



**ANDERSEN**

**Sumitomo (SHI) Cyclo Drive Europe, Ltd**

Annual report and accounts  
for the year ended 31 December 2000

Registered number: 3260836



## Directors' report

For the year ended 31 December 2000

The directors present their annual report on the affairs of the company, together with the accounts and auditors' report, for the year ended 31 December 2000.

### Principal activity

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

### Business review

In the opinion of the directors the results of the company for the year were satisfactory considering the difficult trading conditions.

The directors expect the general level of activity to continue.

In November 2000, the company sold all of its subsidiary undertakings for a total of 3,077,730 Euro, to Sumitomo (SHI) Cyclo Drive Germany GmbH, a fellow group subsidiary undertaking.

### Results and dividends

The audited accounts for the year ended 31 December 2000 are set out on pages 5 to 16. The loss for the year after taxation was £192,000 (1999: £1,339,000). The directors are unable to recommend the payment of a dividend for the year ended 31 December 2000 (1999: £nil).

### Directors

The directors who served during the year were as follows:

F Miyoshi (Japanese)  
N Yamasaki (Japanese)  
M McCann  
Y Arai (resigned 30 June 2000)

### Directors' interests

No director holds any interests in the share capital of the company.

Directors' interests in the share capital of the ultimate parent company, Sumitomo Heavy Industries, Ltd, are disclosed in the accounts of that company.


### Auditors

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

Marfleet  
Kingston upon Hull  
HU9 5RA

15 October 2001

By order of the Board,



Director  
M McCann

## Directors' responsibilities

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those 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.

**Independent Auditors' Report to the Shareholders of Sumitomo (SHI) Cyclo Drive Europe, Ltd:**

We have audited the accounts on pages 5 to 16 of Sumitomo (SHI) Cyclo Drive Europe, Ltd for the year ended 31 December 2000. These accounts have been prepared under the accounting policies set out therein.

**Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the Annual Report and the accounts in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities. Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the accounts, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

**Basis of audit opinion**

We conducted our audit in accordance with United Kingdom 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.

Independent auditors' report (continued)

**Opinion**

In our opinion the accounts give a true and fair view of the state of affairs of the company at 31 December 2000 and of the company's loss for the year 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

15 October 2001

## Profit and loss account

For the year ended 31 December 2000

	Notes	2000 £'000	1999 £'000
<b>Turnover</b>	1	7,616	6,479
Cost of sales		(4,280)	(3,735)
<b>Gross profit</b>		<u>3,336</u>	<u>2,744</u>
Other operating expenses (net)	2	(4,374)	(3,868)
<b>Operating loss</b>		<u>(1,038)</u>	<u>(1,124)</u>
Interest receivable and similar income	3	1	2
Interest payable and similar charges	4	(290)	(217)
Profit on sale of fixed asset investments	5	1,135	-
<b>Loss on ordinary activities before and after taxation</b>	6	<u>(192)</u>	<u>(1,339)</u>
<b>Retained loss for the year</b>	19	<u>(192)</u>	<u>(1,339)</u>

Movements in reserves are shown in note 19.

All turnover derives from continuing operations.

There were no recognised gains or losses in either year other than the result for that year.

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

# Balance sheet

31 December 2000

	Notes	2000 £'000	1999 £'000
<b>Fixed assets</b>			
Development costs, patents and trade marks	10	28	78
Goodwill	11	421	447
		<u>449</u>	<u>525</u>
Intangible assets			
Tangible assets	12	3,261	3,595
Investments	13	-	802
		<u>3,710</u>	<u>4,922</u>
<b>Current assets</b>			
Stocks	14	3,045	2,774
Debtors	15	5,008	7,835
Investments	16	-	5
Cash at bank and in hand		-	173
		<u>8,053</u>	<u>10,787</u>
<b>Creditors: Amounts falling due within one year</b>	17	(8,817)	(12,571)
<b>Net current liabilities</b>		<u>(764)</u>	<u>(1,784)</u>
<b>Net assets</b>		<u>2,946</u>	<u>3,138</u>
<b>Capital and reserves</b>			
Called-up share capital	18	6,400	6,400
Profit and loss account	19	(3,454)	(3,262)
<b>Equity shareholders' funds</b>	20	<u>2,946</u>	<u>3,138</u>

The accounts on pages 5 to 16 were approved by the board of directors on 15 October 2001 and signed on its behalf by:



M McCann  
Director

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

## Statement of accounting policies

31 December 2000

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

### **Basis of accounting**

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

The company has net current liabilities at 31 December 2000. The directors of Sumitomo Heavy Industries, Ltd have confirmed that Sumitomo Heavy Industries, Ltd will continue to provide financial support to the company for a period of at least one year from the date of signing these accounts, such that the company can continue to settle third party liabilities as they fall due. Accordingly, the accounts have been prepared on a going concern basis.

Under the provisions of FRS 1 (Revised) "Cash flow statements", the company has not prepared a cash flow statement because its ultimate parent company Sumitomo Heavy Industries, Ltd, a company registered in Japan, prepares publicly available consolidated accounts in which the results of the company are included.

