,990)	
Sale of tangible fixed assets		<u>22,600</u>		<u>8,293</u>	
			(70,925)		(34,697)
Equity dividends paid			<u>(60,000)</u>		<u>-</u>
Net cash flow			<u><u>(247,052)</u></u>		<u><u>(41,503)</u></u>

Reconciliation of net cash flow to movement in net debt

		2006	2005
	Note	£	£
Decrease in cash in the year	24	<u>(247,052)</u>	<u>(41,503)</u>
Change in net debt resulting from cash flows		(247,052)	(41,503)
Net funds at the start of the year	24	<u>1,196,994</u>	<u>1,238,497</u>
Net funds at the end of the year	24	<u><u>949,942</u></u>	<u><u>1,196,994</u></u>

Armfield Limited

Notes to the Financial Statements for the Year Ended 31 December 2006

1 Accounting policies

Basis of preparation

The financial statements have been prepared under the historical cost convention

Under section 248 of the Companies Act 1985 the group is exempt from the requirement to prepare group accounts by virtue of its size. Therefore the accounts present information about the company as an individual undertaking and not about its group.

Turnover

Turnover represents amounts invoiced, net of value added tax, in respect of the sale of goods and services to customers.

Depreciation

Depreciation is provided on tangible fixed assets so as to write off the cost or valuation, less any estimated residual value, over their expected useful economic life as follows:

Demonstration equipment	50% p a on a straight line basis
Motor vehicles	25% p a on a straight line basis
Furniture and equipment	20% p a on a straight line basis
Computer equipment	33 33% p a on a straight line basis

Designs, moulds, patterns and loose tools are written off in the year of acquisition, as is computer software.

Research and development expenditure

Research and development expenditure is written off as incurred, except that development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Any expenditure carried forward is amortised in line with the expected future sales from the related project.

Stock

Stock is valued at the lower of cost and net realisable value, after due regard for obsolete and slow moving stocks. Net realisable value is based on selling price less anticipated costs to completion and selling costs.

Warranties for products

Provision is made for the estimated costs in relation to commissioning and rectification.

Deferred taxation

Deferred tax is provided in full on timing differences which represent a liability at the balance sheet date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income or expenditure in tax computations in periods different from those in which they are included in the financial statements. Deferred tax assets and liabilities are not discounted.

Foreign currencies

Profit and loss account transactions in foreign currencies are translated into sterling at the exchange rate ruling at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated into sterling at the closing rates at the balance sheet date and the exchange differences are included in the profit and loss account.

Armfield Limited

Notes to the Financial Statements for the Year Ended 31 December 2006

continued

Operating leases

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term

Pensions

The company operates a pension scheme, for employees in post on 31 December 2000, providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company and are invested with insurance companies. In accordance with Financial Reporting Standard 17 (FRS 17), assets and liabilities of the scheme are shown in the company's Balance Sheet. Contributions to the scheme are charged to the Profit and Loss Account so as to spread the cost of pensions over employees' working lives with the company. Adjustments to comply with FRS 17 have been made in the Profit and Loss Account and Statement of Total Recognised Gains and Losses, as shown in Note 20.

The company operates a defined contribution pension scheme for the benefit of employees joining the company after 31 December 2000. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the scheme. The company also contributes to a separate pension scheme for the benefit of shareholder directors to top up the accrued benefits under the defined benefit scheme.

EMI share options

An Enterprise Management Incentive Scheme for two of the directors of the company was established in 2004. As at 31 December 2006 there were unexercised options in existence as disclosed within the directors' report on page 3 of the financial statements. A fair value adjustment has been made to the financial statements in accordance with FRS20 Share based payments, in relation to these options.

