

Carl Zeiss SMT Limited

**Directors' report and financial
statements**

Registered number 3053545

30 September 2006



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Directors' report

The directors present their annual report and the audited financial statements for the year ended 30 September 2006

Results and dividends

The profit for the year, after taxation, amounted to £1,592,000 (2005 £1,252,000, as restated) The directors do not recommend the payment of any dividends (2005 £nil)

Principal activities and business review

The principal activity of the company continues to be the manufacture, sale and service of electron microscopes and related components and assemblies

This year has been characterised by a steady year-on-year growth of the company's turnover This, combined with our applied operational excellence and cost reduction measures, enabled the company to increase its operating profit by £438,000 year on year

Principal risks and uncertainties

Competitive pressure in major markets is a continuing risk for the company, which could result in even higher price pressure in our addressed markets In turn this can lead to the company losing sales to its key competitors The company manages this risk by continuous market screening, providing innovative products, looking for new business opportunities and by continuously working on its cost position

Risk management

The company's sales overseas are made in foreign currency in certain territories, particularly in the US, Germany, and France The company participates in the Group Cash Management and Treasury function, where risks related to foreign exchange rate fluctuations are managed

Future developments

It is expected that the business environment will remain challenging with strong competition in all major markets

Research and development

The company is committed to maintaining its significant research and development activities, which will result in new products and improvements in existing products Research and development projects currently exist in all product areas

Directors' report *(continued)*

Directors

The directors who held office during the year were as follows

Dr D Stenkamp
Dr S Traeger
Dr H Gerlinger
S Mueller
Dr H Bauer Resigned 28/02/06
M Dilger Appointed 11/05/06

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the company

According to the register of directors' interests, no rights to subscribe for shares in the company were granted to any of the directors or their immediate families, or exercised by them, during the financial year

Political and charitable contributions

The company made no political or charitable contributions during the year (2005 £nil)

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting

By order of the board



Dr S Traeger
Director

5th April 2007

511 Coldham's Lane
Cambridge
Cambridgeshire
CB1 3JS

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

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 of the company for that period

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its 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



KPMG LLP

Aquis Court
31 Fishpool Street
St Albans
AL3 4RF
United Kingdom

Independent auditors' report to the members of Carl Zeiss SMT Limited

We have audited the financial statements of Carl Zeiss SMT Limited for the year ended 30 September 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under 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 audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 3.

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 judgments 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 Carl Zeiss SMT Limited
(continued)

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 30 September 2006 and of its profit 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

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

18 APRIL 2007

Profit and loss account
for the year ended 30 September 2006

	<i>Note</i>	2006 £000	As restated 2005 £000
Turnover	2	18,647	14,212
Change in work in progress		(157)	361
Raw materials and consumables		(9,541)	(7,115)
Staff costs		(3,087)	(3,012)
Depreciation		(102)	(141)
Other operating charges		(3,462)	(2,445)
		<hr/>	<hr/>
		(16,349)	(12,352)
		<hr/>	<hr/>
Operating profit	3	2,298	1,860
Interest receivable	6	11	20
Interest payable and similar charges	7	(156)	(53)
Other finance income / (expense)	8	83	(8)
		<hr/>	<hr/>
Profit on ordinary activities before taxation		2,236	1,819
Tax on profit on ordinary activities	9	(644)	(567)
		<hr/>	<hr/>
Retained profit for the financial year		1,592	1,252
		<hr/>	<hr/>

All turnover and operating profit are derived from continuing operations in the current and previous periods

Balance sheet
at 30 September 2006

	<i>Note</i>	2006	<i>As restated</i>
		£000	2005
		£000	£000
Fixed assets			
Tangible assets	10	360	451
Investments	11	11,720	8,845
		<u>12,080</u>	<u>9,296</u>
Current assets			
Stocks	12	2,354	2,233
Debtors (including assets due in greater than one year of £503,000 (2005 £2,282,000))	13	4,910	4,907
Cash at bank and in hand		2,106	2,896
		<u>9,370</u>	<u>10,036</u>
Creditors: amounts falling due within one year	14	(8,840)	(8,515)
Net current assets		<u>530</u>	<u>1,521</u>
Total assets less current liabilities		<u>12,610</u>	<u>10,817</u>
Creditors: amounts falling due after more than one year	15	-	(25)
Provisions for liabilities and charges	16	(682)	(483)
Net assets excluding pension liability		<u>11,928</u>	<u>10,309</u>
Pension liability	21	(1,814)	(2,050)
		<u>10,114</u>	<u>8,259</u>
Capital and reserves			
Called up share capital	18	2,700	2,700
Share premium account	19	1,670	1,670
Profit and loss account	19	5,744	3,889
Shareholders' funds		<u>10,114</u>	<u>8,259</u>

