

Company Registration No 138006 (England and Wales)

SEM LIMITED
ABBREVIATED ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2006

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SEM LIMITED

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SEM LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2006

The directors present their report and financial statements for the year ended 31 December 2006

Principal activities and review of the business

The principal activity of the company continued to be that of the design and manufacture of electric servomotors and associated equipment

The results for the year and the financial position at the year end were considered satisfactory by the directors. Sales during 2006 increased by 22.1% with strong growth in all market areas. However, additional direct costs were incurred in the sourcing of raw materials and in the manufacturing process thereby reducing the gross profit margin by 2.1%. Additionally, the company made significant losses on foreign exchange transactions due to the strong pound, particularly in the US Dollar based business. During the year further capital investment of £1million was made by the company's ultimate parent in support of its position within the group.

The principal risks and uncertainties affecting the company relate to pressure on margins in addition to the volatility of exchange rates. The directors believe that the best way of dealing with any risk affecting the business is to aim to continue to provide customers with an excellent quality product, first class support and expert service. This has and will always be the fundamental business principles of the company reflecting that of the company's ultimate parent.

Results and dividends

The results for the year are set out on page 4.

The directors do not recommend payment of an ordinary dividend.

Research and development

The company's policy on research and development is to increase expenditure over the coming years to develop new products and to ensure that existing products retain their competitive position in the market place.

Future developments

The directors consider that demand will increase further during 2007 along with the new range of compact motors continuing to be well received opening up opportunities with customers in new markets. The focus of activities for the company over the next two years is to provide customers with an excellent quality product on shorter lead times, to be supported by significant further funding for capital expenditure from the company's ultimate parent. This will then bring greater efficiencies in manufacturing, as well as leading to a significant move back to profitability.

Directors

The following directors have held office since 1 January 2006

E S Miller

G Hagenau

M A Laming

(Resigned 22 November 2006)

(Appointed 22 November 2006)

Directors' interests

The directors' interests in the shares of the ultimate parent company were as stated below

	ordinary of 10p each	
	31 December 2006	1 January 2006
E S Miller	-	-
M A Laming	-	-

SEM LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2006

Auditors

The company has by elective resolution dispensed with the obligation to appoint auditors annually in accordance with section 386(1) of the Companies Act 1985. Therefore, the auditors, Friend-James, will be deemed to be reappointed for each succeeding financial year.

Directors' responsibilities

The directors are responsible for preparing the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare financial statements 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 financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- 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.

Statement of disclosure to auditor

(a) so far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware, and

(b) they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the board

M A Laming

M A Laming

Director

31 March 2007

SEM LIMITED

INDEPENDENT AUDITORS' REPORT TO SEM LIMITED UNDER SECTION 247B OF THE COMPANIES ACT 1985

We have examined the abbreviated accounts set out on pages 4 to 16, together with the financial statements of SEM Limited for the year ended 31 December 2006 prepared under section 226 of the Companies Act 1985

This report is made solely to the company in accordance with Section 247B of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company those matters we are required to state to them in an auditor's report on abbreviated accounts 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, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the abbreviated accounts in accordance with section 246A of the Companies Act 1985. It is our responsibility to form an independent opinion as to whether the company is entitled to deliver abbreviated accounts prepared in accordance with section 246A(3) of the Act to the Registrar of Companies and whether the abbreviated accounts have been properly prepared in accordance with that provision and to report our opinion to you.

Basis of audit opinion

We conducted our work in accordance with Bulletin 2006/3 "The special auditor's report on abbreviated accounts in the United Kingdom" issued by the Auditing Practices Board. In accordance with that Bulletin we have carried out the procedures we consider necessary to confirm, by reference to the financial statements, that the company is entitled to deliver abbreviated accounts and that the abbreviated accounts to be delivered are properly prepared.

Opinion

In our opinion the company is entitled to deliver abbreviated accounts prepared in accordance with section 246A(3) of the Companies Act 1985, and the abbreviated accounts have been properly prepared in accordance with that provision.



