S.H.I. Cyclo Drive Europe Limited

Accounts 31 December 1997

together with directors' and auditors' reports

Registered number: 3260836

Directors' report

For the 15 month period ended 31 December 1997

The directors present their first report on the affairs of the company, together with the accounts and auditors' report, for the period from 3 October 1996 to 31 December 1997.

Incorporation

The company was incorporated under the name of S.H.I. Cyclo Drive Europe Limited on the 3 October 1996.

Principal activity

The principal activity of the company during the period was the manufacture and distribution of gearboxes.

On 2 December 1996 the company acquired the trade and assets of the PT Engineering Division of J H Fenner and Company Limited, for a consideration of £5,447,221. Further details are given in note 15 to the accounts. Goodwill of £525,000 arose on this transaction.

Business review

In the opinion of the directors the results of the company for the period were satisfactory.

The directors expect the general level of activity to continue.

Results and dividends

The audited accounts for the period ended 31 December 1997 are set out on pages 4 to 17.

The results for the period are shown in the profit and loss account on page 4.

Directors and their interests

The directors who served during the period were as follows:

Y Arai	(appointed 3 October 1996)
J Garay	(appointed 3 October 1996)
F Miyoshi	(appointed 3 October 1996)
N Yamasaki	(appointed 3 October 1996)
T Fuji	(appointed 3 October 1996, resigned 1 July 1997)

The directors do not have any interests in the shares of the company required to be disclosed under section 234 of the Companies Act 1985.

Directors' report (continued)

Directors' responsibilities

Company law requires the directors to prepare accounts for each financial period 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 accounts, 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 accounts; and
- prepare the accounts 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 accounts 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.

Auditors

The directors will place a resolution before the annual general meeting to reappoint Arthur Andersen as auditors for the ensuing year.

By order of the Board,

24 July 1998

ARTHUR ANDERSEN

Auditors' report

Leeds

To the Shareholders of S.H.I. Cyclo Drive Europe Limited:

We have audited the accounts on pages 4 to 16 which have been prepared under the historical cost convention and the accounting policies set out on pages 6 to 7.

Respective responsibilities of directors and auditors

As described on page 2 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts and of whether the accounting policies are appropriate to the circumstances of the company, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company at 31 December 1997 and of the company's loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Arthur Andersen
Chartered Accountants and Registered Auditors

1 City Square
Leeds
LS1 2AL

24 July 1998

Profit and loss account

For the period ended 31 December 1997

	Notes	1997 £
Turnover	2	8,275,568
Cost of sales		(6,884,985)
Gross profit		1,390,583
Other operating expenses (net)	3	(1,689,275)
Operating loss		(298,692)
Investment income	4	52,526
Interest payable and similar charges	5	(33,236)
Loss on ordinary activities before taxation	6	(279,402)
Tax on profit on ordinary activities	8	-
Loss for the financial period		(279,402)
Retained loss for the period		(279,402)

All of the company's activity relates to acquisitions.

There are no recognised gains or losses in the 15 month period ending 31 December 1997 other than the results disclosed.

The accompanying notes are an integral part of this profit and loss account.

Balance sheet

31 December 1997

	Notes	1997
Fixed assets		£
Intangible assets	9	737,076
Tangible assets	10	3,884,406
		4,621,482
Current assets		
Stocks	11	2,303,199
Debtors	12	2,134,053
Cash at bank and in hand		355,515
		4,792,767
Creditors: Amounts falling due within one year	13	(3,293,651)
Net current assets		1,499,116
Net assets		6,120,598
Capital and reserves		
Called-up share capital	16	6,400,000
Profit and loss account	17	(279,402)
Shareholders' funds (Equity interests)	18	6,120,598

Signed on behalf of the Board

Director

24 July 1998

The accompanying notes are an integral part of this balance sheet.

Notes to accounts

31 December 1997

1 Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the period is set out below:

a) Basis of accounting

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

A cash flow statement has not been prepared as the company is a wholly owned subsidiary of Sumitomo Heavy Industries, Ltd (a company registered in Tokyo, Japan), which produces publicly available consolidated accounts which include a consolidated cash flow statement dealing with the cash flows of the group.

b) Turnover

Turnover comprises value of sales (excluding trade discounts, allowances, VAT) of goods and services in the normal course of business.

c) Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and provisions for permanent diminution in value.

Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its estimated useful life, as follows:

Freehold buildings	40 years
Plant and machinery	3 - 10 years

d) Stocks

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

Cost represents expenses incurred in bringing each product to its present location and includes a reasonable proportion of labour and manufacturing overheads based on a normal level of activity.

Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and disposal. Provision is made for obsolete or slow-moving items where appropriate.

e) Taxation

Corporation tax payable is provided on taxable profits at the current rate.

Deferred taxation is provided using the liability method on all timing differences only to the extent that they are expected to reverse in the future without being replaced.

Notes to accounts (continued)

1 Accounting policies (continued)

f) Foreign currency

Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as of the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

g) Pension costs

For defined benefit schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the estimated regular cost of providing the benefits accrued in the period, adjusted to reflect variations from that cost. The regular cost is calculated so that it represents a substantially level percentage of current and future payroll. Variations from regular cost are charged or credited to the profit and loss account as a constant percentage of payroll over the estimated average remaining working life of scheme members. Defined benefit schemes are externally funded, with the assets of the scheme held separately from those of the company in separate trustee administered funds. Differences between amounts charged to the profit and loss account and amounts funded are shown as either provisions or prepayments in the balance sheet.

h) Research and development

Research and development expenditure is written off in the year of expenditure. Development expenditure is also written off, except where the directors are satisfied as to the technical, commercial and financial viability of individual projects. In such cases, the identifiable expenditure is deferred and amortised over the period during which the company is expected to benefit.

i) Patents and trademarks

Patents and trademarks are included at cost and amortised in annual instalments over a period of 20 years which is their estimated useful economic life. Provision is made for any permanent diminution in value.

j) Goodwill

Goodwill on acquisition is capitalised and amortised on a straight line basis over 20 years, in accordance with Financial Reporting Standard 10.

2 Segment information

Turnover comprised:

	15 months ended 31 December 1997 £
Sales to third parties	5,474,970
Intercompany sales	2,800,598
	8,275,568

Notes to accounts (continued)

2 Segment information (continued)

Contributions to turnover by destination by geographical area were as follows:

	15 months ended 31 December 1997 £
UK	2,023,070
Europe	1,312,198
North America	1,447,419
Asia	3,492,881
	8,275,568

3 Other operating expenses

	15 months ended 31 December 1997 £
Selling and distribution costs	82,097
Administrative expenses	1,607,178
	1,689,275

4 Interest receivable and similar income

	15 months ended 31 December 1997 £
On bank deposits	52,526

5 Interest payable and similar charges

	15 months ended 31 December 1997 £
On loans, repayable within five years not by instalments	30,977
On bank borrowings	2,259
	33,236

Notes to accounts (continued)

6 Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging:

	15 months ended 31 December 1997 £
Amortisation of goodwill	28,437
Amortisation of patents	127
Depreciation of tangible fixed assets (owned)	323,170
Auditors' remuneration	
- audit fees	10,000
Staff costs (note 7)	2,802,540

7 Staff costs

Particulars of employees (including executive directors) are as shown below:

	1997 £
Employee costs during the period amounted to:	
Wages and salaries	2,400,246
Social security costs	176,653
Other pension costs	225,641
	2,802,540

The average monthly number of persons employed by the company during the period was as follows:

	1997 Number
Production and administration	114
Selling and distribution	6
	120

Notes to accounts (continued)

7 Staff costs (continued)

Directors' remuneration:

Directors' remuneration was paid in respect of directors of the company as follows:

	1997
	£
Emoluments	66,558

The remuneration stated above relates solely to Y. Arai. The cost of the remaining directors remuneration is borne by other companies within the Sumitomo Heavy Industries, Ltd group.

Pensions

No directors received pension benefits in the 15 months ended 31 December 1997.

8 Tax on loss on ordinary activities

There is no tax charge arising due to the availability of tax losses.

