1932584

Mori Seiki (UK) Limited

Report and Financial Statements

31 March 2007

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
Lloyds TSB

Registered office
202 Bedford Avenue
Slough
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SL1 4RY

Directors' report

The directors present their report and financial statements for the year ended 31 March 2007

Results and dividends

The loss for the year after taxation amounted to £2,549,006 The directors do not recommend the payment of any dividends

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 the 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 On 1 July 2006, MS Pollard Limited sold all of its business and assets to the company as part of the 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 the cost of investment in MS Pollard Limited and amounts owed by that company The subsidiary undertaking was placed into members' voluntary liquidation on 30 March 2007

After the transfer of business from MS Pollard, the company's reputation for reliability in the UK market was restored, with the result that turnover increased 2 3 fold compared with the previous year The restoration came from a perfect team working with technical support from manufacturing side and commercial support from sales side which allows us answering customers' requirements promptly

Future developments

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

In order to streamline the business and reduce costs, the lease on the Leicester office and spare parts stock centre was surrendered during the year All administration and distribution is now dealt with by London Head office while Birmingham office, which deals with servicing and technical support, continues to maintain the convenient service and rapid response demanded by the company's customers, most of whom are based in the Midlands It is considered that these improvements to the structure of the business will result in greater profitability in the future

Our variety of line-ups including down-sized machines from a Japanese parent company starts bringing us a good reaction from customers

Risks and uncertainties

Even though our market is in a high value-added, technologically advanced field, the growth of our business is still affected by the prevailing economic climate governing industry in general The impact of recession could result in customers cutting their budgets for investment in machinery or becoming insolvent and would affect our business to some extent

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 2007, the company had an average of 63 days (2006 - 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

Auditors

A resolution to re-appoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting

By order of the board

Secretary

- 5 JUL 2007

Statement of directors' responsibilities

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 profit or loss 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 accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- 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 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

ERNST & YOUNG

Independent auditors' report

to the members of Mori Seiki (UK) Limited

We have audited the company's financial statements for the year ended 31 March 2007 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 21 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 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 responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and 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)

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 also 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 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 the company's affairs as at 31 March 2007 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London

- 5 JUL 2007

Profit and loss account

for the year ended 31 March 2007

	Notes	2007 £	2006 £
Turnover	2	23,781 224	10,235,661
Cost of sales		(17,462,610)	(9,056,732)
Gross profit		6,318,614	1,178,929
Distribution costs		(244,984)	(151,929)
Administrative expenses		(8 727,673)	(1,736,765)
Other operating income		176,163	224,233
Operating loss	3,4	(2,447,880)	(485,532)
(Loss)/profit on disposal of tangible fixed assets		(153,275)	379,462
Interest receivable and similar income	7	133,480	43,857
Interest payable and similar charges	8	(7,454)	-
Loss on ordinary activities before taxation		(2,505,129)	(62,213)
Tax on loss on ordinary activities	9	(43,877)	5,998
Loss for the financial year		(2,549,006)	(56,215)

Statement of total recognised gains and losses

for the year ended 31 March 2007

	Notes	2007 £	2006 £
Loss for the financial year		(2,549,006)	(56,215)
Actuarial loss on defined benefit pension scheme	19	(589,000)	-
Total recognised losses related to the year		(3,138,006)	(56,215)

Notes to the financial statements
at 31 March 2007

14. Creditors: amounts falling due within one year

	2007	*2006*
	£	*£*
Trade creditors	526,233	57,872
Amounts owed to parent company	2,093,122	2,772,970
Amounts owed to fellow subsidiaries	405,521	961,146
Corporation tax payable	11,048	28,337
Other taxes and social security costs	221,902	139,511
Accruals and deferred income	1,078,909	76,581
Other creditors	36,578	–
	4,373,313	4,036,417

15. Other financial commitments

Annual commitments under non-cancellable operating leases are as follows

		2007		*2006*
	Land and buildings	*Other*	*Land and buildings*	*Other*
	£	*£*	*£*	*£*
Operating leases which expire				
Within one year	–	13,933	–	–
Between two and five years	83,460	233,061	–	41,469
Over five years	–	–	126,795	–
	83,460	246,994	126,795	41,469

16 Provisions for liabilities

	Buy-back provision	*Warranty provision*	*Total*
	£	*£*	*£*
At 1 April 2006	–	–	–
Purchased from subsidiary	295,937	418,500	714,437
Arising during the year	–	77,577	77,577
Utilised	(208,151)	–	(208,151)
At 31 March 2007	87,786	496,077	583,863

Notes to the financial statements

at 31 March 2007

17 Share capital

		Authorised
	2007	*2006*
	£	*£*
Ordinary shares of £1 each	2,173,000	2,173,000

	Allotted called up and fully paid			
		2007		*2006*
	No	*£*	*No*	*£*
Ordinary shares of £1 each	2,173,000	2,173,000	2,173,000	2,173,000

18 Reconciliation of shareholders' funds and movements on reserves

	Share capital	*Profit and loss account*	*Total*
	£	*£*	*£*
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
Loss for the year	–	(2,549,006)	(2,549,006)
Actuarial loss on defined benefit pension scheme	–	(589,000)	(589,000)
At 31 March 2007	2,173,000	(952,843)	1,220,157