These financial statements were approved by the board of directors on 5th of April 2007 and were signed on its behalf by

Step Traeger

Dr S Traeger
Director

Statement of total recognised gains and losses
for the year ended 30 September 2006

	2006 £000	As restated 2005 £000
Profit for the financial year	1,592	1,252
Actuarial gain recognised in the pension scheme	376	371
Deferred tax arising on gains in the pension scheme	(113)	(111)
	<hr/>	<hr/>
Total recognised gains and losses relating to the financial year	1,855	1,512
		<hr/>
Prior year adjustment (as explained in note 23)	(2,050)	
	<hr/>	
Total gains and losses recognised since last annual report	(195)	
	<hr/>	

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements except as noted below

In these financial statements the following new standards have been adopted for the first time

- FRS 21 'Events after the balance sheet date',
- the presentation requirements of FRS 25 'Financial instruments presentation and disclosure', and
- FRS 28 'Corresponding amounts'

The accounting policies under these new standards are set out below together with an indication of the effects of their adoption. FRS 28 'Corresponding amounts' has had no material effect as it imposes the same requirements for comparatives as hitherto required by the Companies Act 1985

The recognition and measurement requirements of FRS 17 'Retirement benefits' have also been adopted, previously the transitional disclosures of that standard have been followed. The corresponding amounts in these financial statements are restated in accordance with the new policies

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules

The company is exempt by virtue of s248 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the company as an individual undertaking and not about its group

Under FRS 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking, Carl Zeiss AG, includes the company in its own published consolidated financial statements

The consolidated financial statements of Carl Zeiss AG, within which this company is included, can be obtained from the address given in note 22

As the company is a wholly owned subsidiary of Carl Zeiss AG, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group

Research and development

Research and development expenditure is expensed as incurred

Fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows

Leasehold property	-	10 years or the remaining period of the lease if sooner
Plant & equipment	-	3-10 years

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition, as follows

Raw materials, consumables and goods for resale	-	purchase cost on a first-in, first-out basis
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Notes (continued)

1 Accounting policies (continued)

Work in progress and finished goods - cost of direct materials and labour plus attributable overheads based on a normal level of activity

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving and defective items where appropriate.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by Financial Reporting Standard 19.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Leases

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

Post-retirement benefits

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

The company also operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over the employees' working life with the company.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

The pension scheme deficit is recognised in full. The movement in the scheme deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses.

The company does not provide any other post-retirement benefits.

Installation, warranty and customer training costs

Estimated future costs of installation, warranty and customer training which are anticipated to arise on instrument system sales are charged to the profit and loss account as the revenues on the related instrument system sales are recognised.

Investments

Fixed asset investments are stated at cost less any provision for impairment.

The company has made use of the exemption, in paragraph 55(5), schedule 4 of the Companies Act 1985, not to disclose the analysis of turnover by geographical market as, in the opinion of the directors, it would be seriously prejudicial to the interests of the company to do so

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Notes (continued)

4 Remuneration of directors

	2006 £000	2005 £000
Directors' emoluments	135	85

During the year, no director was a member of the company defined benefit pension scheme (2005 one). During the year five other Directors were also Directors of other group companies and were remunerated by those group companies.

5 Staff numbers and costs

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

	Number of employees	
	2006	2005
Production	23	27
Marketing and selling	10	9
Service and spares	19	18
Research and development	21	21
Administration	6	5
	79	80

The aggregate payroll costs of these persons were as follows:

	2006 £000	As restated 2005 £000
Wages and salaries	2,296	2,306
Social security costs	254	240
Other pension costs	208	221
Current and past service costs	329	245
	3,087	3,012

6 Interest receivable

	2006 £000	2005 £000
Bank interest receivable	11	20

Notes (continued)

7 Interest payable and similar charges

	2006 £000	2005 £000
Bank interest payable	4	7
Interest on loans from group companies and similar charges	152	46
	<u>156</u>	<u>53</u>

8 Other finance income / (expense)

	2006 £000	As restated 2005 £000
Expected return on pension scheme assets (see note 21)	721	618
Interest on pension scheme liabilities (see note 21)	(638)	(626)
	<u>83</u>	<u>(8)</u>

9 Taxation

Tax on profit on ordinary activities

Analysis of charge in period

	2006 £000	As restated 2005 £000
<i>UK corporation tax</i>		
Current tax on income for the period	688	592
Adjustments in respect of prior periods	(36)	2
	<u>652</u>	<u>594</u>
Total current tax		
Deferred tax	3	-
Deferred tax movement on pension scheme deficit (offset against pension liability in the balance sheet)	(11)	(27)
	<u>644</u>	<u>567</u>
Tax on profit on ordinary activities		

Notes (continued)

