Schmidt UK Limited

Annual Report and Accounts

31 May 2002

Company Registration No. 557725

DIRECTOR
P A Diver

SECRETARY
S Lea

AUDITORS
Deloitte & Touche
Leda House
Station Road
Cambridge
CB1 2RN

BANKERS
Lloyds TSB Bank Plc
Minster Place
Ely
Cambridgeshire
CB7 4EN

National Westminster Bank Plc
56 St Andrews Street
Cambridge
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SOLICITORS
Greenwoods
Monkstone House
City Road
Peterborough
PE1 1JE

REGISTERED OFFICE
Southgate Way
Orton Southgate
Peterborough
PE2 6GP

DIRECTOR'S REPORT

The director presents his annual report and the audited accounts for the year ended 31 May 2002.

ACTIVITIES

The principal activity of the company is the manufacture, sale and after-sale support of special purpose surface cleansing vehicles and equipment.

In December 2002 the company's manufacturing operations were relocated to another Schmidt company in Germany. Subsequent to this date machines sold by Schmidt UK Limited will be purchased from that company rather than manufactured in-house.

REVIEW OF DEVELOPMENTS

Turnover increased by 6.7% from the 2000/1 level to £20.8 million. Despite this increase in turnover the company made a loss after taxation of £987,430 compared to a loss of £447,914 in 2000/1. The reasons for this loss can be largely attributed to significant obsolescence costs being recognised in this year, and significant product development expenditure as the company has endeavoured to rationalise its operations and to focus on core business.

As a result of the relocation of the manufacturing operations the turnover of the company will reduce significantly in the coming years. Machines that were manufactured in the UK and exported to overseas countries will now be provided by another Schmidt company. However, the director is of the opinion that the future prospects of the company continue to be positive.

RESULTS AND DIVIDENDS

The results of the company are set out on page 8.

The director is unable to recommend the payment of a dividend for the year (2001 - £nil).

DIRECTOR AND HIS INTERESTS

The director who served throughout the year is listed on page 2.

The director did not have an interest in the shares of the company or any group company at any time during the year.

EMPLOYEE INVOLVEMENT

Communication with employees is effected through Works Committee meetings, which include representatives of all of the company's workforce and senior management. The committee meetings enable senior management to update employees on company progress and to discuss various matters of mutual interest.

DIRECTOR'S REPORT (continued)

AUDITORS

During the year, Arthur Andersen resigned as the company's auditors following the agreement it reached with Deloitte & Touche under which partners and staff from Arthur Andersen joined Deloitte & Touche. The director used his powers under the Companies Act 1985 to appoint Deloitte & Touche as the company's auditors to fill the vacancy created by Arthur Andersen's resignation.

The director will place a resolution before the annual general meeting to reappoint Deloitte & Touche as auditors for the ensuing year.

By order of the Board

P A Diver
Director

20 March 2003

STATEMENT OF DIRECTOR'S RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

United Kingdom company law requires the director to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those accounts, the director is 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.
- Prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The director is 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. He is 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 MEMBERS OF SCHMIDT UK LIMITED

We have audited the financial statements of Schmidt UK Limited for the year ended 31 May 2002 which comprise the profit and loss account, the balance sheet and the related notes numbered 1 to 22. 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 the director and auditors

As described in the statement of director's responsibilities, the company's director is responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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 if, in our opinion, the director's report is not consistent with the financial statements, 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 director's remuneration and transactions with the company is not disclosed. We read the director's report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

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 financial statements. It also includes an assessment of the significant estimates and judgements made by the director 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.

INDEPENDENT AUDITORS' REPORT (continued)

Opinion
In our opinion, the financial statements give a true and fair view of the state of the company's affairs as at 31 May 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants and
Registered Auditors
Cambridge

24 March 2003

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MAY 2002

	Notes	2002 £	2001 £
TURNOVER	2	20,812,775	19,509,557
Cost of sales		(18,829,958)	(17,119,963)
Gross profit		1,982,817	2,389,594
Sales and distribution costs		(1,475,249)	(1,582,569)
Administrative expenses		(1,195,095)	(840,624)
Operating expenses (net)		(2,670,344)	(2,423,193)
OPERATING LOSS		(687,527)	(33,599)
Interest receivable	5	400	2,439
Interest payable and similar charges	6	(300,303)	(381,045)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	4	(987,430)	(412,205)
Tax on loss on ordinary activities	7	-	(35,709)
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION, BEING RETAINED LOSS FOR THE YEAR	16, 17	(987,430)	(447,914)

There were no recognised gains or losses in either year, other than the loss for each year, and therefore a statement of total recognised gains and losses has not been included in these accounts.

The results are all derived from continuing operations.