Friend-James

31 March 2007

Chartered Accountants
Registered Auditor

169 Preston Road
Brighton
East Sussex
BN1 6AG

SEM LIMITED

ABBREVIATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2006

		2006 £	2005 £
	Notes		
Gross profit		1,824,089	1,704,575
Distribution costs		(493,572)	(361,861)
Administrative expenses		(2,159,581)	(1,851,156)
Loss on ordinary activities before taxation	2	(829,064)	(508,442)
Tax on loss on ordinary activities	3	92,779	54,165
Loss for the year	11	(736,285)	(454,277)

The profit and loss account has been prepared on the basis that all operations are continuing operations

There are no recognised gains and losses other than those passing through the profit and loss account

SEM LIMITED

ABBREVIATED BALANCE SHEET

AS AT 31 DECEMBER 2006

	Notes	2006 £	£	2005 £	£
Fixed assets					
Tangible assets	4	1,010,121		1,132,041	
Investments	5		4		4
		<u>1,010,125</u>		<u>1,132,045</u>	
Current assets					
Stocks	6	1,818,771		1,265,833	
Debtors	7	2,134,930		1,714,760	
Cash at bank and in hand		2,873		91,048	
		<u>3,956,574</u>		<u>3,071,641</u>	
Creditors: amounts falling due within one year	8	<u>(4,577,749)</u>		<u>(4,078,451)</u>	
Net current liabilities			(621,175)		(1,006,810)
Total assets less current liabilities			<u>388,950</u>		<u>125,235</u>
Capital and reserves					
Called up share capital	10	4,800,000		3,800,000	
Profit and loss account	11	(4,411,050)		(3,674,765)	
Shareholders' funds	12		<u>388,950</u>		<u>125,235</u>

These abbreviated accounts have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to medium-sized companies

Approved by the Board and authorised for issue on 31 March 2007

M A Laming

M A Laming
Director

SEM LIMITED

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006

	£	2006 £	£	2005 £
Net cash inflow/(outflow) from operating activities		(954,684)		519,245
Capital expenditure				
Payments to acquire tangible assets	(447,987)		(452,970)	
Receipts from sales of tangible assets	-		9,000	
Net cash inflow for capital expenditure		(447,987)		(443,970)
Net cash inflow/(outflow) before management of liquid resources and financing		(1,402,671)		75,275
Financing				
Issue of ordinary share capital	1,000,000		1,000,000	
Net cash outflow from financing		1,000,000		1,000,000
Increase/(decrease) in cash in the year		(402,671)		1,075,275

SEM LIMITED

NOTES TO THE CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

1	Reconciliation of operating loss to net cash (outflow)/inflow from operating activities	2006 £	2005 £
	Operating loss	(829,064)	(508,442)
	Depreciation of tangible assets	569,907	597,396
	Profit on disposal of tangible assets	-	(9,000)
	(Increase)/decrease in stocks	(552,938)	228,377
	(Increase)/decrease in debtors	(420,170)	111,231
	Increase in creditors within one year	184,802	45,518
	Group relief	92,779	54,165
	Net cash (outflow)/inflow from operating activities	(954,684)	519,245

2	Analysis of net (debt)/funds	1 January 2006 £	Cash flow £	Other non-cash changes £	31 December 2006 £
	Net cash				
	Cash at bank and in hand	91,048	(88,175)	-	2,873
	Bank overdrafts	-	(314,496)	-	(314,496)
		91,048	(402,671)	-	(311,623)
	Bank deposits	-	-	-	-
	Net funds/(debt)	91,048	(402,671)	-	(311,623)

3	Reconciliation of net cash flow to movement in net (debt)/funds	2006 £	2005 £
	(Decrease)/increase in cash in the year	(402,671)	1,075,275
	Movement in net (debt)/funds in the year	(402,671)	1,075,275
	Opening net funds/(debt)	91,048	(984,227)
	Closing net (debt)/funds	(311,623)	91,048

SEM LIMITED

NOTES TO THE ABBREVIATED ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2006

1 Accounting policies

1.1 Accounting convention

The financial statements are prepared under the historical cost convention

The company relies on the continuing support of its parent company to continue to trade. On this basis, the directors consider it appropriate to prepare the financial statements on the going concern basis

