01932584

Mori Seiki (UK) Limited

Report and Financial Statements

31 March 2008

Registered No 1932584

Directors
Masahiko Mori
Masahide Iino
Takeshi Saito
Kazuyuki Hiramoto

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
Berkshire SL1 4RY

Directors' report

The directors present their report and financial statements for the year ended 31 March 2008

Results and dividends

The profit for the year after taxation amounted to £387,424 (2007 – loss £2,549,006) The directors do not recommend the payment of any dividends

Principal activity and review of the business

The principal activity of the company is the supply and distribution of numerically controlled machine lathes, machining centres and their associated spare parts

The company returned to profitability during the year as the write downs associated with the acquisition of MS Pollard have now been completed

Although turnover was down on the previous year, orders were in line with expectations and we have a good backlog going into the new year

Future developments

The directors consider that the next financial year should show a continuation of the improved sales and profitability experienced over the last few years

Our parent company, Mori Seiki in Japan continue to invest strongly in new products and production facilities This will help us to keep our competitive edge in the UK

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

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

Masahiko Mori	
Takeshi Saito	
Masahide Iino	(Appointed 7 July 2008)
Kazuyuki Hiramoto	(Appointed 7 July 2008)
Hiroaki Tamai	(Resigned 7 July 2008)

Directors' report

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is 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

14 AUG 2008

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, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and 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

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 2008 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 19 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

ERNST & YOUNG

Independent auditors' report

to the members of Mori Seiki (UK) Limited

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 2008 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London

18 AUG 2008

Profit and loss account

for the year ended 31 March 2008

	Notes	2008 £	2007 £
Turnover	2	19,656,370	23,781,224
Cost of sales		(12,802,261)	(17,462,610)
Gross profit		6,854,109	6,318,614
Distribution costs		(471,983)	(244,984)
Administrative expenses		(6,227,589)	(8,727,673)
Other operating income		188,586	176,163
Operating profit/(loss)	3	343,123	(2,447,880)
Loss on disposal of tangible fixed assets		(18,968)	(153,275)
Interest receivable and similar income	6	126,050	133,480
Interest payable and similar charges	7	(9,559)	(7,454)
Profit/(loss) on ordinary activities before taxation		440,646	(2,505,129)
Tax on profit/(loss) on ordinary activities	8	(53,222)	(43,877)
Profit/(loss) for the financial year		387,424	(2,549,006)

Statement of total recognised gains and losses

for the year ended 31 March 2008

	Notes	2008 £	2007 £
Profit / (loss) for the financial year		387,424	(2,549,006)
Actuarial profit / (loss) on defined benefit pension scheme	17	98,000	(589,000)
Total recognised gains / (losses) related to the year		485,424	(3,138,006)

Balance sheet

at 31 March 2008

	Notes	2008 £	2007 £
Fixed assets			
Tangible assets	9	523,527	674,848
Current assets			
Stocks	10	2,293,122	2,333,818
Debtors	11	3,400,275	3,099,947
Cash at bank and in hand		849,777	1,839,720
		6,543,174	7,273,485
Creditors amounts falling due within one year	12	(3,255,232)	(4,373,313)
Net current assets		3,287,942	2,900,172
Total assets less current liabilities		3,811,469	3,575,020
Provisions for liabilities	14	(544,888)	(583,863)
Net assets excluding pension liability		3,266,581	2,991,157
Defined benefit pension liability	17	(1,561,000)	(1,771,000)
		1,705,581	1,220,157
Capital and reserves			
Called up share capital	15	2,173,000	2,173,000
Profit and loss account	16	(467,419)	(952,843)
Shareholders' funds	16	1,705,581	1,220,157

Director

14 AUG 2008

Notes to the financial statements

at 31 March 2008

1. Accounting policies

Basis of preparation

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

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 flows 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

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

Leasehold improvements	–	Between 5% and 10% per annum
Plant and machinery	–	Between 12½ % and 20% per annum
Motor vehicles	–	Between 20% and 25% per annum
Fixtures and fittings	–	Between 10% and 33% 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

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 agreements

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

Notes to the financial statements

at 31 March 2008

1. Accounting policies (continued)

Pensions

The company operates two defined benefit pension schemes and four defined contribution pension schemes The two defined benefit schemes were closed to future accrual with effect from 6 April 2003

It follows that no current/past service costs and pension contribution were incurred during the year because the defined benefit schemes were closed Existing staff of the defined benefit scheme are currently members of defined contribution schemes

