Mori Seiki (UK) Limited

Report and Financial Statements

31 March 2006

Registered No: 1932584

Directors
Masahiko Mori
Takeshi Saito
Hiroaki Tamai

Secretary
Yuichi Kaneshige

Auditors
Ernst & Young LLP
1 More London Place
London
SE1 2AF

Bankers
HSBC plc
Bank of Tokyo-Mitsubishi UFJ Limited

Registered office
202 Bedford Avenue
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SL1 4RY

Directors' report

The directors present their report and financial statements of the group for the year ended 31 March 2006.

Results and dividends

The group loss for the year after taxation amounted to £365,018. The directors do not recommend a final dividend.

Principal activities and review of the business

The principal activity of the company is the supply and distribution of computer controlled machine lathes and associated spare parts.

The company acquired 100% of shares in Fredk Pollard & Co Limited on 29 September 2005. Following the change of ownership, the subsidiary changed its name to MS Pollard Limited on 14 October 2005.

Trading conditions were very tough, particularly during the first half of the year when the number of machines sold decreased by 44% compared to the first half of the previous financial period, mainly due to the serious financial situation in one of our major distributors. After the acquisition, however, trading went upward, resulting in a 64% increase in machine sales.

Future developments

The directors consider that the next financial year should show a steady growth in sales and an improvement in profits.

The company started direct sales in the UK market, effectively utilising the customer basis of Fredk Pollard, which had long and successful sales experience in the industry. In addition, most of the functions of the subsidiary undertaking in the Leicester office were moved to a new office in Birmingham which provides convenience to many of our existing customers. This new location is also a big advantage breaking in new customers.

Events since the balance sheet dates

On 1 July 2006, MS Pollard Limited sold all of its business and assets to the company as part of group reorganisation carried out by Mori Seiki Co., Limited, the ultimate parent company. Following the completion of this transaction, MS Pollard Limited became dormant. In September 2006, the company wrote off £2,668,533 which related to cost of investment in MS Pollard Limited and amounts owed by that company as at 30 September 2006.

In December 2006, the directors decided to terminate one of the company's office rent agreements and notified a landlord the intention. The company has agreed to pay £180,000 to the landlord as compensation for the cancellation of the lease before the end of March 2007.

Directors and their interests

The directors who served during the year are as follows:

Masahiko Mori
Takeshi Saito
Hiroaki Tamai

There are no directors' interests that are required to be disclosed in accordance with the Companies Act 1985.

Directors' report

Creditor payment policy and practice

It is the company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the company and its suppliers, provided that all trading terms and conditions have been complied with.

At 31 March 2006, the company had an average of 153 days' purchases outstanding in trade creditors.

Directors' statement as to disclosure of information to auditors

The directors who were members of the board at the time of approving the directors' report are listed on page 1. Having made enquiries of fellow directors and of the company's auditors, 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.

By order of the board

Secretary

19 JAN 2007

Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the group 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 group 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 group and which enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

ERNST & YOUNG

Independent auditors' report

to the members of Mori Seiki (UK) Limited

We have audited the group's and parent's financial statements for the year ended 31 March 2006 which comprise the Group Profit and Loss Account, Group Statement of Total Recognised Gains and Losses, Group Balance Sheet, Company Balance Sheet and the related notes 1 to 23. 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

The 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) as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, are properly prepared in accordance with the Companies Act 1985, and whether the information given in the Directors' Report is consistent with the financial statements.

We also report to you if, in our opinion, the group 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 other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the directors' report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group'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.