19. Pensions

The company operated a defined contribution scheme and its subsidiary undertaking, MS Pollard Limited, operated two pension schemes providing benefits based on final pensionable pay The subsidiary also operated one defined contribution scheme These schemes in the subsidiary were transferred to the company following the sale of its business and assets on 1 July 2006 to the company

Pension contributions under defined benefit schemes are determined with the advice of independent qualified actuaries on the basis of triennial valuations using the projected unit method in the case of both the Executive and Staff Scheme and the Works Scheme A full actuarial valuation was carried out at 31 December 2003 and subsequently updated at 31 March 2006 and 31 March 2007

The subsidiary closed its defined benefit pension schemes 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

	2007	*2006*
	£	*£*
Defined contribution scheme	78,580	15,656
Defined benefit scheme	–	–

No amounts were outstanding at the balance sheet date

Notes to the financial statements

at 31 March 2007

19 Pensions (continued)

	2007
	%
Main assumptions	
Rate of salary increases	–
Rate of increase in pensions in payment	3 1
Discount rate	5 1
Inflation assumption	3 1

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

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 2007	
	Long-term rate of return expected	*Value*
	%	*£000*
Equities	7 5	6,006
Bonds	5 0	1,373
Gilts	4 8	2,310
Cash and other	5 3	230
Total market value of assets		9,919
Present value of scheme liabilities		(11,690)
Pension liability before deferred tax		(1,771)
Related deferred tax asset/(liability)		–
Net pensions liability		(1,771)

Notes to the financial statements
at 31 March 2007

19. Pensions (continued)

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

	2007 £000
Current service cost	–
Past service costs	–
Total operating charge	–
Other finance costs Expected return on pension scheme assets	587
Other finance costs Interest on pension scheme liabilities	(542)
Net finance income	45
Actual return less expected return on pension scheme assets	78
Experience gains arising on scheme	4
Loss arising from changes in assumptions underlying the present value of scheme liabilities	(671)
Actuarial losses recognised in the statement of total recognised gains and losses	(589)

Analysis of movements in deficit during the year

	£000
At 31 March 2006	–
Purchased from subsidiary	(1,227)
Total operating charge	–
Total other finance income	45
Actuarial losses recognised in the statement of total recognised gains and losses	(589)
At 31 March 2007	(1,771)

History of experience gains and losses

	2007
Difference between expected return and actual return on pension scheme assets	
- amount (£000)	78
- % of scheme assets	0 8
Experience gains arising on scheme liabilities	
- amount (£000)	4
- % of the present value of scheme liabilities	–
Total actuarial losses recognised in the statement of total recognised gains and losses	
- amount (£000)	(589)
- % of the present value of scheme liabilities	(5)

The defined benefit pension schemes were acquired at acquisition of MS Pollard Limited s business and assets on 1 July 2006, hence only one year s information is shown

Notes to the financial statements

at 31 March 2007

20. 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

21. 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

Balance sheet

at 31 March 2007

	Notes	2007 £	2006 £
Fixed assets			
Tangible assets	10	674,848	411,647
Investments	11	–	50,001
		674,848	461,648
Current assets			
Stocks	12	2,333,818	1,093,205
Debtors	13	3,099,947	5,782,858
Cash at bank and in hand		1,839,720	1,056,869
		7,273,485	7,932,932
Creditors amounts falling due within one year	14	(4,373,313)	(4,036,417)
Net current assets		2,900,172	3,896,515
Total assets less current liabilities		3,575,020	4,358,163
Provisions for liabilities	16	(583,863)	–
Net assets excluding pension liability		2,991,157	4,358,163
Defined benefit pension liability	19	(1,771,000)	–
		1,220,157	4,358,163
Capital and reserves			
Called up share capital	17	2,173,000	2,173,000
Profit and loss account	18	(952,843)	2,185,163
Shareholders' funds	18	1,220,157	4,358,163

M. Ueno

Director

- 5 JUL 2007

Notes to the financial statements

at 31 March 2007

1. Accounting policies

Basis of preparation

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

The company has not prepared group financial statements as it is exempt from the requirement to do so by Section 229 (3) (a) of the Companies Act 1985

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

Fixed asset investments

The carrying values of fixed asset investments are reviewed for impairment when 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 when 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

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 exception

- 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 March 2007

1. Accounting policies (continued)

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

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

Pensions

The company operates two defined benefit pension schemes, which were closed during the previous 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 company accounts for the defined benefit pension schemes in accordance with FRS17 (Retirement Benefits)

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

2 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 company's continuing activity as stated in the directors' report

An analysis of turnover by geographical market is given below

	2007	*2006*
	£	*£*
United Kingdom	23,235,831	7,044,151
Rest of Europe	533,276	3,191,510
Japan	12,117	–
	23,781,224	10,235,661

Notes to the financial statements

at 31 March 2007

3. Operating loss

This is stated after charging/(crediting)