2 Turnover

90.22% of the company's turnover related to exports (2005 - 83.49%)

An analysis of turnover by geographical market is given below

	2006	2005
	£	£
Sales - UK	621,026	1,117,540
Sales - Europe	845,306	941,072
Sales - Rest of world	4,881,481	4,710,785
	<u>6,347,813</u>	<u>6,769,397</u>

Armfield Limited

Notes to the Financial Statements for the Year Ended 31 December 2006

continued

3 Operating (loss)/profit

Operating (loss)/profit is stated after charging/(crediting)

	2006 £	2005 £
Current year research and development expenditure	44,102	14,477
Hire of other assets (Operating leases)	11,361	10,811
The audit of the company's annual accounts	15,455	9,300
Foreign currency losses	96,080	6,144
Profit on sale of tangible fixed assets	(17,606)	(8,293)
Depreciation of owned tangible fixed assets	84,583	81,696

4 Prior year adjustments

A prior year adjustment has been made to the accounting treatment of the defined benefit pension scheme transactions required by Financial Reporting Standard 17 Retirement Benefits, as the disclosures were incorrect. The prior year adjustment had no effect on the reserves of the company. During the previous year, disclosures required under Financial Reporting Standard 17 Retirement Benefits were first implemented. As this was a change in accounting policy a prior year adjustment was required totalling £865,000.

An adjustment has been made to the disclosure of the bank overdraft, which has now been set off against the cash at bank and in hand balance within current assets. This disclosure now accurately reflects the arrangement the company has with its bankers.

An adjustment has also been made to the disclosure of the shares held in the subsidiary undertaking Armfield Technical Education Company Limited and the amount owed to that company. As a result the value of investments has increased by £180,000 and the amount owed to the subsidiary undertaking has increased by £180,000.

With the introduction of Financial Reporting Standard 20 Share Based Payments, the company has to account for the fair value adjustments required for granted EMI share options. As this is a change in accounting policy, a prior year adjustment was required which amounted to £11,480 within the current year and £5,860 within the prior year.

Armfield Limited

Notes to the Financial Statements for the Year Ended 31 December 2006

continued

5 Particulars of employees

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows

	2006 No.	2005 No.
Administration	8	8
Other	31	33
	<u>39</u>	<u>41</u>

The aggregate payroll costs of these persons were as follows

	2006 £	2005 <i>as restated</i> £
Wages and salaries	1,467,301	1,458,896
Social security	126,298	125,142
Other pension costs	131,193	225,996
	<u>1,724,792</u>	<u>1,810,034</u>

6 Directors' emoluments

The directors' emoluments for the year are as follows

	2006 £	2005 £
Directors' emoluments (including benefits in kind)	419,590	407,706
Directors' pension contributions	31,464	241,180
	<u>451,054</u>	<u>648,886</u>

During the period the number of directors who were accruing benefits under company pension schemes was as follows

	2006 No.	2005 No.
Money purchase	<u>2</u>	<u>2</u>

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £140,537 (2005 - £249,922), and company pension contributions of £2,118 (2005 - none) were made to a money purchase scheme on their behalf

Armfield Limited

Notes to the Financial Statements for the Year Ended 31 December 2006

continued

7 Interest payable and similar charges

	2006 £	2005 £
Pension scheme finance cost (FRS17)	<u>78,000</u>	<u>58,000</u>

8 Taxation

Analysis of current period tax charge

	2006 £	2005 £
Current tax		
Corporation tax charge	83,800	28,461
(Over)/under provision in previous year	<u>(61,170)</u>	<u>-</u>
UK Corporation tax	<u>22,630</u>	<u>28,461</u>

The over provision relates to research and development claims received for prior years

9 Dividends

	2006 £	2005 £
Equity dividends		
Paid	<u>60,000</u>	<u>-</u>
Equity dividends	<u>60,000</u>	<u>-</u>
Total dividends	<u>60,000</u>	<u>-</u>