ERNST & YOUNG

Independent auditors' report

to the members of Mori Seiki (UK) 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 and the group as at 31 March 2006 and of the loss of the group 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.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London

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Group profit and loss account

for the year ended 31 March 2006

	Notes	2006 £	2005 £
Turnover			
Ongoing		5,243,616	17,801,803
Acquisitions - MS Pollard Limited		10,103,862	-
Group turnover	3	15,347,478	17,801,803
Cost of sales		(11,830,166)	(15,460,491)
Gross profit		3,517,312	2,341,312
Distribution costs		(195,431)	(651,400)
Administrative expenses		(4,307,763)	(1,441,431)
Other operating income		244,515	155,768
Operating (loss)/profit			
Ongoing		(751,469)	404,249
Acquisitions - MS Pollard Limited		10,102	-
Group operating (loss)/profit	4	(741,367)	404,249
Profit on disposal of tangible fixed assets		379,861	27,844
Interest receivable and similar income		54,543	3,558
Net finance income in respect of defined benefit pension schemes		20,000	-
Interest payable and similar charges	7	(84,053)	(27,078)
(Loss)/profit on ordinary activities before taxation		(371,016)	408,573
Taxation	8	5,998	(152,496)
(Loss)/profit for the financial year		(365,018)	256,077

Group statement of total recognised gains and losses

for the year ended 31 March 2006

	Notes	2006 £	2005 £
(Loss)/profit for the financial year		(365,018)	256,077
Actuarial loss on defined benefit pension scheme	19	(205,000)	-
Total recognised (losses)/gains related to the year		(570,018)	256,077
Prior year adjustment	19	(48,416)	
Total losses recognised since the last annual report		(618,434)	

Group balance sheet

at 31 March 2006

	Notes	2006 £	2005 £
Fixed assets			
Intangible assets	10	2,682,417	–
Tangible assets	11	639,075	1,841,358
		3,321,492	1,841,358
Current assets			
Stocks	13	4,276,035	594,833
Debtors	14	5,446,869	5,678,852
Cash at bank and in hand		2,038,522	897,363
		11,761,426	7,171,048
Creditors: amounts falling due within one year	15	(9,345,537)	(4,518,836)
Net current assets		2,415,889	2,652,212
Total assets less current liabilities		5,737,381	4,493,570
Provisions for liabilities and charges	17	(714,437)	(79,192)
Net assets excluding pension liability		5,022,944	4,414,378
Net pension liability	21	(1,227,000)	–
		3,795,944	4,414,378
Capital and reserves			
Called up share capital	18	2,173,000	2,173,000
Profit and loss account	19	1,622,944	2,241,378
Shareholders' funds	19	3,795,944	4,414,378

Director

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Balance sheet

at 31 March 2006

	Notes	2006 £	2005 £
Fixed assets			
Tangible assets	11	411,647	1,841,358
Investments	12	50,001	–
		461,648	1,841,358
Current assets			
Stocks	13	1,093,205	594,833
Debtors	14	5,782,858	5,678,852
Cash at bank and in hand		1,056,869	897,363
		7,932,932	7,171,048
Creditors: amounts falling due within one year	15	(4,036,417)	(4,518,836)
Net current assets		3,896,515	2,652,212
Total assets less current liabilities		4,358,163	4,493,570
Provisions for liabilities and charges	17	–	(79,192)
		4,358,163	4,414,378
Capital and reserves			
Called up share capital	18	2,173,000	2,173,000
Profit and loss account	19	2,185,163	2,241,378
Shareholders' funds	19	4,358,163	4,414,378

Director

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Notes to the financial statements

at 31 March 2006

1. Accounting policies

Accounting convention

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

Basis of consolidation

The group financial statements consolidate the financial statements of Mori Seiki (UK) Limited and its subsidiary undertaking, MS Pollard Limited, drawn up to 31 March each year. No profit and loss account is presented for the company as permitted by section 230 of the Companies Act 1985.

MS Pollard Limited has been included in the group financial statements using the acquisition method of accounting. Accordingly, the group profit and loss account includes the results of MS Pollard Limited for the 6 month period from its acquisition on 29 September 2005. The purchase consideration has been allocated to the assets and liabilities on the basis of fair value at the date of acquisition.

Statement of cash flows

The company has taken advantage of the exemption available under FRS 1 (Revised) and has not prepared a statement of cash flow on the grounds that it is a wholly owned subsidiary and is included in the publicly available consolidated financial statements of its ultimate parent undertaking.

Goodwill

Goodwill is the difference between the cost of an acquired entity and the aggregate of the fair value of that entity's identifiable assets and liabilities.