### **Intangible assets – Goodwill**

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight-line basis over its useful economic life, which is between seven and twenty years. Provision is made for any impairment.

### **Intangible assets - Research and development**

Research expenditure is written off as incurred. 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 group is expected to benefit. Provision is made for any impairment.

### **Intangible assets - Patents and trademarks**

Patents and trademarks are included at cost and depreciated in equal annual instalments over a period of twenty years which is their estimated useful economic life. Provision is made for any impairment.

### **Tangible fixed assets**

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Freehold buildings	40 years
Plant and machinery	3 - 10 years



## Statement of accounting policies (continued)

### Investments

Fixed asset investments are shown at cost less provision for impairment. Current asset investments are stated at the lower of cost and net realisable value.

### 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, slow-moving or defective items where appropriate.

### Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

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.

### Turnover

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales related taxes.

### Pension costs

For defined benefit schemes the amount charged to the profit and loss account in respect of pension costs is the estimated regular cost of providing the benefits accrued in the year, 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 group 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.

### Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate.

The results of overseas operations are translated at the closing rates of exchange during the period and their balance sheets at the rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets and on foreign currency borrowings, to the extent that they hedge the group's investment in such operations, are dealt with through reserves. All other exchange differences are included in the profit and loss account.

## Notes to accounts

31 December 2000

### 1 Segment information

Turnover comprised:

	2000 £'000	1999 £'000
Sales to third parties	2,827	2,863
Intercompany sales	4,789	3,616
	<u>7,616</u>	<u>6,479</u>

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

	2000 £'000	1999 £'000
UK	2,362	2,340
Europe	2,110	1,802
North America	2,540	1,252
Asia	604	1,085
	<u>7,616</u>	<u>6,479</u>

### 2 Other operating expenses

	2000 £'000	1999 £'000
Selling and distribution costs	500	441
Administrative expenses	3,874	3,427
	<u>4,374</u>	<u>3,868</u>

### 3 Interest receivable and similar income

	2000 £'000	1999 £'000
On bank deposits	<u>1</u>	<u>2</u>

## Notes to accounts (continued)

### 4 Interest payable and similar charges

	2000 £'000	1999 £'000
On loans repayable within five years, not by instalments	109	53
On bank borrowings	181	164
	<u>290</u>	<u>217</u>

### 5 Exceptional items reported after operating loss

On 20 November 2000, the company sold all of its subsidiary undertakings for a total of 3,077,730 Euro to Sumitomo (SHI) Cyclo Drive Germany GmbH, a fellow group undertaking. Once all of these transactions had been completed, a profit of £1,135,000 was realised.

As a consequence of current year trading losses which have offset chargeable gains arising on the sale of the subsidiaries, there is no exceptional tax charge.

### 6 Profit/loss on ordinary activities before and after taxation

Profit/loss on ordinary activities before and after taxation is stated after charging:

	2000 £'000	1999 £'000
Depreciation of owned tangible fixed assets	381	386
Amortisation of patents and trademarks	-	1
Amortisation of deferred development expenditure	71	68
Amortisation of goodwill	26	27
Impairment of current asset investment	-	353
Auditors' remuneration		
- audit services	97	48
- non audit services	39	21
	<u>514</u>	<u>435</u>

### 7 Staff costs

The average monthly number of employees (including executive directors) was:

	2000 Number	1999 Number
Production and administration	104	110
Selling and distribution	6	3
	<u>110</u>	<u>113</u>

## Notes to accounts (continued)

### 7 Staff costs (continued)

Their aggregate remuneration comprised:

	2000 £'000	1999 £'000
Wages and salaries	2,357	2,172
Social security costs	184	233
Other pension costs (see note 21)	247	248
	<hr/> 2,788	<hr/> 2,653

### 8 Directors' remuneration

The remuneration of the directors was as follows:

	2000 £'000	1999 £'000
Aggregated emoluments	<hr/> 109	<hr/> 136

The remuneration stated above relates to M McCann in 2000 and to Y Arai and M McCann in 1999. The cost of the remaining directors' remuneration is borne by other companies within the Sumitomo Heavy Industries Group.

#### *Pensions*

One director was a member of a defined benefit pension scheme at 31 December 2000 (1999 - one). At the end of the year, his accrued pension entitlement amounted to £5,767 (1999 - £3,935).

### 9 Taxation

There is no UK corporation tax charge as the capital gain on the sale of the company's subsidiaries was offset by tax losses in the year.

There is no potential deferred taxation liability due to tax losses carried forward.

## Notes to accounts (continued)

### 10 Intangible fixed assets - Development costs, patents and trademarks

	Patents and trademarks £'000	Development costs £'000	Total £'000
<b>Cost</b>			
At 1 January 2000	12	206	218
Additions	5	16	21
At 31 December 2000	17	222	239
<b>Depreciation</b>			
At 1 January 2000	5	135	140
Charge for the year	-	71	71
At 31 December 2000	5	206	211
<b>Net book value</b>			
At 31 December 2000	12	16	28
At 31 December 1999	7	71	78

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 commenced in January 1999, from which date the related costs are being written off over 3 years.

