

ARC Trading Limited

Registration Number: 891517

Directors' Report and Financial Statements

31 July 2006

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Directors' Report For the Year Ended 31 July 2006

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The Directors present their annual report and the audited financial statements of the Company for the year ended 31 July 2006.

Principal activities

The Company is the trading subsidiary of its parent company, Arthritis Research Campaign (a registered charity, number 207711) and is principally engaged in the sale of Christmas and other greeting cards, household items, stationery, clothing and other items by mail order. In addition the Company carries out all other trading activities on behalf of the parent company.

Review of the Year

In 2005-6 **arc** Trading Limited recorded reduced turnover and profits from the sale of festive goods in its Christmas Collection catalogue and from sales of Christmas cards through Cards for Good Causes (CGC). Sales of Christmas catalogue goods fell almost 18% to £301,255 and sales of cards through CGC were down 7% to £182,556.

Overall, **arc** Trading Limited's annual profits were down to £100,200 for the year ended 31 July 2006, compared to £193,456 for the year ended 31 July 2005. Though disappointing, this remains slightly higher than the 13 month period to 31 July 2004, in which a profit of £93,726 was recorded.

Much of the company's turnover continues to be attributable to sales of catalogue goods through the parent charity's network of volunteer branches, which act for the trading company on an agency basis, and the company is extremely grateful for their efforts. The significance of turnover through the branches has increased and now accounts for over 40% of the total 2005-06 Christmas catalogue sales.

Other areas of the business continue to perform well. Revenue from selling advertising space in the parent charity's quarterly magazine, *Arthritis Today*, continues to make a major contribution to profits.

Results

The results of the Company for the year to 31 July 2006 are shown in the attached financial statements. The profitability of the trading company fell by £93,256 compared to last year, down to £100,200.

The Directors consider the overall trading performance for the period to be satisfactory. All cumulative taxable profits are transferred to Arthritis Research Campaign under Deed of Covenant.

**Directors' Report
For the Year Ended 31 July 2006**

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Directors' responsibilities

Company law requires the Directors to prepare financial statements for each financial year which 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:

- ♦ select suitable accounting policies and then apply them consistently;
- ♦ make judgements and estimates that are reasonable and prudent;
- ♦ state whether applicable 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 which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

So far as each director is aware, there is no relevant audit information of which the Company's auditors are unaware. Relevant information is defined as "information needed by the company's auditors in connection with preparing their report".

Each director has taken all the steps (such as making enquiries of other directors and the auditors and any other steps required by the director's duty to exercise due care, skill and diligence) that they ought to have taken in their duty 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.

Directors

The Directors in office at the year-end and who served throughout the year are listed below:

J F G Logan
J C Maisey

Mr J C Maisey held one ordinary share of £1 in the Company (non-beneficial). Mr J F G Logan held no shares. The Directors did not receive any emoluments (2005: £Nil) in respect of their services to the Company for the year ended 31 July 2006.

Auditors

PricewaterhouseCoopers LLP have expressed their willingness to continue in office and a resolution to reappoint them as auditors to the Company will be proposed at the forthcoming Annual General Meeting.

By Order of the Board



J F G Logan
Director
22 November 2006

Independent auditors' report to the members of ARC Trading Limited

We have audited the financial statements of ARC Trading Limited for the year ended 31 July 2006 which comprise the profit and loss account, the balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing 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). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

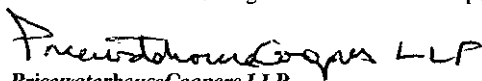
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the 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.

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 July 2006 and of its profit and cash flows 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.



PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

East Midlands

22 November 2006

Profit and Loss Account
For the Year Ended 31 July 2006

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	2006 £	2005 £
<i>Turnover</i> (Note 1)	791,111	835,656
Cost of sales	(396,586)	(360,421)
<i>Gross profit</i>	394,525	475,235
Administrative expenses	(305,463)	(287,042)
<i>Operating profit</i>	89,062	188,193
Bank interest receivable	11,138	5,263
<i>Profit on ordinary activities</i> (Note 2)	100,200	193,456
Payment due to Arthritis Research Campaign under deed of covenant	(100,200)	(193,456)
<i>Retained profit for the period</i>	-	-
<i>Profit and loss account brought forward</i>	-	-
<i>Profit and loss account carried forward</i>	-	-

The notes on pages 6 to 8 form part of these financial statements.

All activities of the Company are continuing.

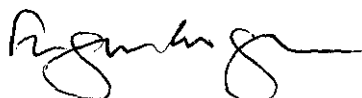
All recognised gains and losses are included within the profit and loss account, and are stated on an historical cost basis. The Company had no other gains or losses during the period.