1.2 Compliance with accounting standards

The financial statements are prepared in accordance with applicable United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), which have been applied consistently (except as otherwise stated)

1.3 Turnover

Turnover represents amounts receivable for goods and services net of VAT and trade discounts

1.4 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows

Land and buildings Leasehold	25% straight line
Plant and machinery	10% to 33 33% straight line
Fixtures, fittings, tools & equipment	10% to 33 33% straight line

1.5 Leasing

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

1.6 Investments

Fixed asset investments are stated at cost less provision for diminution in value

1.7 Stock and work in progress

Stock and work in progress are valued at the lower of cost and net realisable value

1.8 Pensions

The company operates a defined contribution scheme for the benefit of its employees. Contributions payable are charged to the profit and loss account in the year they are payable

1.9 Deferred taxation

Deferred taxation is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. The deferred tax balance has not been discounted

1.10 Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to profit and loss account

SEM LIMITED

NOTES TO THE ABBREVIATED ACCOUNTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2006

1 Accounting policies

(continued)

1.11 Group accounts

The financial statements present information about the company as an individual undertaking and not about its group. The company has not prepared group accounts as it is exempt from the requirement to do so by section 228 of the Companies Act 1985 as it is a subsidiary undertaking of Westec Holding Company Limited, a company incorporated in England & Wales, and is included in the consolidated accounts of that company.

2 Operating loss

	2006 £	2005 £
Operating loss is stated after charging		
Depreciation of tangible assets	569,907	597,396
Loss on foreign exchange transactions	158,322	-
Research and development	58,562	40,404
Operating lease rentals		
- Plant and machinery	35,281	42,000
- Other assets	352,000	352,000
Auditors' remuneration	13,700	13,200
and after crediting		
Profit on disposal of tangible assets	-	(9,000)
Profit on foreign exchange transactions	-	(40,079)

SEM LIMITED

NOTES TO THE ABBREVIATED ACCOUNTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2006

3	Taxation	2006 £	2005 £
	Domestic current year tax		
	Receipt in respect of group relief	(92,779)	(54,165)
	Current tax charge	(92,779)	(54,165)
	Factors affecting the tax charge for the year		
	Loss on ordinary activities before taxation	(829,064)	(508,442)
	Loss on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30.00% (2005 - 30.00%)	(248,719)	(152,533)
	Effects of		
	Non deductible expenses	3,444	(27,545)
	Depreciation add back	170,972	179,219
	Capital allowances	(143,469)	(143,576)
	Other tax adjustments	124,993	90,270
		155,940	98,368
	Current tax charge	(92,779)	(54,165)

The company has estimated losses of £ 3,313,444 (2005 - £ 2,896,801) available for carry forward against future trading profits

On the basis of these financial statements no provision has been made for corporation tax

Trading losses of £309,263 were surrendered in respect of group relief

The company has a potential deferred tax asset of £1,016,835 at the balance sheet date which will be recoverable on the company's return to profitability in the future

SEM LIMITED

NOTES TO THE ABBREVIATED ACCOUNTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2006

4 Tangible fixed assets

	Land and buildings Leasehold	Plant and machinery	Fixtures, fittings, tools & equipment	Total
	£	£	£	£
Cost				
At 1 January 2006	873,856	3,599,677	2,209,693	6,683,226
Additions	-	37,843	410,144	447,987
At 31 December 2006	873,856	3,637,520	2,619,837	7,131,213
Depreciation				
At 1 January 2006	873,639	2,977,620	1,699,926	5,551,185
Charge for the year	100	313,831	255,976	569,907
At 31 December 2006	873,739	3,291,451	1,955,902	6,121,092
Net book value				
At 31 December 2006	117	346,069	663,935	1,010,121
At 31 December 2005	217	622,057	509,767	1,132,041

SEM LIMITED

NOTES TO THE ABBREVIATED ACCOUNTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2006

5 Fixed asset investments

	Shares in subsidiary undertakings £
Cost	
At 1 January 2006 & at 31 December 2006	4
Net book value	
At 31 December 2006	4
	<hr/>
At 31 December 2005	4
	<hr/>