Armfield Limited

Notes to the Financial Statements for the Year Ended 31 December 2006

continued

10 Tangible fixed assets

	Demonstration equipment £	Motor vehicles £	Furniture and equipment £	Computer equipment £	Total £
Cost					
As at 1 January 2006	67,589	233,497	155,214	99,342	555,642
Additions	-	66,731	7,556	19,238	93,525
Disposals	-	(66,897)	-	(18,881)	(85,778)
As at 31 December 2006	<u>67,589</u>	<u>233,331</u>	<u>162,770</u>	<u>99,699</u>	<u>563,389</u>
Depreciation					
As at 1 January 2006	67,589	173,241	136,018	82,929	459,777
Eliminated on disposals	-	(61,903)	-	(18,881)	(80,784)
Charge for the year	-	54,186	11,876	18,521	84,583
As at 31 December 2006	<u>67,589</u>	<u>165,524</u>	<u>147,894</u>	<u>82,569</u>	<u>463,576</u>
Net book value					
As at 31 December 2006	<u>-</u>	<u>67,807</u>	<u>14,876</u>	<u>17,130</u>	<u>99,813</u>
As at 31 December 2005	<u>-</u>	<u>60,256</u>	<u>19,196</u>	<u>16,413</u>	<u>95,865</u>

Armfield Limited

Notes to the Financial Statements for the Year Ended 31 December 2006

continued

11 Investments held as fixed assets

	Group shares as restated £
Cost	
As at 1 January 2006 and 31 December 2006	<u>187,153</u>
Net book value	
As at 31 December 2006	<u>187,153</u>
As at 31 December 2005	<u>187,153</u>

The original cost of the investments in the "Armfield" companies was £1,455,153. The investment in those companies disclosed above is net of a permanent diminution in value of £1,268,000 which arose following the transfer to the company of the business, assets and liabilities of Armfield Technical Education Company Limited and was charged to the profit and loss account in the year ended 31st December 1989.

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

	Country of incorporation	Principal activity	Class	%	Year end
Subsidiary undertakings					
Armfield Inc	USA	Distribution of reserach & training equipment	Ordinary	100	31 December 2006
Armfield Technical Education Company Ltd	England & Wales	Dormant	Ordinary	100	31 December 2006

	Capital & reserves £	Profit/(loss) for the year £
Subsidiary undertakings		
Armfield Inc	256,700	47,429
Armfield Technical Education Company Ltd	180,000	-

Armfield Limited

Notes to the Financial Statements for the Year Ended 31 December 2006

continued

12 Stocks and work in progress

	2006	2005
	£	£
Components	380,497	352,779
Finished goods	380,724	420,928
	<u>761,221</u>	<u>773,707</u>

The difference between purchase price or production cost of stocks and their replacement cost is not material

13 Debtors

	2006	2005
	£	<i>as restated</i> £
Trade debtors	1,010,960	556,111
Amounts owed by group undertakings	49,235	127,328
Other debtors	33,710	41,121
Prepayments and accrued income	79,616	93,959
	<u>1,173,521</u>	<u>818,519</u>

14 Creditors: Amounts falling due within one year

	2006	2005
	£	<i>as restated</i> £
Trade creditors	620,450	607,493
Corporation tax	16,770	28,461
Social security and other taxes	38,304	44,631
Other creditors	236,726	223,007
Accruals and deferred income	136,967	170,434
	<u>1,049,217</u>	<u>1,074,026</u>

15 Creditors: Amounts falling due after more than one year

	2006	2005
	£	<i>as restated</i> £
Amounts owed to group undertakings	<u>180,000</u>	<u>180,000</u>

Armfield Limited

Notes to the Financial Statements for the Year Ended 31 December 2006

continued

16 Share capital

	2006 £	2005 £
Authorised		
Equity		
500,000 Ordinary shares of £1 each	500,000	500,000
578,000 Preference shares of £1 each	578,000	578,000
	<u>1,078,000</u>	<u>1,078,000</u>
Allotted, called up and fully paid		
Equity		
101,818 Ordinary shares of £1 each	<u>101,818</u>	<u>101,818</u>

17 Reserves

	Capital redemption reserve £	EMI share option scheme reserve £	Profit and loss reserve £	Total £
Balance at 1 January 2006	726,182	-	93,212	819,394
Prior year adjustment - FRS 20 (see note 4)	-	11,480	(11,480)	-
At beginning of the year as restated	726,182	11,480	81,732	819,394
EMI share option scheme reserve movement	-	5,500	-	5,500
Transfer from profit and loss account for the year	-	-	(67,279)	(67,279)
Deferred tax movement on pension scheme deficit	-	-	(35,000)	(35,000)
Actuarial gain/(loss) recognised in pension scheme	-	-	363,000	363,000
Dividends	-	-	(60,000)	(60,000)
Balance at 31 December 2006	<u>726,182</u>	<u>16,980</u>	<u>282,453</u>	<u>1,025,615</u>