Positive goodwill is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its useful economic life of five years. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Fixed asset investments

The carrying values of fixed asset investments are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Depreciation

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

Freehold buildings	-	4% per annum
Short leasehold property	-	over the lease term
Fixtures and fittings	-	Between 10% and 33% per annum
Plant and machinery	-	Between 12½ % and 20% per annum
Motor vehicles	-	Between 20% and 25% per annum

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Stocks

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

Provision for liabilities and charges

Warranty provisions are made against future costs arising out of goods supplied under cover of warranty. Buy back provisions are made against future costs arising out of goods supplied under cover of sales contracts which included buy back clauses. These provisions are credited to the profit and loss account over the period of warranty or buy back clauses cover.

Notes to the financial statements

at 31 March 2006

1. Accounting policies (continued)

Deferred taxation

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

- Provision is made for deferred taxation that would arise on remittance of the retained earnings of subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable.
- 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.

Foreign currencies

Transactions in foreign currencies are recorded at the 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.

Leasing and hire purchase agreements

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives.

The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals paid under operating leases are charged to income on a straight line basis over the lease term.

Pensions

The group operates two defined benefit pension schemes, which were closed during the year, and two defined contribution schemes.

Contributions to the defined contribution schemes are charged to the profit and loss account directly, together with scheme administration charges.

The charge to the profit and loss account in respect of the defined benefit scheme is an actuarial calculation of the regular service cost of providing retirement benefits to employees during the year, the cost of any benefits relating to past service, and the net finance charge relating to the financing of scheme benefits and liabilities.

Differences between actual and expected returns on scheme assets, together with differences arising from changes in assumptions, are recognised in the statement of total recognised gains and losses in the year.

The difference between the market value of assets, and the present value of accrued liabilities, is shown on the balance sheet as a liability.

There are no current/past service costs and pension contribution incurred during the year because the defined benefit schemes were closed and existing staff are currently members of defined contribution schemes.

Notes to the financial statements

at 31 March 2006

2. Acquisitions during the year

On 29 September 2005, the company purchased the whole of the issued share capital of Fredk Pollard & Co Limited for a consideration of £50,001 in cash. Following the change of ownership, the subsidiary changed its name to MS Pollard Limited on 14 October 2005.

MS Pollard Limited has been accounted for under the acquisition method of accounting. The assets and liabilities of MS Pollard Limited which were acquired are set out below:

	Book value and fair value £
Tangible fixed assets	697,914
Stocks	3,321,788
Debtors	2,951,163
Cash at bank and in hand	197,171
	6,470,122
Creditors: amounts falling due within one year	(4,931,118)
Due to Mori Seiki (UK) Limited	(3,154,098)
	(1,615,094)
Creditors: amounts falling due after more than one year	(116,562)
Provisions for liabilities and charges	(854,721)
Pension liability	*(1,042,000)*
Net liabilities	(2,930,463)
Goodwill	2,980,464
Consideration	50,001

The summarised profit and loss account and statement of total recognised gains and losses of MS Pollard Limited for the period 1 January 2005 to 29 September 2005, being the period from the beginning of its financial year to the effective date of acquisition, are disclosed below, together with the summarised profit and loss account and statement of total recognised gains and losses for the financial year ended 31 December 2004:

Notes to the financial statements

at 31 March 2006

2. Acquisitions during the year (continued)

	Period 1 January 2005 to 29 September 2005	*Year ended 31 December 2004*
	£	*£*
Turnover	15,685,719	24,455,798
Operating loss	(1,529,559)	(1,780,595)
Loss before taxation	(1,592,464)	(1,999,981)
Tax	–	9,483
Loss for the financial period	(1,592,464)	(1,990,498)
Pension settlement gain	710,000	–
Actuarial gain/(loss) in respect of defined benefit pension scheme	585,000	(1,254,000)
Total recognised losses related to the period	(297,464)	(3,244,498)

3. Turnover

Turnover, which is stated net of value added tax, is recognised on final acceptance by the customer. Turnover represents amounts invoiced to third parties in respect of the group's continuing activity as stated in the directors' report.

