1150111

Homag U.K. Limited

Report and Financial Statements

31 December 2005

Registered No: 1150111

Directors
P Cooper
T Frey
P Newman

Secretary

D Hunter	(Appointed 8/2/06)
T Frey	(Resigned 8/2/06)

Auditors
Ernst & Young LLP
City Gate West
Toll House Hill
Nottingham
NG1 5FY

Bankers
Hypovereinsbank
London Branch
41 Moorgate
London
EC2R 6PP

Barclays
Corporate Banking
PO Box 23
Hamilton Road
Slough
SL1 4NX

Barclays
47-48 Stephen Green
Dublin 2
Ireland

Registered office
Unit 10c
Sills Road
Willow Farm Business Park
Castle Donington
Derby
DE74 2US

Directors' report

The directors present their report and financial statements for the year ended 31 December 2005.

Results and dividends

The profit for the year, after taxation, amounted to £264,405. The directors do not recommend the payment of any dividends.

Principal activities and review of the business

The principal activity of the company during the year was distribution and service of woodworking machinery.

The directors are satisfied with the results for the year. The company has continued to increase profitability and provide an adequate return for shareholders.

Directors

The directors who served the company during the year were as follows:

P Cooper
T Frey
P Newman

There are no directors' interests requiring disclosure under the Companies Act 1985.

Financial Instruments

The company buys and sells goods and services denominated in currencies other than sterling. As a result the value of the company's non sterling revenues, purchases, financial assets and liabilities and cash flows can be affected significantly by movements in exchange rates in general and in Euro rates in particular.

The company seeks to mitigate the effect of its structural currency exposure by entering into forward rate agreements. The majority of the company's foreign currency risk is hedged in this manner.

Directors' Liability

The company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in Companies Act 1985. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

Directors' statement as to disclosure of information

There were no directors who were members of the board of the parent company at the time of approving the directors' report. Having made enquires of fellow directors, each of these directors confirms that:

- To the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are unaware; and
- Each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information.

Directors' report

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

By order of the board

P Cooper
Director
17 February 2006

Statement of directors' responsibilities in respect of the financial statements

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; 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.

Independent auditors' report
to the members of Homag U.K. Limited

We have audited the company's financial statements for the year ended 31 December 2005 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 22. These financial statements have been prepared on the basis of 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 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 the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and 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 if, in our opinion, the Directors' Report is not consistent with the financial statements, if 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 in 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.

Independent auditors' report

to the members of Homag U.K. 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 affairs of the company as at 31 December 2005 and of its profit for the year then ended and in have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Nottingham
17 February 2006

Profit and loss account

for the year ended 31 December 2005

	Notes	2005 £	2004 £
Turnover	2	18,745,190	17,842,155
Cost of sales		17,417,165	16,383,484
Gross profit		1,328,025	1,458,671
Distribution costs		229,855	498,450
Administrative expenses		787,859	624,159
Other operating income		(45,606)	(3,404)
Operating profit	3	355,917	339,466
Profit/(loss) on disposal of tangible fixed assets	4	661	(6,119)
		356,578	333,347
Bank interest receivable	7	2,368	6,252
Interest payable	8	(87,231)	(99,834)
		(84,863)	(93,582)
Profit on ordinary activities before taxation		271,715	239,765
Tax on profit on ordinary activities	9	7,310	(306,124)
Profit for the financial year transferred to reserves		264,405	545,889

Statement of total recognised gains and losses

There are no recognised gains or losses other than the profit of £264,405 attributable to the shareholders for the year ended 31 December 2005 (2004 - profit of £545,889).

Balance sheet
at 31 December 2005

	Notes	2005 £	2004 £
Fixed assets			
Tangible assets	10	1,775,822	1,802,863
Current assets			
Stocks	11	990,596	1,009,627
Debtors	12	4,779,744	4,299,670
Cash at bank and in hand		26,336	–
		5,796,676	5,309,297
Creditors: amounts falling due within one year	13	5,444,014	5,290,129
Net current assets		352,662	19,168
Total assets less current liabilities		2,128,484	1,822,031
Creditors: amounts falling due after more than one year	14	488,855	651,807
		1,639,629	1,170,224
Capital and reserves			
Called up share capital	20	2,523,778	2,318,778
Profit and loss account	21	(884,149)	(1,148,554)
Equity shareholders' funds	21	1,639,629	1,170,224

Cooper

P Cooper
Director
17 February 2006

Notes to the financial statements

at 31 December 2005

1. Accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention, and in accordance with applicable accounting standards.

Cash flow statement

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (revised) from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its parent publishes consolidated financial statements.

Fixed assets

All fixed assets are initially recorded at cost.

Depreciation

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition of each asset evenly over its expected useful life, as follows:

Freehold buildings	2%
Office and computer equipment	10% - 20%
Motor vehicles	20%

Stocks

Stocks are stated at the lower of cost and net realisable value.

Cost comprises purchase price, transport and handling costs, less trade discounts and is calculated on a first in first out basis.