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

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

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

	2008	*2007*
	£	*£*
United Kingdom	19,528,835	23,235,831
Rest of Europe	55,435	533,276
Japan	72,100	12,117
	19,656,370	23,781,224

Notes to the financial statements

at 31 March 2008

3. Operating profit/(loss)

This is stated after charging/(crediting)

		2008	2007
		£	£
Auditors' remuneration	– audit services	43,570	35,540
	– non-audit services tax services	37,162	29,663
		80,732	65,203
Depreciation of owned fixed assets		152,119	173,009
Operating lease rentals	– land and buildings	178,473	223,278
	– plant and machinery	294,855	241,176
	– exceptional lease surrender rental	–	212,000
Foreign exchange gains		(37,105)	(8,269)
Impairment of investment in subsidiary		–	50,001

4. Directors' remuneration

No director received any emoluments in respect of the company during the year (2007 – £nil)

5 Staff costs

	2008	2007
	£	£
Wages and salaries	2,840,050	2,522,494
Social security costs	322,911	285,666
Other pension costs	80,620	78,580
	3,243,581	2,886,740

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

	2008	2007
	No	No
Operational	39	41
Administration	16	16
	55	57

Notes to the financial statements

at 31 March 2008

6. Interest receivable and similar income

	2008	*2007*
	£	*£*
Bank interest	86,050	88,480
Net finance income in respect of defined benefit schemes	40,000	45,000
	126,050	133,480

7. Interest payable and similar charges

	2008	*2007*
	£	*£*
Bank interest	2,733	–
Interest on tax balances	6,826	7,454
	9,559	7,454

8. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows

	2008	*2007*
	£	*£*
Current tax		
UK corporation tax on the profit for the year	37,770	26,544
Under provision in prior years	15,452	17,333
Total current tax (note 8(b))	53,222	43,877
Deferred tax (note 8(c))	–	–
Total tax charge for year	53,222	43,877

Notes to the financial statements

at 31 March 2008

8. 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% (2007 – 30%) The differences are explained below

	2008	*2007*
	£	£
Profit/(loss) on ordinary activities before tax	440,646	(2,505 129)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2007 – 30%)	132,194	(751,539)
Effects of		
Disallowed expenses	48,806	885,310
Capital allowances in (advance) / arrears of depreciation	(10,454)	24,673
Tax losses utilised	(132,776)	(131,900)
Adjustments to tax charge in respect of previous years	15,452	17,333
Current tax for the year (note 8(a))	53,222	43,877

(c) The potential deferred tax asset not recognised is

	2008	*2007*
	£	£
Depreciation in excess/(arrears) of capital allowance	35,249	124,544
Tax losses	1,047,991	2,027,520
	1,083,240	2,152,064

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 2008

9 Tangible fixed assets

	Leasehold improvements £	*Plant and machinery* £	*Motor vehicles* £	*Fixtures and fittings* £	*Total* £
Cost					
At 1 April 2007	541,960	454,024	48,468	465,487	1,509,939
Additions	–	–	–	41,843	41,843
Disposals	–	(329,477)	(48,468)	(155,689)	(533,634)
At 31 March 2008	541,960	124,547	–	351,641	1,018,148
Depreciation					
At 1 April 2007	103,018	396,823	45,541	289,709	835,091
Provided during the year	71,776	11,195	1,740	67408	152,119
Disposals	–	(292,839)	(47,281)	(152,469)	(492,589)
At 31 March 2008	174,794	115,179	–	204,648	494,621
Net book value					
At 31 March 2008	367,166	9,368	–	146,993	523,527
At 31 March 2007	280,717	57,201	2,927	334,003	674,848

10. Stocks

	2008 £	*2007* £
Finished goods and goods for resale	2,293,122	2,333,818

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

11. Debtors

	2008 £	*2007* £
Trade debtors	3,076,732	2,878,290
Amounts owed by group undertakings	14,531	121,281
Prepayments and other debtors	309,012	100,376
	3,400,275	3,099,947

Notes to the financial statements

at 31 March 2008

12. Creditors: amounts falling due within one year

	2008	2007
	£	£
Trade creditors	552,817	526,233
Amounts owed to parent company	671,722	2,093,122
Amounts owed to fellow subsidiaries	482,669	405,521
Corporation tax payable	37,771	11,048
Other taxes and social security costs	135,415	221,902
Accruals and deferred income	1,321,139	1,078,909
Other creditors	53,699	36,578
	3,255,232	4,373,313