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

BALANCE SHEET AS AT 31 MAY 2002

	Notes	2002 £	2001 £
FIXED ASSETS			
Tangible assets	8	3,423,418	3,680,539
		3,423,418	3,680,539
CURRENT ASSETS			
Stocks	9	4,940,821	4,833,834
Debtors	10	4,599,002	4,477,110
Cash at bank and in hand		6,959	6,436
		9,546,782	9,317,380
CREDITORS : Amounts falling due within one year	11	(6,739,691)	(5,814,947)
NET CURRENT ASSETS		2,807,091	3,502,433
TOTAL ASSETS LESS CURRENT LIABILITIES		6,230,509	7,182,972
CREDITORS : Amounts falling due after more than one year	12	(3,955,069)	(3,918,870)
PROVISIONS FOR LIABILITIES AND CHARGES	14	(188,559)	(189,791)
NET ASSETS		2,086,881	3,074,311
CAPITAL AND RESERVES			
Called-up share capital	15	5,502,226	5,502,226
Profit and loss account	16	(3,415,345)	(2,427,915)
EQUITY SHAREHOLDERS' FUNDS	17	2,086,881	3,074,311

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

These accounts were approved by the Director on 20 March 2003

P A Diver
Director

NOTES TO THE ACCOUNTS AT 31 MAY 2002

1. ACCOUNTING POLICIES

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

Accounting Convention
The accounts have been prepared under the historical cost convention, and in accordance with applicable accounting standards in the United Kingdom.

Cash flow statement
The company has not prepared a cash flow statement as it is exempt from the requirement under FRS1 (Revised) "Cash flow statements" as its parent company, Schmidt Holdings GmbH, produces consolidated accounts that are publicly available and include a cash flow statement.

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

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 that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains or losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as 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 not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold. Deferred tax assets and liabilities are not discounted.

Foreign Currency
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. The exchange differences arising are taken to the profit and loss account.

1. ACCOUNTING POLICIES (continued)

Tangible Fixed Assets and Depreciation
Tangible fixed assets are included at cost less depreciation and provision for impairment

No depreciation is provided on freehold land.

For all other fixed assets depreciation is calculated to write down their cost to their estimated residual value in equal annual amounts over their estimated useful lives as follows:

Freehold buildings	between 40 and 50 years
Plant and machinery	between 5 and 10 years
Jigs and tools	3 years
Motor cars	4 years
Commercial and sweeping vehicles	5 years
Computer equipment	between 2 and 3 years
Office equipment	5 years
Fixtures and fittings	10 years

Residual value is calculated on prices prevailing at the date of acquisition.

Stocks and Work In Progress
Stocks and work in progress are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition, as follows:

Raw materials and consumables – purchase cost on a first-in, first-out basis
Work in progress and finished goods – cost of direct materials and labour plus attributable overheads according to condition.

Demonstration vehicles are treated as stock and valued at the lower of cost plus attributable overheads and net realisable value.

Provision is made for slow-moving, obsolete or defective items where appropriate.

Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal.

Development Expenditure
Development expenditure is written off as incurred.

Warranty Costs
Provision is made for the costs (including labour and travel costs) estimated to arise over the warranty period of repairs to, or replacement of, goods sold under warranty up to the year end.

Pensions
The company operates a defined benefit, funded pension scheme for managers and senior staff, the costs of which are estimated on the basis of independent actuarial advice and are charged to the profit and loss account so as to spread the cost over the service lives of employees in such a way that the pension cost is a substantially level percentage of current and expected future pensionable payroll.

The company also operates a money purchase pension plan for other employees, the costs of which are charged to the profit and loss account as incurred.

2. TURNOVER

Turnover, which is stated net of value added tax and discounts, represents amounts invoiced to third parties and other group companies. All turnover is attributable to the principal activity of the company.

The turnover attributable to each of the company's geographical markets is:

	2002 £	2001 £
United Kingdom	7,829,158	6,405,089
Other EC countries	12,184,018	12,347,499
Other overseas countries	799,599	756,969
	20,812,775	19,509,557

All turnover has been derived from the United Kingdom.

3. DIRECTOR'S EMOLUMENTS AND STAFF COSTS

	2002 £	*2001* £
Director's emoluments		
Emoluments (excluding pension contributions)	88,080	50,414
Company contributions paid to defined benefit pension schemes	7,788	6,951
	Number	Number
Number of directors who are members of a defined benefit pension scheme	1	1

The monthly average number of employees (including executive director) was as follows :

	Number	Number
Production	165	170
Sales and distribution	21	20
Administration	13	10
	199	200

Staff costs during the year :	£	£
Wages and salaries	4,071,710	3,825,011
Social security costs	385,870	374,787
Other pension costs	135,478	103,746
	4,593,058	4,303,544

4. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

	2002	*2001*
	£	£
This is stated after charging :		
Development expenditure	681,988	564,246
Depreciation of :		
- Owned tangible fixed assets	331,534	438,947
Rentals under operating leases		
- Plant and machinery	250,745	221,229
Auditors' remuneration for audit services	27,996	30,000
Fees paid to auditors for other services	12,000	12,000

5. INTEREST RECEIVABLE

	2002	*2001*
	£	£
Interest on bank deposits	400	939
Interest on group balances	-	1,500
	400	2,439

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2002	*2001*
	£	£
On property loan	143,064	126,965
On bank loans, overdrafts and other loans	157,239	242,839
On prior year corporation tax	-	11,241
	300,303	381,045

7. TAX ON LOSS ON ORDINARY ACTIVITIES

	2002	2001
	£	£
Taxation is based on the loss for the year and comprises:		
UK Corporation tax adjustment from prior years	-	(35,709)

The differences between the total current tax shown and the amount calculated by applying the standard rate of tax to the loss before tax is as follows:

	2002	2001
	£	£
Loss on ordinary activities before tax of £987,430 (2001: £412,205) at 30% (2001: 30%)	(296,229)	(123,662)
Effects of:		
Expenses not deductible for tax purposes	28,278	16,676
Capital allowances in excess of depreciation	(6,257)	238
Non-utilisation of tax losses	274,208	106,748
Adjustments to tax charge in respect of prior periods	-	(35,709)
Current tax charge for the year	-	(35,709)

8. TANGIBLE FIXED ASSETS

	Freehold land and buildings £	Plant machinery, jigs and tools £	Motor cars and commercial vehicles £	Sweeping vehicles £	Computer equipment £	Office equipment fixtures and fittings £	Total £
Cost :							
At 1 June 2001	3,147,737	2,020,064	171,502	34,021	408,534	1,674,560	7,456,418
Additions	7,405	53,581	-	-	8,760	9,730	79,476
Disposals	-	(150,912)	-	-	(41,129)	(4,500)	(196,541)
At 31 May 2002	3,155,142	1,922,733	171,502	34,021	376,165	1,679,790	7,339,353
Depreciation :							
At 1 June 2001	(303,865)	(1,714,608)	(171,502)	(1,416)	(332,853)	(1,251,635)	(3,775,879)
Charge for year	(42,077)	(110,753)	-	(8,505)	(42,194)	(128,005)	(331,534)
Disposals	-	147,759	-	-	39,219	4,500	191,478
At 31 May 2002	(345,942)	(1,677,602)	(171,502)	(9,921)	(335,828)	(1,375,140)	(3,915,935)
Net book value :							
At 31 May 2002	2,809,200	245,131	-	24,100	40,337	304,650	3,423,418
Net book value :							
At 31 May 2001	2,843,872	305,456	-	32,605	75,681	422,925	3,680,539

9. STOCKS

	2002 £	2001 £
Raw materials and consumables	2,742,670	2,583,336
Work in progress	810,500	784,546
Finished goods	1,387,651	1,465,952
	4,940,821	4,833,834

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

10. DEBTORS: Amounts falling due within one year

	2002	*2001*
	£	£
Trade debtors	934,466	875,743
Amounts owed by group companies	3,502,476	3,463,582
Value added tax	79,665	38,315
Other debtors	29,397	62,892
Prepayments and accrued income	52,998	36,578
	4,599,002	4,477,110

11. CREDITORS: Amounts falling due within one year

	2002	*2001*
	£	£
Obligations under finance leases	18,532	-
Bank overdraft	528,444	358,033
Property loan (see note 13)	85,000	91,824
Trade creditors	2,745,349	2,270,321
Amounts owed to group companies	2,851,322	2,667,170
Other taxation and social security	134,826	123,518
Other creditors	-	692
Accruals and deferred income	376,218	303,389
	6,739,691	5,814,947

12. CREDITORS: Amounts falling due after more than one year

	2002	*2001*
	£	£
Property loan (see note 13)	2,017,620	2,115,556
Bank loan (see note 13)	320,682	301,491
Other loans (see note 13)	1,616,767	1,501,823
	3,955,069	3,918,870

13. BORROWINGS

	2002 £	*2001* £
Property loan	2,102,620	2,207,380
Bank loan	320,682	301,491
Other loans	1,616,767	1,501,823
	4,040,069	4,010,694

Analysis of loan repayments :

	2002 £	*2001* £
Within one year	85,000	91,824
Between one and two years	85,000	91,824
Between two and five years	575,682	576,963
After five years	3,294,387	3,250,083
	4,040,069	4,010,694

The property loan of £2,102,620 is secured by a first mortgage on the freehold property and interest is charged at base rate plus 1 3/8%.

The bank loan is unsecured and interest is charged at a rate equal to that offered on deposits in the London Interbank Market plus 1 1/8%. The loan is wholly repayable within five years.