Armfield Limited

Notes to the Financial Statements for the Year Ended 31 December 2006

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18 Reconciliation of movements in shareholders' funds

	2006	2005 <i>as restated</i>
	£	£
(Loss)/profit attributable to members of the company	(67,279)	315,629
Dividends	(60,000)	-
	<u>(127,279)</u>	<u>315,629</u>
Other recognised gains/(losses) for the year	333,500	(1,125,379)
Net addition to shareholders' funds	<u>206,221</u>	<u>(809,750)</u>
Opening equity shareholders' funds	921,212	1,730,962
Closing equity shareholders' funds	<u>1,127,433</u>	<u>921,212</u>

19 Capital commitments

Expenditure contracted for but not provided in the financial statements

	2006	2005
	£	£
Company vehicle	<u>13,495</u>	<u>-</u>

20 Operating lease commitments

As at 31 December 2006 the company had annual commitments under non-cancellable operating leases as follows

	Land and Buildings		Other	
	2006	2005	2006	2005
	£	£	£	£
Between two and five years	41,400	-	11,595	10,811
Over five years	69,000	96,000	-	-
	<u>110,400</u>	<u>96,000</u>	<u>11,595</u>	<u>10,811</u>

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Notes to the Financial Statements for the Year Ended 31 December 2006

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21 Pension schemes

Defined contribution pension scheme

The company operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the company to the scheme and amounted to £131,193 (2005 - (£15,184))

Contributions amounting to £9,990 (2005 - £nil) were payable to the scheme and are included in creditors

Defined benefit pension scheme

The company operates a pension scheme providing benefits based on final pensionable pay. The latest full actuarial valuation was carried out at 1 April 2005 and was updated for FRS 17 purposes to 31 December 2005 and 31 December 2006 by a qualified independent actuary.

The major assumptions used in this valuation were

	2006	2005	2004
Rate of increase in salaries	5.00%	3.90%	4.10%
Rate of increase in pensions in payment and deferred pensions	3.15%	2.90%	3.10%
Discount rate applied to scheme liabilities	5.15%	4.90%	5.30%
Inflation assumption	3.15%	2.90%	3.10%

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

Scheme assets

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

	Value at 2006 £	Value at 2005 £	Value at 2004 £
Equities	3,604,000	-	-
Property	219,000	-	-
Fixed interest	417,000	-	-
Corporate bonds	209,000	-	-
With Profits Deferred Annuity	-	3,724,000	3,454,000
Cash and other	87,000	334,000	-
Total fair value of assets	4,536,000	4,058,000	3,454,000
Present values of scheme liabilities	(5,700,000)	(5,339,000)	(4,320,000)
Deficit in the scheme - Pension liability	(1,164,000)	(1,281,000)	(866,000)
Related deferred tax liability	349,000	384,000	260,000
Net pension liability	(815,000)	(897,000)	(606,000)

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	Long term rate of return 2006	Long term rate of return 2005	Long term rate of return 2004
Equities	7.60%	0.00%	0.00%
Property	6.60%	0.00%	0.00%
Fixed interest	4.60%	0.00%	0.00%
Corporate bonds	5.15%	0.00%	0.00%
With Profits Deferred Annuity	0.00%	4.50%	4.75%
Cash and other	5.00%	4.50%	4.75%

Movement in deficit during the year

	2006 £	2005 £
Surplus / deficit at year beginning	(1,281,000)	(866,000)
Current service costs	(27,000)	(144,000)
Contributions paid	92,000	436,000
Past service gains	254,000	-
Curtailment gain/(loss)	(487,000)	-
Other financial income / costs	(78,000)	(58,000)
Actuarial gain/(loss)	363,000	(649,000)
Deficit in the scheme at the end of the year	<u>(1,164,000)</u>	<u>(1,281,000)</u>

Analysis of other pension costs charged in arriving at operating (loss)/profit

	2006 £	2005 £
Current service costs	(27,000)	(144,000)
Past service gain	254,000	-
Curtailment gain/(loss)	(487,000)	-
Net operating return	<u>(260,000)</u>	<u>(144,000)</u>

