

Company Registration No. 138006 (England and Wales)

SEM LIMITED
ABBREVIATED ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2007

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SEM LIMITED

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SEM LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2007

The Directors present their report and financial statements for the year ended 31 December 2007

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. Following the significant sales growth in 2006, the 2007 year was one of consolidation with sales growing by a further 4%. In a time of turbulent currency markets, the weakening of the dollar reduced profitability in those very competitive markets. The efficiency and quality of production continued to be the focus of the Company's attention, with significant changes being carried out to improve the service offered to the valued customer base. Capital investment of £1million was made by the Company's ultimate parent during the year 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 service expertise. This has and will always be the fundamental business principles of the Company reflecting that of the Company's ultimate parent.

The Company's principal financial instruments comprise bank overdrafts, trade debtors, trade creditors and intra-group loan accounts. The main purpose of these instruments is to raise funds for and to finance the Company's operations. Due to the nature of the financial instruments used by the Company there is no exposure to price risk. The Company's approach to managing other risks applicable to the financial instruments concerned is shown below.

In respect of bank balances the liquidity risk is managed by ensuring the continuity of funding through close monitoring of the level of UK group funds and maximum overdraft amounts available. The interest rate is variable. Trade debtors are managed in respect of credit and cash flow risk by policies concerning the credit offered to customers and the regular monitoring of amounts outstanding for both time and credit limits. Trade creditors liquidity risk is managed by ensuring sufficient funds are available to meet amounts due. The intra-group loans are interest free and repayable on demand. Fellow wholly owned group subsidiaries are aware of the Company's required finance and have determined that these will be repaid, in whole or in part, when finance is available.

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

Focus on production quality and efficiency will continue into 2008 supported by significant further funding for capital expenditure. The Directors expect the new range of compact motors to continue to be well received, opening up opportunities with customers in new markets. A number of new key positions were created within the Company during the year which with a clear direction provides confidence for 2008 and beyond in fulfilling the Company's objectives.

SEM LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2007

Directors

The following directors have held office since 1 January 2007

| | |
|------------|-------------------------|
| E S Miller | (Resigned 31 May 2007) |
| T Walther | (Appointed 31 May 2007) |
| M A Laming | |

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 auditors

So far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware. Additionally, the directors have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all 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

10 April 2008

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 2007 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 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 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

10 April 2008

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 2007

| | | 2007 £ | 2006 £ |
|--|-------|-------------|-------------|
| | Notes | | |
| Gross profit | | 1,854,057 | 1,824,089 |
| Distribution costs | | (417,923) | (493,572) |
| Administrative expenses | | (2,767,424) | (2,159,581) |
| Operating loss | 2 | (1,331,290) | (829,064) |
| Other interest receivable and similar income | | 211 | - |
| Loss on ordinary activities before taxation | | (1,331,079) | (829,064) |
| Tax on loss on ordinary activities | 4 | 177,817 | 92,779 |
| Loss for the year | 12 | (1,153,262) | (736,285) |

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 2007

| | Notes | 2007 £ | £ | 2006 £ | £ |
|---|-------|--------------------|------------------|--------------------|------------------|
| Fixed assets | | | | | |
| Tangible assets | 5 | 1,091,516 | | 1,010,121 | |
| Investments | 6 | | 4 | | 4 |
| | | | <u>1,091,520</u> | | <u>1,010,125</u> |
| Current assets | | | | | |
| Stocks | 7 | 2,359,777 | | 1,818,771 | |
| Debtors | 8 | 1,995,925 | | 2,134,930 | |
| Cash at bank and in hand | | 14,268 | | 2,873 | |
| | | <u>4,369,970</u> | | <u>3,956,574</u> | |
| Creditors' amounts falling due within one year | 9 | <u>(5,225,802)</u> | | <u>(4,577,749)</u> | |
| Net current liabilities | | | <u>(855,832)</u> | | <u>(621,175)</u> |
| Total assets less current liabilities | | | <u>235,688</u> | | <u>388,950</u> |
| Capital and reserves | | | | | |
| Called up share capital | 11 | 5,800,000 | | 4,800,000 | |
| Profit and loss account | 12 | (5,564,312) | | (4,411,050) | |
| Shareholders' funds | 13 | <u>235,688</u> | | <u>388,950</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 10 April 2008