An analysis of turnover by geographical market is given below:

	2006	*2005*
	£	*£*
United Kingdom	12,155,968	12,900,788
Rest of Europe	3,191,510	4,693,696
Japan	–	207,103
USA	–	216
	15,347,478	17,801,803

Notes to the financial statements

at 31 March 2006

4. Operating (loss)/profit

This is stated after charging:

		2006	2005
		£	£
Auditors' remuneration	- audit services	32,640	20,400
	- non-audit services	20,280	4,000
		52,920	24,400
Depreciation of owned fixed assets		186,417	126,554
Depreciation of assets held under finance leases and hire purchase contracts		35,412	–
Operating lease rentals	- land and buildings	161,088	78,146
	- plant and machinery	64,466	–
Foreign exchange losses		41,085	153,268

5. Directors' remuneration

No director received any emoluments in respect of the group during the year (2005 - £nil)

6. Staff costs

	2006	2005
	£	£
Wages and salaries	1,849,141	527,988
Social security costs	147,633	41,256
Other pension costs	110,434	–
	2,107,208	569,244

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

	2006	2005
	No.	No.
Operational	91	6
Administration	6	6
	97	12

7. Interest payable

	2006	2005
	£	£
Bank interest	26,418	27,078
Interest on finance leases	57,635	–
	84,053	27,078

Notes to the financial statements

at 31 March 2006

8. Tax

(a) Tax on (loss)/profit on ordinary activities

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

	2006	2005
	£	£
Current tax:		
UK corporation tax on the (loss)/profit for the year	–	158,828
Under provision in prior years	73,194	90
Total current tax (note 8(b))	73,194	158,918
Deferred tax:		
Origination and reversal of timing differences (note 8(c))	(79,192)	449
Adjustment in respect of prior years	–	(6,871)
Total tax (credit)/charge for year	(5,998)	152,496

(b) Factors affecting current tax charge for the year:

The tax assessed for the year is higher than the standard rate of corporation tax in the UK of 30% (2005 - 30%). The differences are explained below:

	2006	2005
	£	£
(Loss)/profit on ordinary activities before tax	(371,016)	408,573
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2005 - 30%)	(111,305)	122,572
Effects of:		
(Non-taxable income)/expenses not deductible for tax purposes	(512,161)	36,705
Capital allowances in arrears of depreciation	116,021	422
Tax losses carried forward/(utilised)	440,941	(871)
Adjustments to tax charge in respect of previous years	73,194	90
Accounting loss on chargeable assets	66,504	–
Current tax for the year (note 8(a))	73,194	158,918

(c) Deferred tax

Group

The deferred tax included in the balance sheet is as follows:

	2006	2005
	£	£
Included in provisions for liabilities and charges (note 17)	–	(79,192)
Accelerated capital allowances	–	(79,192)

Notes to the financial statements

at 31 March 2006

8. Tax (continued)

The movement of deferred tax is:

	£
At 1 April 2005	(79,192)
Deferred tax credit in group profit and loss account for the year	79,192
At 31 March 2006	–

The potential deferred tax asset not recognised is:

	2006	*2005*
	£	£
Depreciation in excess of capital allowance	(176,917)	–
Tax losses	(2,058,880)	–
	(2,235,797)	–

The deferred tax asset has not been recognised in the financial statements on the grounds that, on the basis of all available evidence, it is not considered more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Company

The deferred tax included in the balance sheet is as follows:

	2006	*2005*
	£	£
Included in provisions for liabilities and charges (note 17)	–	(79,192)
Accelerated capital allowances	–	(79,192)

The movement of deferred tax is:

	£
At 1 April 2005	(79,192)
Deferred tax credit in profit and loss account for the year	79,192
At 31 March 2006	–

9. Result attributable to members of parent company

The loss dealt with in the financial statements of the parent company was £56,215 (2005 - profit £256,077).

Notes to the financial statements

at 31 March 2006

10. Intangible fixed assets

Group	*Goodwill*
	£
Cost:	
At 1 April 2005	–
Acquisition of subsidiary undertaking	2,980,464
At 31 March 2006	2,980,464
Amortisation:	
At 1 April 2005	–
Provided during the year	(298,047)
At 31 March 2006	(298,047)
Net book value:	
At 31 March 2006	2,682,417
At 1 April 2005	–

Goodwill is being written off in equal annual instalments over its estimated economic life of 5 years.