9 Taxation (continued)

Factors affecting the tax charge for the current period

The current tax charge for the period is lower (2005 higher) than the standard rate of corporation tax in the UK (30%, 2005 30%). The differences are explained below

	2006 £000	2005 £000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	2,236	1,819
	<hr/>	<hr/>
Current tax at 30% (2005 30%)	671	546
<i>Effects of</i>		
Expenses not deductible for tax purposes	20	48
Capital allowances for period in excess of depreciation	(3)	(2)
Adjustments to tax charge in respect of previous periods	(36)	2
	<hr/>	<hr/>
Total current tax charge (see above)	652	594
	<hr/>	<hr/>

Deferred tax

Deferred taxation asset provided in the financial statements and the amount not provided are as follows

	2006 Provided £000	Not provided £000	2005 Provided £000	Not provided £000
Difference between accumulated depreciation and capital allowances	22	-	25	-
Capital losses available	-	982	-	982
	<hr/>	<hr/>	<hr/>	<hr/>
Provision for deferred taxation	22	982	25	1,861
	<hr/>	<hr/>	<hr/>	<hr/>

Deferred tax of £777,000 (2005 £879,000) arises in relation to the pension scheme (see note 21). This amount is recognised and is offset against the pension scheme deficit.

Notes (continued)

10 Tangible fixed assets

	Leasehold property £000	Plant & equipment £000	Total £000
Cost			
At beginning of year	476	623	1,099
Additions	-	11	11
	<hr/>	<hr/>	<hr/>
At end of year	476	634	1,110
	<hr/>	<hr/>	<hr/>
Depreciation			
At beginning of year	138	510	648
Charge for the year	47	55	102
	<hr/>	<hr/>	<hr/>
At end of year	185	565	750
	<hr/>	<hr/>	<hr/>
Net book value			
At 30 September 2006	291	69	360
	<hr/>	<hr/>	<hr/>
At 1 October 2005	338	113	451
	<hr/>	<hr/>	<hr/>

11 Fixed asset investments

	Shares in group companies £000
Cost	
At beginning of year	8,845
Additions	2,875
	<hr/>
At end of year	11,720
	<hr/>

Additions relate to an increase in the company's investment in Carl Zeiss SMT Inc

The Directors are satisfied that the value of the company's investments is in excess of the amount at which they are stated above

The subsidiary undertakings at 30 September 2006
were

	Shareholding percentage	Holding	Country of registration (or incorporation) and operation
Carl Zeiss SMT Inc	100%	Common stock	USA
Carl Zeiss SMT SARL	100%	Common stock	France

The nature of the business of both subsidiary undertakings was the same as the principal activity of the company

Notes (continued)

12 Stocks

	2006 £000	2005 £000
Raw materials and finished goods	1,228	1,303
Work in progress	1,126	930
	<u>2,354</u>	<u>2,233</u>

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

13 Debtors

	2006 £000	2005 £000
Trade debtors	3,478	1,939
Amounts owed by group undertakings	503	2,282
Other debtors	702	601
Deferred taxation (note 8)	22	25
Prepayments and accrued income	205	60
	<u>4,910</u>	<u>4,907</u>

Amounts falling due after more than one year above are

	2006 £000	2005 £000
Amounts owed by group undertakings	<u>503</u>	<u>2,282</u>

Notes (continued)

14 Creditors: amounts falling due within one year

	2006 £000	2005 £000
Payments received on account	537	446
Trade creditors	2,332	1,299
Amounts owed to group undertakings	4,122	4,914
Corporation tax	492	138
Other taxation and social security	43	28
Accruals and deferred income	1,314	1,690
	<u>8,840</u>	<u>8,515</u>

15 Creditors: amounts falling due after more than one year

	2006 £000	2005 £000
Other creditors	-	25
	<u>-</u>	<u>25</u>

16 Provisions for liabilities and charges

	£000
<i>Warranty provision</i>	
At beginning of year	483
Movement during year	199
	<u>682</u>
At end of year	<u>682</u>

Notes (continued)

17 Commitments under operating leases

At 30 September 2006 the company had annual commitments under non-cancellable operating leases as set out below

	2006 Land and buildings £000	Other £000	2005 Land and buildings £000	Other £000
Operating leases which expire				
Within one year	-	69	-	52
In the second to fifth years inclusive	-	-	-	36
Over five years	291	-	328	-
	<u>291</u>	<u>69</u>	<u>328</u>	<u>88</u>

18 Called up share capital

	2006 £000	2005 £000
<i>Authorised</i>		
Equity 2,700,000 ordinary share of £1 each	2,700	2,700
	<u>2,700</u>	<u>2,700</u>
<i>Allotted, called up and fully paid</i>		
Equity 2,700,000 ordinary shares of £1 each	2,700	2,700
	<u>2,700</u>	<u>2,700</u>