M A Laming

M A Laming
Director

SEM LIMITED

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

| | £ | 2007 £ | £ | 2006 £ |
|---|-----------|------------------|-----------|------------------|
| Net cash outflow from operating activities | | (897,474) | | (954,684) |
| Capital expenditure | | | | |
| Payments to acquire tangible assets | (575,235) | | (447,987) | |
| | <u></u> | | <u></u> | |
| Net cash outflow for capital expenditure | | (575,235) | | (447,987) |
| | | <u></u> | | <u></u> |
| Net cash outflow before management of liquid resources and financing | | (1,472,709) | | (1,402,671) |
| Financing | | | | |
| Issue of ordinary share capital | 1,000,000 | | 1,000,000 | |
| Net cash inflow from financing | | 1,000,000 | | 1,000,000 |
| | | <u></u> | | <u></u> |
| Decrease in cash in the year | | <u>(472,709)</u> | | <u>(402,671)</u> |

SEM LIMITED

NOTES TO THE CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

| 1 | Reconciliation of operating loss to net cash outflow from operating activities | 2007 | 2006 |
|---|--|------------------|------------------|
| | | £ | £ |
| | Operating loss | (1,331,290) | (829,064) |
| | Depreciation of tangible assets | 493,840 | 569,907 |
| | Increase in stocks | (541,006) | (552,938) |
| | Decrease/(increase) in debtors | 139,216 | (420,170) |
| | Increase in creditors within one year | 163,949 | 184,802 |
| | Group relief | 177,817 | 92,779 |
| | Net cash outflow from operating activities | (897,474) | (954,684) |

| 2 | Analysis of net debt | 1 January 2007 | Cash flow | Other non-cash changes | 31 December 2007 |
|---|--------------------------|------------------|------------------|------------------------|------------------|
| | | £ | £ | £ | £ |
| | Net cash | | | | |
| | Cash at bank and in hand | 2,873 | 11,395 | - | 14,268 |
| | Bank overdrafts | (314,496) | (484,104) | - | (798,600) |
| | | <u>(311,623)</u> | <u>(472,709)</u> | <u>-</u> | <u>(784,332)</u> |
| | Bank deposits | - | - | - | - |
| | Net debt | (311,623) | (472,709) | - | (784,332) |

| 3 | Reconciliation of net cash flow to movement in net debt | 2007 | 2006 |
|---|---|------------------|------------------|
| | | £ | £ |
| | Decrease in cash in the year | (472,709) | (402,671) |
| | Movement in net debt in the year | (472,709) | (402,671) |
| | Opening net (debt)/funds | (311,623) | 91,048 |
| | Closing net debt | (784,332) | (311,623) |

SEM LIMITED

NOTES TO THE ABBREVIATED ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2007

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 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

1.10 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

SEM LIMITED

NOTES TO THE ABBREVIATED ACCOUNTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007

| 2 | Operating loss | 2007 | 2006 |
|----------|--|-------------|-------------|
| | | £ | £ |
| | Operating loss is stated after charging | | |
| | Depreciation of tangible assets | 493,840 | 569,907 |
| | Loss on foreign exchange transactions | - | 158,322 |
| | Research and development | 34,840 | 58,562 |
| | Operating lease rentals | | |
| | - Plant and machinery | 44,291 | 35,281 |
| | - Other assets | 352,000 | 352,000 |
| | Auditors' remuneration (including expenses and benefits in kind) | 17,600 | 13,700 |
| | and after crediting | | |
| | Profit on foreign exchange transactions | (15,932) | - |

| 3 | Investment income | 2007 | 2006 |
|----------|--------------------------|-------------|-------------|
| | | £ | £ |
| | Bank interest | 211 | - |