11. Tangible fixed assets

Group	*Freehold land and buildings*	*Short leasehold property*	*Plant and machinery*	*Motor vehicles*	*Fixtures and fittings*	*Total*
	£	£	£	£	£	£
Cost:						
At 1 April 2005	2,401,684	–	327,996	152,153	234,534	3,116,367
Acquisition of subsidiary undertaking	–	363,496	549,457	340,442	382,786	1,636,181
Additions	–	–	–	–	13,863	13,863
Disposals	(2,035,529)	–	(250,681)	(208,036)	–	(2,494,246)
At 31 March 2006	366,155	363,496	626,772	284,559	631,183	2,272,165
Depreciation:						
At 1 April 2005	702,796	–	303,482	106,178	162,553	1,275,009
Acquisition of subsidiary undertaking	–	227,901	281,086	240,141	337,474	1,086,602
Provided during the year	58,383	18,731	48,005	35,763	60,947	221,829
Disposals	(712,356)	–	(120,215)	(117,779)	–	(950,350)
At 31 March 2006	48,823	246,632	512,358	264,303	560,974	1,633,090
Net book value:						
At 31 March 2006	317,332	116,864	114,414	20,256	70,209	639,075
At 31 March 2005	1,698,888	–	24,514	45,975	71,981	1,841,358

The net book value of plant and machinery above includes an amount of £112,953 (2005 - £nil) in respect of assets held under finance leases and hire purchase contracts.

Notes to the financial statements

at 31 March 2006

11. Tangible fixed assets (continued)

Company

	Freehold land and buildings	*Plant and machinery*	*Motor vehicles*	*Fixtures and fittings*	*Total*
	£	*£*	*£*	*£*	*£*
Cost:					
At 1 April 2005	2,401,684	327,996	152,153	234,534	3,116,367
Additions	–	–	–	3,500	3,500
Disposals	(2,035,529)	–	(55,299)	–	(2,090,828)
At 31 March 2006	366,155	327,996	96,854	238,034	1,029,039
Depreciation:					
At 1 April 2005	702,796	303,482	106,178	162,553	1,275,009
Provided during the year	58,383	5,547	20,509	18,191	102,630
Disposals	(712,356)	–	(47,891)	–	(760,247)
At 31 March 2006	48,823	309,029	78,796	180,744	617,392
Net book value:					
At 31 March 2006	317,332	18,967	18,058	57,290	411,647
At 31 March 2005	1,698,888	24,514	45,975	71,981	1,841,358

12. Investments

Company

	Investment in subsidiary undertakings
	£
Cost:	
At 1 April 2005	–
Additions (note 2)	50,001
At 31 March 2006	50,001

In the opinion of the directors, the aggregate value of the investment in subsidiary undertakings is not less than the amount at which it is stated in the balance sheet.

Subsidiary undertaking

The company holds all the equity share capital of MS Pollard Limited (formerly Fredk Pollard & Co Limited). The results of this company have been consolidated in these financial statements.

The main activities of MS Pollard Limited consist of the distribution of machine tools.

Notes to the financial statements

at 31 March 2006

13. Stocks

		Group		*Company*
	2006	*2005*	*2006*	*2005*
	£	*£*	*£*	*£*
Finished goods and goods for resale	4,276,035	594,833	1,093,205	594,833

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

14. Debtors

		Group		*Company*
	2006	*2005*	*2006*	*2005*
	£	*£*	*£*	*£*
Trade debtors	4,681,464	5,352,835	6,996	5,352,835
Amounts owed by group undertakings	149,715	146,864	5,659,399	146,864
Corporation tax recoverable	43,833	43,833	43,833	43,833
Prepayments and other debtors	571,857	66,599	72,630	66,599
VAT debtor	–	68,721	–	68,721
	5,446,869	5,678,852	5,782,858	5,678,852