### 11 Intangible fixed assets - Goodwill

	£'000
<b>Cost</b>	
At 1 January 2000 and 31 December 2000	525
<b>Amortisation</b>	
At 1 January 2000	78
Charge for the year	26
At 31 December 2000	104
<b>Net book value</b>	
At 31 December 2000	421
At 31 December 1999	447

## Notes to accounts (continued)

### 12 Tangible fixed assets

	Freehold land and buildings £'000	Plant and machinery £'000	Total £'000
<b>Cost</b>			
At 1 January 2000	1,359	3,300	4,659
Additions	-	47	47
At 31 December 2000	1,359	3,347	4,706
<b>Depreciation</b>			
At 1 January 2000	59	1,005	1,064
Charge for the year	37	344	381
At 31 December 2000	96	1,349	1,445
<b>Net book value</b>			
At 31 December 2000	1,263	1,998	3,261
At 31 December 1999	1,300	2,295	3,595

Freehold land amounting to £530,000 (1999 - £530,000) has not been depreciated.

### 13 Fixed asset investments

	2000 £'000	1999 £'000
Subsidiary undertakings	-	802
		£'000
<b>Cost</b>		
At 1 January 2000		1,155
Disposals		(1,155)
At 31 December 2000		-
<b>Amounts written off</b>		
At 1 January 2000		353
Disposals		(353)
At 31 December 2000		-
<b>Net book value</b>		-

## Notes to accounts (continued)

### 13 Fixed asset investments (continued)

In the year to 31 December 1999, all subsidiary undertakings were included in the consolidation with the exception of S.M. Switzerland, which was excluded on the grounds that it was held with a view to subsequent resale.

#### *Principal group investments*

The company disposed of all of its investments on 20 November 2000 to Sumitomo (SHI) Cyclo Drive Germany GmbH, a fellow group subsidiary undertaking, for a total of 3,077,730 Euro. Further information is given in note 5 to the accounts.

### 14 Stocks

	2000 £'000	1999 £'000
Raw materials and consumables	2,539	2,198
Work-in-progress	408	309
Finished goods and goods for resale	98	267
	<u>3,045</u>	<u>2,774</u>

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

### 15 Debtors

Amounts falling due within one year:

	2000 £'000	1999 £'000
Trade debtors	705	519
Amounts owed by group undertakings	4,113	7,116
VAT	69	12
Other debtors	90	83
Prepayments and accrued income	31	105
	<u>5,008</u>	<u>7,835</u>

Amounts owed by group undertakings are receivable on demand.

## Notes to accounts (continued)

### 16 Current asset investments

	2000 £'000	1999 £'000
Unlisted investments	-	5

S.M. Switzerland was not consolidated in 1999 because the company's interest was held exclusively with a view to subsequent resale. This expected sale occurred on 20 November 2000 as described further in note 5.

### 17 Creditors: Amounts falling due within one year

	2000 £'000	1999 £'000
Bank loans and overdrafts	3,852	1,450
Trade creditors	942	953
Amounts owed to group undertakings	3,770	10,047
Other taxation and social security	85	61
Accruals and deferred income	168	60
	<u>8,817</u>	<u>12,571</u>

Amounts owed to group undertakings are payable on demand.

### 18 Called-up share capital

	2000 £'000	1999 £'000
<i>Authorised</i>		
10,000,000 ordinary shares of £1 each	<u>10,000</u>	<u>10,000</u>
<i>Allotted, called-up and fully-paid</i>		
6,400,000 ordinary shares of £1 each	<u>6,400</u>	<u>6,400</u>

### 19 Reserves

	Profit and loss account £'000
At 1 January 2000	(3,262)
Retained loss for the year	<u>(192)</u>
<b>At 31 December 2000</b>	<b><u>(3,454)</u></b>



## Notes to accounts (continued)

### 20 Reconciliation of movements in equity shareholders' funds

	2000 £'000	1999 £'000
Loss for the financial period	(192)	(2,306)
Net reduction in shareholders' funds	(192)	(2,306)
Opening shareholders' funds	3,138	5,444
Closing shareholders' funds	2,946	3,138

### 21 Pension arrangements

The group 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 1999.

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 1999. 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 year was £246,580 (1999 - £248,000). The balance sheet at 31 December 2000 included £37,714 of accrued pension costs.

### 22 Related parties

As a subsidiary undertaking of Sumitomo Heavy Industries, Ltd, the company has taken advantage of the exemption in FRS 8 "Related party disclosures" from disclosing transactions with other members of the group headed by Sumitomo Heavy Industries, Ltd.

### 23 Ultimate controlling party

The directors regard Sumitomo Heavy Industries, Ltd, a company incorporated in Japan, as the ultimate parent undertaking and the ultimate controlling party.

Sumitomo Heavy Industries, Ltd, is the parent undertaking of the smallest and largest group of which the company is a member and for which group accounts are drawn up. Copies of the accounts are available from 9 - 11 Kitashinagawa 5 - Chrome, Shinagawa-ku, Tokyo, 141 Japan.