19 Reconciliation of shareholders' funds and movement on reserves

	Share capital £000	Share premium account £000	Profit and loss account £000	Total shareholders funds £000
At 1 October 2005 (originally opening shareholders' funds were £10,309,000 before prior year adjustment of (£2,050,000))	2,700	1,670	3,889	8,259
Profit for the financial year	-	-	1,592	1,592
Actuarial gain recognised in the pension scheme (net of deferred tax movement thereon)	-	-	263	263
	<u>2,700</u>	<u>1,670</u>	<u>5,744</u>	<u>10,114</u>
At 30 September 2006	2,700	1,670	5,744	10,114

Notes (continued)

20 Capital commitments

Amounts contracted for but not provided in the financial statements amounted to £nil (2005 £nil)

21 Pension scheme

The company operates a defined contribution pension scheme for its employees. The assets of the scheme are held separately from those of the company in an independently administered fund. There are no outstanding or prepaid contributions at the year end (2005 £nil)

The company also operates a pension scheme providing benefits based on final pensionable pay. Contributions are being charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent valuation was at 1 April 2005. The balance sheet disclosures as at 2006 and 2005 were based on a full valuation at 1 April 2005 updated where necessary by the actuary on an FRS 17 basis.

FRS 17 disclosures

The major assumptions used by the actuary in this valuation were

	2006	2005	2004
Rate of increase in salaries	4.7%	4.4%	4.5%
Rate of increase in pensions in payment and deferred pensions	3.2%	2.9%	3.0%
Discount rate applied to scheme liabilities	5.1%	5.0%	5.5%
Inflation assumption	3.2%	2.9%	3.0%

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.

Notes (continued)

21 Pension scheme (continued)

Scheme assets and liabilities

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 £000	Value at 2005 £000	Value at 2004 £000
Equities	8,854	8,381	6,824
Bonds	1,048	838	867
Other	609	480	383
	<hr/>	<hr/>	<hr/>
Total market value of assets	10,511	9,699	8,074
Present value of scheme liabilities	(13,102)	(12,628)	(11,284)
Deficit in the scheme – pension liability	(2,591)	(2,929)	(3,210)
Related deferred tax asset	777	879	963
	<hr/>	<hr/>	<hr/>
Net pension liability	(1,814)	(2,050)	(2,247)
	<hr/>	<hr/>	<hr/>

The expected rates of return on the assets in the scheme were

	Long term rate of return 2006	Long term rate of return 2005	Long term rate of return 2004
Equities	8.3%	7.9%	8.2%
Bonds	4.7%	4.7%	5.2%
Other	4.8%	4.5%	4.8%

Analysis of movement in deficit during the year

	2006 £000	2005 £000
Deficit in scheme at beginning of year	(2,929)	(3,210)
Current service cost	(268)	(245)
Past service cost	(61)	-
Contributions paid	208	163
Other finance income / (expense)	83	(8)
Actuarial gain	376	371
	<hr/>	<hr/>
Deficit in the scheme at end of year	(2,591)	(2,929)
	<hr/>	<hr/>

Notes (continued)

21 Pension scheme (continued)

Analysis of amounts included in other finance costs

	2006 £000	2005 £000
Expected return on pension scheme assets	721	618
Interest on pension scheme liabilities	(638)	(626)
	<u>83</u>	<u>(8)</u>

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

	2006 £000	2005 £000	2004 £000
Actual return less expected return on scheme assets	153	1,123	117
Percentage of year end scheme assets	1.5%	11.6%	1.4%
Experience gains and losses arising on scheme liabilities	527	231	127
Percentage of present value of year end scheme liabilities	4.0%	1.8%	1.1%
Actuarial gain loss recognised in statement of total recognised gains and losses	376	371	657
Percentage of present value of year end scheme liabilities	2.9%	2.9%	5.8%

22 Ultimate parent company and parent undertaking of larger group of which the company is a member

The company's immediate parent undertaking is Carl Zeiss NTS GmbH, a company incorporated in Germany. The company's ultimate parent undertaking is Carl Zeiss AG which is also incorporated in Germany. Copies of the accounts of Carl Zeiss AG are available from Carl-Zeiss-Strasse 22, 73447 Oberkochen, Germany.

23 Prior year adjustment

The directors have implemented FRS 17 "Retirement Benefits" in these financial statements. As a result, a pension scheme deficit is now recognised on the balance sheet in respect of the defined benefit pension scheme.

The implementation of FRS 17 has been effected by way of a prior year adjustment which has resulted in the recognition of a pension scheme deficit at 30 September 2006 of £1,814,000 (2005 £2,050,000). There was no contribution creditor outstanding at either year end therefore the cumulative effect of the implementation is £2,050,000.