15. Creditors: amounts falling due within one year

		Group		*Company*
	2006	*2005*	*2006*	*2005*
	£	*£*	*£*	*£*
Obligations under finance leases and hire purchase contracts (note 16)	76,454	–	–	–
Trade creditors	549,808	120,581	57,872	120,581
Amounts owed to parent company	2,778,789	3,081,009	2,772,970	3,081,009
Amounts owed to fellow subsidiaries	1,085,193	706,434	961,146	706,434
Corporation tax payable	28,337	112,328	28,337	112,328
Other taxes and social security costs	665,169	–	139,511	–
Accruals and deferred income	4,160,618	480,201	76,581	480,201
Other creditors	1,169	18,283	–	18,283
	9,345,537	4,518,836	4,036,417	4,518,836

Notes to the financial statements

at 31 March 2006

16. Obligations under leases and hire purchase contracts

Amounts due under finance leases and hire purchase contracts:

Group	*2006*	*2005*
	£	*£*
Amounts payable:		
Within one year	76,454	–
In two to five years	–	–
	76,454	–

Annual commitments under non-cancellable operating leases are as follows:

Group		*2006*		*2005*
	Land and buildings	*Other*	*Land and buildings*	*Other*
	£	*£*	*£*	*£*
Operating leases which expire:				
Within one year	–	10,843	–	–
Between two and five years	80,000	207,909	–	12,138
Over five years	126,795	–	126,795	–
	206,795	218,752	126,795	12,138

Company		*2006*		*2005*
	Land and buildings	*Other*	*Land and buildings*	*Other*
	£	*£*	*£*	*£*
Operating leases which expire:				
Within one year	–	–	–	–
Between two and five years	–	41,469	–	12,138
Over five years	126,795	–	126,795	–
	126,795	41,469	126,795	12,138

17. Provisions for liabilities and charges

Group	*Buy-back provision*	*Warranty provision*	*Deferred tax*	*Total*
	£	*£*	*£*	*£*
At 1 April 2005	–	–	79,192	79,192
Acquisition of subsidiary undertaking	325,012	529,709	–	854,721
Arising during the year	–	195,251	–	195,251
Utilised	(29,075)	(306,460)	(79,192)	(414,727)
At 31 March 2006	295,937	418,500	–	714,437

Notes to the financial statements

at 31 March 2006

18. Share capital

		Authorised
	2006	2005
	£	£
Ordinary shares of £1 each	2,173,000	2,173,000

		Allotted, called up and fully paid		
		2006		2005
	No.	£	No.	£
Ordinary shares of £1 each	2,173,000	2,173,000	2,173,000	2,173,000

19. Reserves

Group	Share capital	Profit and loss account	Total
	£	£	£
At 1 April 2004	2,173,000	1,985,301	4,158,301
Profit for the year	–	256,077	256,077
At 1 April 2005	2,173,000	2,241,378	4,414,378
Loss for the year	–	(365,018)	(365,018)
Actuarial loss on defined benefit pension scheme	–	(205,000)	(205,000)
Prior year adjustment (see below)	–	(48,416)	(48,416)
At 31 March 2006	2,173,000	1,622,944	3,795,944

These financial statements are the company's first consolidated accounts. In preparing the group financial statements, the company has identified certain fixed assets held by a subsidiary undertaking had been purchased from the company. The unrealised profit on these purchases has been treated as a prior year adjustment.

Company	Share capital	Profit and loss account	Total
	£	£	£
At 1 April 2004	2,173,000	1,985,301	4,158,301
Profit for the year	–	256,077	256,077
At 1 April 2005	2,173,000	2,241,378	4,414,378
Loss for the year	–	(56,215)	(56,215)
At 31 March 2006	2,173,000	2,185,163	4,358,163

Notes to the financial statements

at 31 March 2006

20. Post balance sheet events

On 1 July 2006, MS Pollard Limited sold all of its business and assets to the company as part of group reorganisation carried out by Mori Seiki Co., Limited, the ultimate parent company. Following the completion of this transaction, MS Pollard Limited became dormant. In September 2006, the company wrote off £2,668,533 which related to cost of investment in MS Pollard Limited and amounts owed by that company as at 30 September 2006.