SEM LIMITED

NOTES TO THE ABBREVIATED ACCOUNTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007

| 4 Taxation | 2007 | 2006 |
|---|--------------------|------------------|
| | £ | £ |
| Domestic current year tax | | |
| Receipt in respect of group relief | (177,817) | (92,779) |
| | <u>(177,817)</u> | <u>(92,779)</u> |
| Current tax charge | (177,817) | (92,779) |
| | <u>(177,817)</u> | <u>(92,779)</u> |
| Factors affecting the tax charge for the year | | |
| Loss on ordinary activities before taxation | (1,331,079) | (829,064) |
| | <u>(1,331,079)</u> | <u>(829,064)</u> |
| Loss on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30.00% (2006 - 30.00%) | (399,324) | (248,719) |
| | <u>(399,324)</u> | <u>(248,719)</u> |
| Effects of | | |
| Non deductible expenses | 4,710 | 3,444 |
| Depreciation add back | 129,158 | 170,972 |
| Capital allowances | (9,649) | (143,469) |
| Other tax adjustments | 97,288 | 124,993 |
| | <u>221,507</u> | <u>155,940</u> |
| Current tax charge | (177,817) | (92,779) |
| | <u>(177,817)</u> | <u>(92,779)</u> |

The company has estimated losses of £ 3,637,741 (2006 - £ 3,313,444) 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 £592,722 were surrendered in respect of group relief

The company has a potential deferred tax asset of £1,224,768 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 2007

5 Tangible fixed assets

| | Land and buildings Leasehold | Plant and machinery | Fixtures, fittings, tools & equipment | Total |
|-----------------------|------------------------------------|------------------------|--|-----------|
| | £ | £ | £ | £ |
| Cost | | | | |
| At 1 January 2007 | 873,856 | 3,637,520 | 2,619,837 | 7,131,213 |
| Additions | 3,360 | 293,065 | 278,810 | 575,235 |
| Disposals | - | (61,481) | (149,126) | (210,607) |
| At 31 December 2007 | 877,216 | 3,869,104 | 2,749,521 | 7,495,841 |
| Depreciation | | | | |
| At 1 January 2007 | 873,739 | 3,291,451 | 1,955,902 | 6,121,092 |
| On disposals | - | (61,481) | (149,126) | (210,607) |
| Charge for the year | 170 | 201,449 | 292,221 | 493,840 |
| At 31 December 2007 | 873,909 | 3,431,419 | 2,098,997 | 6,404,325 |
| Net book value | | | | |
| At 31 December 2007 | 3,307 | 437,685 | 650,524 | 1,091,516 |
| At 31 December 2006 | 117 | 346,069 | 663,935 | 1,010,121 |

SEM LIMITED

NOTES TO THE ABBREVIATED ACCOUNTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007

6 Fixed asset investments

| | Shares in subsidiary undertakings £ |
|---|--|
| Cost | |
| At 1 January 2007 & at 31 December 2007 | 4 |
| Net book value | |
| At 31 December 2007 | 4 |
| At 31 December 2006 | 4 |

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 2007 £ | Profit/(loss) for the year 2007 £ |
|-------------------------------------|---------------------------|-----------------------------------|--|
| | Principal activity | | |
| Small Electric Motors Limited | Dormant | 2 | - |
| Controlled Motor Technology Limited | Dormant | 2 | - |

7 Stocks and work in progress

| | 2007 £ | 2006 £ |
|-------------------------------------|------------------|------------------|
| Raw materials and consumables | 2,095,898 | 1,667,848 |
| Work in progress | 184,195 | 57,415 |
| Finished goods and goods for resale | 79,684 | 93,508 |
| | <u>2,359,777</u> | <u>1,818,771</u> |