9 Intangible fixed assets

	Patents and Trademarks	Development Costs	Goodwill	Total
	£	£	£	£
Cost				
As at 3 October 1996	-	-	-	-
Additions	4,000	236,640	525,000	765,640
As at 31 December 1997	4,000	236,640	525,000	765,640
Amortisation				
As at 3 October 1996	-	-	-	-
Charges	127	-	28,437	28,564
As at 31 December 1997	127	-	28,437	28,564
Net book value				
As at 31 December 1997	3,873	236,640	496,563	737,076

Development costs have been capitalised in accordance with SSAP13. The costs related to the development of the HBB, Paramax 8, and BBB products. Commercial production is expected to commence in January 1998, from which date the related costs will be written off over 3 years.

Notes to accounts (continued)

10 Tangible fixed assets

	Freehold land and buildings £	Plant and machinery £	Total £
Cost			
As at 3 October 1996	-	-	-
Additions	1,359,000	2,848,576	4,207,576
As at 31 December 1997	1,359,000	2,848,576	4,207,576
Depreciation			
As at 3 October 1996	-	-	-
Charge	22,700	300,470	323,170
As at 31 December 1997	22,700	300,470	323,170
Net book value			
As at 31 December 1997	1,336,300	2,548,106	3,884,406

Freehold land amounting to £530,000 for the company has not been depreciated.

Notes to accounts (continued)

11 Stocks

	1997 £
Raw materials and consumables	1,921,732
Work-in-progress	308,184
Finished goods and goods for resale	73,283
	2,303,199

There is no material difference between the balance sheet value of stocks and their replacement cost.

12 Debtors

	1997 £
Amounts falling due within one year:	
Trade debtors	1,073,428
Amounts owed by group undertakings	778,692
Other debtors	50,921
VAT	214,831
Prepayments and accrued income	16,181
	2,134,053

13 Creditors: Amounts falling due within one year

	1997 £
Trade creditors	1,948,732
Amounts owed to group undertakings	1,076,498
Other creditors	
- social security and PAYE	73,345
Accruals and deferred income	195,076
	3,293,651

14 Provisions for liabilities and charges

No potential deferred taxation liability due to tax losses carried forward.

Notes to accounts (continued)

15 Acquisition
On 2 December 1996 the company acquired the trade and net assets of the P T Engineering Division of J H Fenner and Company Limited.

The fair value and book value of the net assets acquired were as follows;

	Fair value and book value £
Fixed assets	
Intangible	4,000
Tangible	3,449,023
	3,453,023
Current assets	
Stock	1,500,000
Debtors	834
Prepayments and accrued income	13,594
	1,514,428
Total assets	4,967,451
Creditors	
Accruals	(45,230)
Net assets	4,922,221
Goodwill	525,000
Consideration	5,447,221

Notes to accounts (continued)

16 Called-up share capital

	1997
	£
Authorised	
10,000,000 ordinary shares of £1 each	10,000,000
Allotted, called-up and fully paid	
6,400,000 ordinary shares of £1 each	6,400,000

17 Reserves

	Profit and loss account
	£'000
Beginning of period	-
Retained loss for the period	(279,402)
End of period	(279,402)

18 Reconciliation of movements in equity shareholders' funds

	1997
	£'000
Loss for the financial period	(279,402)
New shares issued	6,400,000
Net addition to shareholders' funds	6,120,598
Opening shareholders' funds	-
Closing shareholders' funds	6,120,598

19 Pension arrangements

The company operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held in a separate trustee fund administered by professional investment managers. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent valuation was at 1 March 1997.

Notes to accounts (continued)

19 Pension arrangements (continued)

The main assumptions were that investment returns would be 2.5% per annum in excess of future salary increases and 5% per annum in excess of future pension increases, on pensions subject to L.P.I.

The most recent actuarial valuation used a notional worksheet value of assets based on the bulk transfer value of £3,699,186 received on 1 August 1997. The actuarial value of these assets represented 99% of the benefits that had accrued to members, after allowing for expected future increases in earnings.

The pension cost charge for the period was £225,641. The balance sheet at 31 December 1997 included £29,157 of accrued pension costs.

20 Ultimate parent company

The companies ultimate parent company is Sumitomo Heavy Industries, Ltd (incorporated in Tokyo, Japan). The smallest and largest group in which the details of the company are consolidated is Sumitomo Heavy Industries, Ltd, the consolidated accounts of which are available to the public and may be obtained from the following address:

Sumitomo Heavy Industries, Ltd
9-11 Kita Shinagawa 5-Chome
Shinagawa-Ku
Tokyo
141 Japan