13. Other financial commitments

Annual commitments under non-cancellable operating leases are as follows

		2008		2007
	Land and buildings	Other	Land and buildings	Other
	£	£	£	£
Operating leases which expire				
Within one year	–	95,091	–	13,933
Between two and five years	–	104,013	–	233,061
Over five years	205,665	–	205,665	–
	205,665	199,104	83,460	246,994

14. Provisions for liabilities

	Buy-back provision	Warranty provision	Total
	£	£	£
At 1 April 2007	87,786	496,077	583,863
Arising during the year	–	36,723	36,723
Utilised	(75,698)	–	(75,698)
At 31 March 2008	12,088	532,800	544,888

Notes to the financial statements

at 31 March 2008

15. Authorised and issued share capital

Authorised	*2008* £	*2007* £
Ordinary shares of £1 each	2,173,000	2,173,000

Allotted, called up and fully paid	*No*	*2008* £	*No*	*2007* £
Ordinary shares of £1 each	2,173,000	2,173,000	2,173,000	2,173,000

16. Reconciliation of shareholders' funds and movements on reserves

	Share capital £	*Profit and loss account* £	*Total* £
At 1 April 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
Profit for the year	–	387,424	387,424
Actuarial gain on defined benefit pension scheme	–	98,000	98,000
At 31 March 2008	2,173,000	(467,419)	1,705,581

17. Pensions

The company operated four defined contribution and two defined benefit pension schemes during the year

Two pension schemes providing benefits based on final pensionable pay were acquired from a subsidiary on 1 July 2006 The pension schemes were closed to future accrual with effect from 6 April 2003 The subsidiary was placed into members' voluntary liquidation on 30 March 2008

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 on the Executive and Staff Scheme at 6 April 2005 and on the Works Scheme at 31 May 2005 The valuations have been updated for FRS17 reporting purposes at 31 March 2007 and 29 February 2008

Total contributions paid for the financial period were

	2008 £	*2007* £
Defined contribution scheme	80,620	78,580
Defined benefit scheme	72,000	–

No amounts were outstanding at the balance sheet date

Notes to the financial statements

at 31 March 2008

17. Pensions (continued)

	2008	*2007*	*2006*
	%	*%*	*%*
Main assumptions			
Rate of salary increases	–	–	–
Rate of increase in pensions in payment	3 5%	3 1%	2 8%
Discount rate	6 6%	5 1%	5 1%
Inflation assumption	3 5%	3 1%	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

	29 February 2008		*31 March 2007*		*31 March 2006*	
	Long-term rate of return expected	*Value*	*Long-term rate of return expected*	*Value*	*Long-term rate of return expected*	*Value*
	%	*£000*	*%*	*£000*	*%*	*£000*
Equities	7 4	5,388	7 5	6,006	7 5	5,304
Bonds	6 6	1,315	5 0	1,373	5 0	1,355
Gilts	4 4	2,507	4 8	2,310	4 5	2,263
Cash and other	5 3	92	5 3	230	4 5	633
Total market value of assets		9,302		9,919		9,555
Present value of scheme liabilities		(10,863)		(11,690)		(10,782)
Deficit in the scheme		(1,561)		(1,771)		(1,227)
Related deferred tax asset/(liability)		–		–		–
Net pension liability		(1,561)		(1,771)		(1,227)

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

	2008	*2007*
	£000	*£000*
Current service cost	–	–
Past service costs	–	–
Total operating charge	–	–
Other finance costs Expected return on pension scheme assets	570	587
Other finance costs Interest on pension scheme liabilities	(530)	(542)
Net finance income	40	45

Notes to the financial statements

at 31 March 2008

17. Pensions (continued)

	2008 £000	2007 £000
Actual return less expected return on pension scheme assets	(535)	78
Experience loss arising on scheme	(212)	4
Gain/(loss) arising from changes in assumptions underlying the present value of scheme liabilities	845	(671)
Actuarial gains recognised in the statement of total recognised gains and losses	98	(589)

Analysis of movements in deficit during the year

	2008 £000	2007 £000
Deficit in scheme at beginning of the year	(1,771)	(1,227)
Purchased from subsidiary	–	
Contributions for the year	72	–
Total operating charge	–	–
Total other finance income	40	45
Actuarial gains recognised in the statement of total recognised gains and losses	98	(589)
Deficit in scheme at end of the year	(1,561)	(1,771)

18. 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

19. 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