SEM LIMITED

NOTES TO THE ABBREVIATED ACCOUNTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007

| 8 Debtors | 2007 £ | 2006 £ |
|---|------------------|------------------|
| Trade debtors | 1,011,988 | 996,906 |
| Amounts owed by parent and fellow subsidiary undertakings | 667,818 | 934,186 |
| Other debtors | 175,400 | 83,206 |
| Prepayments and accrued income | 140,719 | 120,632 |
| | <u>1,995,925</u> | <u>2,134,930</u> |

| 9 Creditors, amounts falling due within one year | 2007 £ | 2006 £ |
|---|------------------|------------------|
| Bank loans and overdrafts | 798,600 | 314,496 |
| Trade creditors | 552,688 | 664,766 |
| Amounts owed to parent and fellow subsidiary undertakings | 3,382,978 | 3,210,784 |
| Taxes and social security costs | 234,284 | 154,244 |
| Other creditors | 904 | 16,081 |
| Accruals and deferred income | 256,348 | 217,378 |
| | <u>5,225,802</u> | <u>4,577,749</u> |

10 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.

| | 2007 £ | 2006 £ |
|---|-----------------|-----------------|
| Contributions payable by the company for the year | 224,530 | 115,969 |
| Contributions payable to the fund at the year end and included in creditors | <u>(15,636)</u> | <u>(16,605)</u> |

SEM LIMITED

NOTES TO THE ABBREVIATED ACCOUNTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007

| | | |
|--|-------------------|--|
| 11 Share capital | 2007 | 2006 |
| | £ | £ |
| Authorised | | |
| 100,000,000 ordinary of 10p each | 10,000,000 | 10,000,000 |
| | <u> </u> | <u> </u> |
| Allotted, called up and fully paid | | |
| 58,000,000 ordinary of 10p each | 5,800,000 | 4,800,000 |
| | <u> </u> | <u> </u> |
| During the year 10,000,000 ordinary shares of 10p each were allotted and fully paid at par | | |
| 12 Statement of movements on profit and loss account | | Profit and loss account £ |
| Balance at 1 January 2007 | | (4,411,050) |
| Loss for the year | | (1,153,262) |
| | | <u> </u> |
| Balance at 31 December 2007 | | (5,564,312) |
| | | <u> </u> |
| 13 Reconciliation of movements in shareholders' funds | 2007 | 2006 |
| | £ | £ |
| Loss for the financial year | (1,153,262) | (736,285) |
| Proceeds from issue of shares | 1,000,000 | 1,000,000 |
| | <u> </u> | <u> </u> |
| Net (depletion in)/addition to shareholders' funds | (153,262) | 263,715 |
| Opening shareholders' funds | 388,950 | 125,235 |
| | <u> </u> | <u> </u> |
| Closing shareholders' funds | 235,688 | 388,950 |
| | <u> </u> | <u> </u> |

14 Contingent liabilities

The company has given a composite guarantee 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 2007

| | | |
|--|-------------|-------------|
| 15 Capital commitments | 2007 | 2006 |
| | £ | £ |
| At 31 December 2007 the company had capital commitments as follows | | |
| Contracted for but not provided in the financial statements | 189,950 | 80,198 |

| | | |
|---|-------------|-------------|
| 16 Directors' emoluments | 2007 | 2006 |
| | £ | £ |
| Emoluments for qualifying services | 119,965 | 107,838 |
| Company pension contributions to money purchase schemes | 113,098 | 9,698 |
| Compensation for loss of office | 86,849 | - |
| | 319,912 | 117,536 |

The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 1 (2006 - 1)

17 Employees

Number of employees

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

| | | |
|--------------------------|---------------|---------------|
| | 2007 | 2006 |
| | Number | Number |
| Production | 174 | 161 |
| Selling and distribution | 11 | 12 |
| Administration | 16 | 16 |
| | 201 | 189 |

| | | |
|-------------------------|-------------|-------------|
| Employment costs | 2007 | 2006 |
| | £ | £ |
| Wages and salaries | 4,798,901 | 4,194,094 |
| Social security costs | 469,631 | 419,258 |
| Other pension costs | 224,530 | 115,969 |
| | 5,493,062 | 4,729,321 |

SEM LIMITED

NOTES TO THE ABBREVIATED ACCOUNTS (CONTINUED) ***FOR THE YEAR ENDED 31 DECEMBER 2007***

18 Ultimate parent company

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