Analysis of amounts included in other finance income/costs

	2006 £	2005 £
Expected return on pension scheme assets	184,000	176,000
Interest on pension scheme liabilities	(262,000)	(234,000)
Net finance return	<u>(78,000)</u>	<u>(58,000)</u>

Analysis of amount recognised in statement of total recognised gains and losses

	2006 £	2005 £
Actual return less than expected return on scheme assets	209,000	(73,000)
Experience gains and losses arising on scheme liabilities	(28,000)	-

Armfield Limited

Notes to the Financial Statements for the Year Ended 31 December 2006

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Changes in assumptions underlying the present value of scheme liabilities	182,000	(576,000)
Actuarial gain/(loss) recognised in statement of total recognised gains and losses	363,000	(649,000)

History of experience gains and losses

	2006	2005	2004
Difference between the expected and actual return on scheme assets			
Amount	£209,000	£(73,000)	-
Percentage of year end scheme assets	4.60%	(1.80)%	0.00%
Experience gains and losses on scheme liabilities			
Amount	£(28,000)	-	-
Percentage of year end present value of scheme liabilities	(0.50)%	0.00%	0.00%
Total amount recognised in statement of total recognised gains and losses			
Amount	£363,000	£(649,000)	-
Percentage of year end present value of scheme liabilities	6.40%	(12.20)%	0.00%

Armfield Limited

Notes to the Financial Statements for the Year Ended 31 December 2006

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22 Reconciliation of operating (loss)/profit to operating cash flows

	2006	2005
	£	£
Operating (loss)/profit	(7,823)	351,400
Depreciation, amortisation and impairment charges	84,583	90,144
Profit on disposal of fixed assets	(17,606)	(8,293)
Decrease in stocks	12,486	53,370
(Increase)/decrease in debtors	(355,002)	336,259
Decrease in creditors	(13,118)	(593,999)
Increase/(decrease) in provisions	251,500	(228,377)
Net cash (outflow)/inflow from operating activities	<u>(44,980)</u>	<u>504</u>

23 Analysis of cash flows

	2006	2005
	£	£
Returns on investment and servicing of finance		
Other interest paid	(78,000)	(58,000)
Interest received	41,174	50,690
	<u>(36,826)</u>	<u>(7,310)</u>
Taxation		
Taxation paid	<u>(34,321)</u>	<u>-</u>

24 Analysis of net funds

	At start of period	Cash flow	At end of period
	£	£	£
Cash at bank and in hand	1,196,994	(247,052)	949,942
Bank overdraft	-	-	-
Cash and bank net debt	<u>1,196,994</u>	<u>(247,052)</u>	<u>949,942</u>
Net funds	<u>1,196,994</u>	<u>(247,052)</u>	<u>949,942</u>

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Notes to the Financial Statements for the Year Ended 31 December 2006

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25 Related parties

Controlling entity

The company is controlled by the directors who own 100% of the called up share capital

Related party transactions

As at the year end the balance owed by the company to the subsidiary undertaking Armfield Technical Education Company Limited was £180,000 (2005 180,000)

During the year the company carried out the following transactions with its subsidiary Armfield Inc,

	2,006	2,005
	£	£
Sales to and other income from Armfield Inc	914,454	886,919
Payment of costs and overheads	36,786	77,014
Costs and overheads paid by Armfield Inc	45,417	33,389
Cash transfers from Armfield Inc	953,389	780,848

As at the year end the balance owed by Armfield Inc was £49,234 (2005 £127,328)

During the year the company purchased goods from OMVE BV, in which it has a 25% shareholding, for the sum of £226,261 (2005 £314,791)

Transactions with the directors

During the year the company paid rent to the directors C J Addis and S F Farrow in the sum of £61,250 (2005 £60,000)

26 Post balance sheet event

With effect from 31 May 2007 the company has agreed to sell its 25% shareholding in OMVE BV for a consideration up to a maximum value of €150,000. The legal ownership of the shares will be transferred no later than 31 July 2007