Balance Sheet
31 July 2006

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	2006 £	2005 £
<i>Current assets</i>		
Stocks (Note 1)	42,126	68,604
Debtors (Note 3)	60,615	44,194
Cash at bank and in hand	268,687	374,475
	371,428	487,273
<i>Creditors - amounts falling due within one year</i> (Note 4)	(121,428)	(237,273)
<i>Net assets</i>	250,000	250,000
<i>Capital and reserves</i>		
Called up share capital (Note 5)	250,000	250,000
Profit and loss account	-	-
<i>Attributable to equity shareholders</i> (Note 8)	250,000	250,000

Approved by the Board on 22 November 2006 and signed on their behalf by:



J F G Logan
Director

The notes on pages 6 to 8 form part of these financial statements.

1 Accounting Policies

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting and financial reporting standards in the United Kingdom.

Turnover

Turnover represents net proceeds from:

- (a) The sale of Christmas cards and gifts
- (b) Trading activities on behalf of the parent company

Stocks

Stocks consist of goods for resale and are stated at the lower of cost and net realisable value.

Pensions

Certain employees are members of a defined contribution pension scheme and costs are charged to the profit and loss account as incurred.

2 Profit on Ordinary Activities

Profit on ordinary activities is stated after charging:	2006	2005
	£	£
Wages and salaries including agency costs	19,890	28,834
Social Security costs	2,506	3,460
Other pension costs	1,989	2,883
Auditors' remuneration - audit services	6,000	6,000

The average number of employees during the year was 1 (2005: 1). The average number of directors during the year was 2 (2005: 2). The directors received no emoluments in respect of their services to the Company during the year (2005: £Nil).

3 Debtors - Amounts receivable within one year

	2006 £	2005 £
Amounts due from parent company	20,490	6,126
Prepayments and accrued income	40,125	38,068
	60,615	44,194

4 Creditors - Amounts falling due within one year

	2006 £	2005 £
Trade creditors	9,917	10,241
Amounts owed to parent company	100,200	193,456
VAT	5,242	6,076
Accruals and deferred income	6,069	27,500
	121,428	237,273

5 Called up Share Capital

	2006 £	2005 £
Authorised, allotted, issued and fully paid 250,000 ordinary shares of £1 each	250,000	250,000

6 Ultimate Parent Company

The immediate and ultimate parent company is Arthritis Research Campaign, a company limited by guarantee and incorporated in England. Consolidated accounts can be obtained from Copeman House, St Mary's Court, St Mary's Gate, Chesterfield, Derbyshire S41 7TD.

7 Pension Arrangements

The Company made contributions totalling £1,989 (2005: £2,883) during the year to a defined contribution pension scheme operated by Prudential Assurance Company Limited. The Company has no other liability to this fund.

8 Reconciliation of Movement in Shareholders' Funds

	2006 £	2005 £
Profit for the financial period	100,200	193,456
Payment due under deed of covenant	(100,200)	(193,456)
Net addition to shareholders' funds	-	-
Opening shareholders' funds	250,000	250,000
Closing shareholders' funds (all equity)	250,000	250,000

9 Taxation

Under the Financial Reporting Standard for Smaller Entities, the Company is exempt from the requirement to prepare tax disclosure required by Financial Reporting Standard 19. No tax charge has occurred during the year (2005: £nil). The company has no deferred tax at the year ended 31 July 2006 (2005: £nil).

10 Cash Flow Statement

The ultimate parent company has included within its financial statements a consolidated cash flow statement and, therefore, under Financial Reporting Standard 1 (revised), the Company is exempt from the requirement to prepare a cash flow statement.

11 Related Party Transactions

Under Financial Reporting Standard 8, the Company is exempt from the requirement to disclose related party transactions with other group companies, on the grounds that it is a wholly owned subsidiary of Arthritis Research Campaign, a company registered in England whose consolidated accounts are publicly available. There are no other related party transactions to disclose.

12 Operating commitments

As part of normal trading operations the Company has committed to purchase certain goods from suppliers in respect of the following financial year. The Company's commitment in respect of this arrangement is estimated to be £153,208 at 31 July 2006 (2005: £197,655).

**Detailed Trading Profit and Loss Account
For the Year Ended 31 July 2006**

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For the information of the Directors only

	2006	2005
£	£	£
Sales		
Ordinary activities	709,328	750,100
On behalf of the Parent Company	81,783	85,556
	791,111	835,656
Cost of sales		
Ordinary activities	(396,586)	360,421
	(396,586)	(360,421)
Trading profit	394,525	475,235
Interest receivable	11,138	5,263
Gross profit	405,663	480,498
Overhead expenses		
Staff costs	24,385	35,502
Telephone	85	6
Postage	59,873	32,783
Subscriptions & charity shop commissions	42,308	47,136
Printing & Stationery	33,314	42,195
Legal & professional	6,000	9,150
Agency Charge	59,532	35,880
Advertising	10,225	347
Travel	995	910
Car & equipment leasing	2,659	3,600
Computer & equipment maintenance	-	-
Insurance	576	817
Credit card charges	1,788	2,120
Warehouse storage & order fulfilment	63,315	76,507
Investment management fees	247	-
Miscellaneous	161	89
	(305,463)	(287,042)
Profit on ordinary activities	100,200	193,456