Net realisable value is estimated selling price (less trade discounts) less all further costs to completion and all costs to be incurred in marketing, selling and distribution.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax.

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Notes to the financial statements
at 31 December 2005

1. Accounting policies (continued)

Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

Hire purchase agreements

Assets held under hire purchase agreements are capitalised and disclosed under tangible fixed assets at their fair value. The capital element of the future payments is treated as a liability and the interest is charged to the profit and loss account on a straight line basis.

Finance lease agreements

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated in accordance with the above depreciation policies. Future instalments under such leases, net of finance charges, are included with creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account on a straight line basis, and the capital element which reduces the outstanding obligation for future instalments.

Operating lease agreements

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

Pension costs

The company operates a defined contribution pension scheme. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the scheme.

Related Party Transactions

The company is a wholly owned subsidiary of Homag Group AG, the consolidated accounts of which are publicly available. Accordingly, the company has taken advantage of the exemption in FRS 8 from disclosing transactions with members or investors of the Homag AG group.

2. Turnover

Turnover represents the amounts derived from the provision of goods and services which fall within the Group's ordinary activities, stated net of value added tax and trade discounts. Turnover is attributable to one activity, the distribution and servicing of woodworking machinery.

An analysis of turnover by geographical market is given below:

	2005	*2004*
	£	*£*
United Kingdom	18,745,190	17,842,155

Notes to the financial statements
at 31 December 2005

3. Operating profit
This is stated after charging/(crediting):

		2005 £	2004 £
Auditors' remuneration	- audit services	17,850	17,000
	- non-audit services	5,000	5,000
Depreciation of owned fixed assets		92,679	105,310
Depreciation of assets held under finance leases		–	4,066
		92,679	109,376
Operating lease rentals	- land and buildings	46,142	64,014
	- plant and machinery	202,239	178,794

4. Exceptional items

	2005 £	2004 £
Profit/(Loss) on disposal of fixed assets	661	(6,119)

5. Staff costs

	2005 £	2004 £
Wages and salaries	1,686,364	1,664,570
Social security costs	178,847	157,325
Other pension costs (note 17)	32,196	39,940
	1,897,407	1,861,835

The monthly average number of employees during the year was as follows:

	2005 No.	2004 No.
Sales staff	10	10
Service staff	15	12
Administrative staff	19	18
Other staff	1	–
	45	40

6. Directors' emoluments

	2005 £	2004 £
Emoluments	156,707	150,161
Value of company pension contributions to money purchase schemes	9,120	9,373

Notes to the financial statements
at 31 December 2005

6. Directors' emoluments (continued)

	2005	*2004*
	No.	*No.*
Members of money purchase pension schemes	2	2

7. Interest receivable

	2005	*2004*
	£	*£*
Bank interest receivable	2,368	6,252

8. Interest payable

	2005	*2004*
	£	*£*
Bank interest payable	87,231	99,834

9. Taxation on ordinary activities

(a) Tax on profit on ordinary activities

The tax charge/(credit) is made up as follows:

	2005	*2004*
	£	*£*
Current tax:		
UK corporation tax	710	1,876
Tax overprovided in previous years	(710)	–
Total current tax (note 9(b))	-	1,876
Deferred tax:		
Origination and reversal of timing differences (note 9d)	7,310	(308,000)
Tax on profit on ordinary activities	7,310	(306,124)

Notes to the financial statements
at 31 December 2005

9. Taxation on ordinary activities (continued)
(b) Factors affecting current tax charge/(credit)

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 30% (2004 - 30%).

The differences are reconciled below:

	2005	*2004*
	£	*£*
Profit on ordinary activities before tax	271,715	239,765
Profit on ordinary activities by rate of tax	81,560	71,912
Expenses not deductible for tax purposes	18,450	6,558
Capital allowances in excess of depreciation	(2,851)	4,083
Other timing differences	17,257	66,648
Utilisation of tax losses	(113,706)	(147,325)
Tax overprovided in previous years	(710)	–
Total current tax (note 9(a))	-	1,876

(c) Factors that may affect future tax charges

There are no additional factors to note that would affect the future tax charge.

Notes to the financial statements
at 31 December 2005

9. Taxation on ordinary activities (continued)
(d) Deferred tax

The deferred tax included in the Balance Sheet is as follows:

	2005	*2004*
	£	*£*
Included in debtors (note 12)	300,690	308,000

Deferred taxation provided in the financial statements and the amounts not provided are as follows:

		2005		*2004*
	Provided	*Not provided*	*Provided*	*Not provided*
	£	*£*	*£*	*£*
Depreciation in advance of capital allowances	4,771	–	14,711	–
Tax losses available	276,869	–	293,289	106,120
Other timing differences	19,050	–	–	–
Deferred tax asset	300,690	–	308,000	106,120