		2007 £	2006 £
Auditors remuneration	- audit services	35,540	24,800
	- non-audit services tax services	29,663	16,600
		65,203	41,400
Depreciation of owned fixed assets		173,009	102,630
Operating lease rentals	- land and buildings	223,278	126,795
	- plant and machinery	241,176	28,957
	- exceptional lease surrender rental	212,000	-
Foreign exchange (gains)/losses		(8,269)	63,535
Impairment of investment in subsidiary		50,001	-

4. Exceptional items

	2007 £
Exceptional items recognised in operating loss	
Loss on closure of subsidiary	2,668,533
The tax effect in the profit and loss account is as follows	
Credit on loss on closure of subsidiary	800,560

5. Directors' remuneration

No director received any emoluments in respect of the company during the year (2006 - £nil)

6. Staff costs

	2007 £	2006 £
Wages and salaries	2,522,494	703,488
Social security costs	285,666	53,775
Other pension costs	78,580	15,656
	2,886,740	772,919

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

	2007 No	2006 No
Operational	41	7
Administration	16	6
	57	13

Notes to the financial statements

at 31 March 2007

7 Interest receivable and similar income

	2007 £	2006 £
Bank interest	88,480	43,857
Net finance income in respect of defined benefit schemes	45,000	–
	133,480	43,857

8 Interest payable and similar charges

	2007 £	2006 £
Interest on tax balances	7,454	–

9 Tax

(a) Tax on loss on ordinary activities

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

	2007 £	2006 £
Current tax		
UK corporation tax on the loss for the year	26,544	–
Under provision in prior years	17,333	73,194
Total current tax (note 8(b))	43,877	73,194
Deferred tax		
Origination and reversal of timing differences (note 8(c))	–	(79,192)
Total tax charge/(credit) for year	43,877	(5,998)

Notes to the financial statements

at 31 March 2007

9. Tax (continued)

(b) Factors affecting current tax charge for the year

The tax assessed on the loss on ordinary activities for the year is different from the standard rate of corporation tax in the UK of 30% (2006 - 30%) The differences are explained below

	2007	2006
	£	£
Loss on ordinary activities before tax	(2,505,129)	(62,213)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2006 - 30%)	(751,539)	(18,664)
Effects of		
Disallowed expenses/(non-taxable income)	885,310	(102,926)
Capital allowances in arrears of depreciation	24,673	51,090
Tax losses (utilised)/carried forward	(131,900)	3,996
Adjustments to tax charge in respect of previous years	17,333	73,194
Accounting loss on chargeable assets	–	66,504
Current tax for the year (note 8(a))	43,877	73,194

(c) The potential deferred tax asset not recognised is

	2007	2006
	£	£
Depreciation in excess/(arrears) of capital allowance	124,544	(4,759)
Tax losses	2,027,520	18,374
	2,152,064	13,615

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

Notes to the financial statements

at 31 March 2007

10. Tangible fixed assets

	Freehold land and buildings	*Short leasehold land and buildings*	*Plant and machinery*	*Motor vehicles*	*Fixtures and fittings*	*Total*
	£	£	£	£	£	£
Cost						
At 1 April 2006	366,155	–	327,996	96,854	238,034	1,029,039
Purchased from subsidiary	–	363,496	226,016	101,586	130,356	821,454
Additions	–	–	1,322	–	292,163	293,485
Disposals	–	(363,496)	(101,310)	(149,972)	(19,261)	(634,039)
At 31 March 2007	366,155	–	454,024	48,468	641,292	1,509,939
Depreciation						
At 1 April 2006	48,823	–	309,029	78,796	180,744	617,392
Purchased from subsidiary	–	246,632	158,844	93,371	79,062	577,909
Provided during the year	36,615	35,702	26,939	10,299	63,454	173,009
Disposals	–	(282,334)	(97,989)	(136,925)	(15,971)	(533,219)
At 31 March 2007	85,438	–	396,823	45,541	307,289	835,091
Net book value						
At 31 March 2007	280,717	–	57,201	2,927	334,003	674,848
At 31 March 2006	317,332	–	18,967	18,058	57,290	411,647

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

Notes to the financial statements

at 31 March 2007

11 Investments

	Investment in subsidiary undertakings
	£
Cost	
At 1 April 2006 and 31 March 2007	50,001
Amount provided	
At 1 April 2006	–
Arising during the year	50,001
At 31 March 2007	50,001
Net book amount	
At 31 March 2007	–
At 1 April 2006	50,001

Subsidiary undertaking

The company holds all the equity share capital of MS Pollard Limited, which is currently in the process of being liquidated via members' voluntary liquidation The directors of the company no longer exercise control over the subsidiary undertaking and as a result it is no longer consolidated

The main activity of MS Pollard Limited was the distribution of machine tools

12. Stocks

	2007	*2006*
	£	£
Finished goods and goods for resale	2,333,818	1,093,205

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

13. Debtors

	2007	*2006*
	£	£
Trade debtors	2,878,290	6,996
Amounts owed by group undertakings	121,281	5,659,399
Corporation tax recoverable	–	43,833
Prepayments and other debtors	100,376	72,630
	3,099,947	5,782,858