In December 2006, the directors decided to terminate one of the company's office rent agreements and notified a landlord the intention. The company has agreed to pay £180,000 to the landlord as compensation for the cancellation of the lease before the end of March 2007.

21. Pensions

Group

Pension contributions under defined benefit schemes are determined with the advice of independent qualified actuary on the basis of triennial valuations using the projected unit method in the case of the Executive and Staff Scheme and the attained age method in the case of the Works Scheme. A full actuarial valuation was carried out at 31 December 2003 and updated at 31 March 2006.

The subsidiary closed its staff pension scheme on 5 April 2003. Members were provided with the option to receive transfer payments at the minimum funding requirement level which is not expected to result in any additional liability to the company.

Total contributions paid for the financial period were:

	2006	*2005*
	£	*£*
Defined contribution scheme	110,434	–
Defined benefit scheme	–	–

No amounts were outstanding at the balance sheet date.

The company operated a defined contribution scheme and its subsidiary undertaking, MS Pollard Limited, operates two pension schemes providing benefits based on final pensionable pay. The subsidiary also operates one defined contribution scheme.

	31 March 2006	*29 September 2005*
	%	*%*
Main assumptions:		
Rate of salary increases	–	–
Rate of increase in pensions in payment	2.75	2.50
Discount rate	5.1	5.1
Inflation assumption	3.1	2.5

As members' benefits are linked to final pensionable salary, no assumption has been made with regard to salary increases.

Notes to the financial statements

at 31 March 2006

21. Pensions (continued)

The fair value of the scheme assets and the expected rate of return:

The present value of the scheme liabilities and the resulting deficit are as follows:

	31 March 2006		*29 September 2005*	
	Long-term rate of return expected	*Value*	*Long-term rate of return expected*	*Value*
	%	*£000*	*%*	*£000*
Equities	7.5	5,304	7.5	4,817
Bonds	5.0	1,355	5.1	1,333
Gilts	4.5	2,263	4.3	2,296
Cash and other	4.5	633	4.5	730
Total market value of assets		9,555		9,176
Present value of scheme liabilities		(10,782)		(10,218)
Pension liability before deferred tax		(1,227)		(1,042)
Related deferred tax asset/(liability)		–		–
Net pensions liability		(1,227)		(1,042)

An analysis of the defined benefit cost for the year ended 31 March is as follows:

	2006
	£000
Current service cost	–
Past service costs	–
Total operating charge	–
Other finance costs: Expected return on pension scheme assets	274
Other finance costs: Interest on pension scheme liabilities	(254)
Total other finance income	20
Actual return less expected return on pension scheme assets	250
Experience losses arising on scheme	(1)
Loss arising from changes in assumptions underlying the present value of scheme liabilities	(454)
Actuarial losses recognised in the statement of total recognised gains and losses	(205)

Notes to the financial statements

at 31 March 2006

21. Pensions (continued)

Analysis of movements in deficit during the year:

	£000
At 29 September 2005	(1,042)
Total operating charge	–
Total other finance income	20
Actuarial losses recognised in the statement of total recognised gains and losses	(205)
Contributions	–
At 31 March 2006	(1,227)

History of experience gains and losses:

	2006
Difference between expected return and actual return on pension scheme assets	
- amount (£000)	250
- % of scheme assets	2.6
Experience losses arising on scheme liabilities	
- amount (£000)	(1)
- % of the present value of scheme liabilities	–
Total actuarial losses recognised in the statement of total recognised gains and losses	
- amount (£000)	(205)
- % of the present value of scheme liabilities	(2.0)

The defined benefit pension schemes were acquired at acquisition of MS Pollard Limited on 29 September 2005, hence only one year's information is shown.

22. Related party transactions

The company has taken advantage of the exemption available under FRS8 not to disclose transactions with other members of the Mori Seiki Co. Limited group.

23. Ultimate parent undertaking and controlling party

The directors consider the company's ultimate parent undertaking and controlling party to be Mori Seiki Co., Limited, a company incorporated in Japan. Copies of its group financial statements, which include the company, are available from 362 Idono-cho Yamato-Koriyama City, Nara 639-11, Japan.