Holdings of more than 20%

The company holds more than 20% of the share capital of the following companies

Company	Country of registration or incorporation	Class	Shares held %
Subsidiary undertakings			
Small Electric Motors Limited	England	Ordinary	100.00
Controlled Motor Technology Limited	England	Ordinary	100.00

The aggregate amount of capital and reserves and the results of these undertakings for the last relevant financial year were as follows

		Capital and reserves 2006 £	Profit for the year 2006 £
	Principal activity		
Small Electric Motors Limited	Dormant	2	-
Controlled Motor Technology Limited	Dormant	2	-
		<hr/>	<hr/>

6 Stocks and work in progress

	2006 £	2005 £
Raw materials and consumables	1,553,688	1,021,995
Work in progress	265,083	243,838
	<hr/>	<hr/>
	1,818,771	1,265,833
	<hr/>	<hr/>

SEM LIMITED

NOTES TO THE ABBREVIATED ACCOUNTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2006

7 Debtors	2006 £	2005 £
Trade debtors	996,906	846,831
Amounts owed by parent and fellow subsidiary undertakings	934,186	599,129
Other debtors	83,206	148,930
Prepayments and accrued income	120,632	119,870
	<u>2,134,930</u>	<u>1,714,760</u>

8 Creditors amounts falling due within one year	2006 £	2005 £
Bank loans and overdrafts	314,496	-
Trade creditors	664,766	504,467
Amounts owed to parent and fellow subsidiary undertakings	3,210,784	3,200,450
Taxes and social security costs	154,244	130,700
Other creditors	16,081	20,339
Accruals and deferred income	217,378	222,495
	<u>4,577,749</u>	<u>4,078,451</u>

9 Pension costs

Defined contribution

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund.

	2006 £	2005 £
Contributions payable by the company for the year	115,969	109,786
Contributions payable to the fund at the year end and included in creditors	<u>(16,605)</u>	<u>(15,210)</u>

SEM LIMITED

NOTES TO THE ABBREVIATED ACCOUNTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2006

10 Share capital	2006 £	2005 £
Authorised		
100,000,000 ordinary of 10p each	10,000,000	3,800,000
Allotted, called up and fully paid		
48,000,000 ordinary of 10p each	4,800,000	3,800,000

During the year 10,000,000 ordinary shares of 10p each were allotted and fully paid at par

11 Statement of movements on profit and loss account

	Profit and loss account £
Balance at 1 January 2006	(3,674,765)
Loss for the year	(736,285)
Balance at 31 December 2006	(4,411,050)

12 Reconciliation of movements in shareholders' funds	2006 £	2005 £
Loss for the financial year	(736,285)	(454,277)
Proceeds from issue of shares	1,000,000	1,000,000
Net addition to shareholders' funds	263,715	545,723
Opening shareholders' funds	125,235	(420,488)
Closing shareholders' funds	388,950	125,235

13 Contingent liabilities

The company has given cross guarantees in respect of bank facilities of fellow wholly owned group subsidiaries

SEM LIMITED

NOTES TO THE ABBREVIATED ACCOUNTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2006

14 Capital commitments	2006	2005
	£	£

At 31 December 2006 the company had capital commitments as follows

Contracted for but not provided in the financial statements	80,198	86,857
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15 Directors' emoluments	2006	2005
	£	£

Emoluments for qualifying services	107,838	102,374
Company pension contributions to money purchase schemes	9,698	9,360

117,536	111,734
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The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 1 (2005 - 1)

16 Employees

Number of employees

The average monthly number of employees (including directors) during the year was

	2006	2005
	Number	Number
Production	161	143
Selling and distribution	12	11
Administration	16	13
	189	167

Employment costs	2006	2005
	£	£

Wages and salaries	4,194,094	3,599,032
Social security costs	419,258	360,504
Other pension costs	115,969	109,786
	4,729,321	4,069,322

SEM LIMITED

NOTES TO THE ABBREVIATED ACCOUNTS (CONTINUED) ***FOR THE YEAR ENDED 31 DECEMBER 2006***

17 Ultimate parent company

The ultimate parent company is Dr Johannes Heidenhain GmbH, a company registered in Germany