10. Tangible fixed assets

	Freehold property	*Fixtures and fittings*	*Motor vehicles*	*Total*
	£	*£*	*£*	*£*
Cost:				
At 1 January 2005	1,666,256	535,117	44,986	2,246,359
Additions	–	71,169	–	71,169
Disposals	–	–	(20,730)	(20,730)
At 31 December 2005	1,666,256	606,286	24,256	2,296,798
Depreciation:				
At 1 January 2005	85,002	342,777	15,721	443,500
Provided during the year	26,500	60,982	5,197	92,679
Disposals	–	–	(15,203)	(15,203)
At 31 December 2005	111,502	403,759	5,715	520,976
Net book value:				
At 31 December 2005	1,554,754	202,527	18,541	1,775,822
At 1 January 2005	1,581,254	192,340	29,265	1,802,859

The value of land not depreciated, included within freehold property above, is £340,000 (2004: £340,000).

The net book value of assets above includes an amount of £nil (2004 - £31,995) in respect of assets held under finance leases.

Notes to the financial statements
at 31 December 2005

11. Stocks

	2005 £	2004 £
Finished goods	990,596	1,009,627

12. Debtors

	2005 £	2004 £
Trade debtors	3,299,113	2,786,833
Amounts owed to group undertakings	1,035,959	1,129,334
Other debtors	–	19,075
Prepayments and accrued income	143,982	56,428
Deferred taxation (note 9)	300,690	308,000
	4,779,744	4,299,670

Included in the deferred taxation asset above is £185,069 (2004:£208,589) which is not recoverable within one year.

13. Creditors: amounts falling due within one year

	2005 £	2004 £
Current instalment due on bank loan (note 15)	162,951	162,951
Bank overdraft	704,443	199,468
Obligations under finance leases (note 16)	–	483
Trade creditors	321,315	194,577
Amounts owed to group undertakings	2,823,163	2,364,479
Corporation tax	-	2,321
Other taxation and social security	420,025	1,101,457
Other creditors	432,504	234,302
Accruals and deferred income	579,613	1,030,091
	5,444,014	5,290,129

The bank overdraft is secured by a fixed and floating charge over all of the company's assets.

14. Creditors: amounts falling due after more than one year

	2005 £	2004 £
Loans (note 15)	488,855	651,807

Notes to the financial statements
at 31 December 2005

15. Loans

	2005 £	2004 £
Amounts repayable:		
In one year or less or on demand	162,951	162,951
In more than one year but not more than two years	162,951	162,951
In more than two years but not more than five years	325,904	488,855
	651,806	814,757

The loan is secured by a fixed charge over the freehold property.

16. Obligations under finance leases

The maturity of these amounts is as follows:

	2005 £	2004 £
Amounts payable:		
Within one year	–	483
	–	483

17. Pensions

The company operates two defined contribution pension schemes, one for the benefit of the majority of directors and employees and the other for the benefit of two employees (closed to further members). The assets of the schemes are administered by trustees in separate funds independent from those of the company.

The unpaid contributions outstanding at the year end, included in accruals (note 13), are £11,441 (2004: £4,974).

18. Commitments under operating leases

At 31 December 2005 the company had annual commitments under non-cancellable operating leases as set out below:

	Other than land and buildings	
	2005 £	2004 £
Operating leases which expire:		
Within one year	155,834	6,220
In two to five years	101,434	126,246
	257,268	132,466

Notes to the financial statements
at 31 December 2005

19. Related party transactions

The company has taken advantage of the exemption given by FRS 8 paragraph 3(c) not to disclose transactions with related parties that are part of the group.

20. Share capital

		Authorised
	2005	2004
	£	£
Ordinary shares of £1 each	2,500,000	2,500,000

	Allotted, called up and fully paid			
		2005		2004
	No.	£	No.	£
Ordinary shares of £1 each	2,523,778	2,523,778	2,318,778	2,318,778

On 6 December 2005 205,000 ordinary shares of £1 each were allotted at par for cash consideration. This issue of shares was for a capital injection by the parent company.

21. Reconciliation of shareholders' funds and movement on reserves

	Share capital	Profit and loss account	Total share-holders' funds
	£	£	£
At 1 January 2004	2,037,778	(1,694,443)	343,335
Profit for the year	–	545,889	545,889
Other movements			
New equity share capital subscribed	281,000	–	281,000
At 31 December 2004	2,318,778	(1,148,554)	1,170,224
Profit for the year	–	264,405	264,405
Other movements			
New equity share capital subscribed	205,000	–	205,000
At 31 December 2005	2,523,778	(884,149)	1,639,629

22. Ultimate parent company

The directors consider that the company's ultimate parent undertaking and controlling party is Homag Group AG, a company registered in Germany.

The largest and smallest group of undertakings for which group accounts have been drawn up are Homag Holzbearbeitungssysteme AG incorporated in Germany, and Schuler Business Solutions S.L. incorporated in Spain, respectively. Copies of these financial statements are available from Homag Group AG, Homagstrasse 3-5, D 72296, Schopfloch.

Notes to the financial statements
at 31 December 2005