Other loans comprises a loan from Schmidt Holding GmbH. The loan is unsecured and interest is charged at rates between 5% and 6%. The loan is repayable in annual instalments of DM500,000.

In June 2002, following the sale and leaseback of the freehold property (see note 22a) the property loan and other loan were repaid in full.

14. PROVISIONS FOR LIABILITIES AND CHARGES

	Warranty £
At 1 June 2001	189,791
Arising during the year	837,245
Utilised during the year	(838,477)
At 31 May 2002	188,559

Warranty
A provision is recognised for expected warranty claims on products sold in the year. It is expected that all of these costs will be incurred in the next financial year.

14. PROVISIONS FOR LIABILITIES AND CHARGES (continued)

Deferred Taxation
The amounts of deferred taxation provided in the accounts are as follows:

	2002 £	*2001* £
Capital allowances in advance of depreciation	223,047	218,689
Losses carried forward	(223,047)	(218,689)
	-	-

15. CALLED-UP SHARE CAPITAL

	2002 £	*2001* £
Authorised		
10,000,000 ordinary shares of £1 each	10,000,000	10,000,000
Allotted, called up and fully paid		
5,502,226 ordinary shares of £1 each	5,502,226	5,502,226

16. RESERVES

	Profit and loss account £
Balance at 31 May 2001	(2,427,915)
Loss for the year	(987,430)
Balance at 31 May 2002	(3,415,345)

17. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2002 £	*2001* £
Loss for financial year	(987,430)	(447,914)
Issue of new shares	-	3,076,089
Net (reduction in) addition to shareholders' funds	(987,430)	2,628,175
Opening shareholders' funds	3,074,311	446,136
Closing shareholders' funds	2,086,881	3,074,311

18. FINANCIAL COMMITMENTS

Operating lease commitments

At 31 May 2002 the company had annual commitments under non-cancellable operating leases as set out below:

	2002	*2001*
	£	£
Leases which expire :		
Within one year	96,490	16,084
Within two to five years	129,281	258,656
	225,771	274,740

19. DEFINED BENEFIT PENSION SCHEME

a) SSAP 24 disclosures

Pension costs are assessed in accordance with the advice of professionally qualified actuaries using the attained age method. The funding rate of the defined benefit scheme is 18.9%.

The most recent valuation was made at 1 January 2000 and the assumptions, which had the most significant effect on the results of the valuation were as follows:

Rate of return on investments	6.5% per annum compound
Rate of earnings growth	4.5% per annum compound
Price inflation	2.5% per annum compound

At the date of the valuation, the level of funding, being the actuarial value of assets expressed as a percentage of the benefits accrued to members after allowing for future salary increases, was 120%. The calculated value of the scheme assets at 1 January 2000 was £2,384,000.

The total defined benefit pension cost for the year was £135,478 (2001 £103,746), of which £7,435 (2001 £3,788) was outstanding at the year end.

b) FRS 17 disclosures

Additional disclosures regarding the group's defined benefit pension scheme are required under the transitional provisions of FRS 17 "Retirement benefits" and these are set out below. The disclosures relate to the first year of the transitional provisions. They provide information which will be necessary for full implementation of FRS 17 in the year ending 31 May 2004.

The actuarial valuation described above has been updated at 31 May 2002 by a qualified actuary using revised assumptions that are consistent with the requirements of FRS 17. Investments have been valued, for this purpose, at fair value.

19. DEFINED BENEFIT PENSION SCHEME (continued)

The major assumptions used for the actuarial valuation were:

	2002
Rate of increase in salaries	4.0%
Rate of increase in pensions in payment	3.0%
Discount rate	5.9%
Inflation assumption	3.0%

The fair value of the assets in the scheme, the present value of the liabilities in the scheme and the expected rate of return at the balance sheet date were:

	2001 %	2001 £ 000
Equities	6.0	1,814
Bonds	5.5	333
Cash	3.0	178
Total fair value of assets		2,325
Present value of scheme liabilities		(2,546)
Deficit in the scheme		(221)

The profit and loss deficit of £3,415,345 would be increased by £221,000 upon implementation of FRS 17.

The contribution rate for 2002 was 18.7% of pensionable earnings and the agreed contribution rate for the next two years is 26.6% of pensionable earnings.

20. CONTINGENT LIABILITIES

The company has given a guarantee to National Westminster Bank Plc to secure all monies from time to time owing to the bank by certain fellow group companies. At 31 May 2002, the amount owed by these other group companies totalled £nil (2001 - £nil).

The company has also provided an indemnity for the leasing obligations of a fellow subsidiary. At 31 May 2002 the capital amounts outstanding on the leases totalled £743,986 (2001 £519,898).

During the normal course of business, the company has entered into a number of agreements to buy back vehicles on or prior to a specific date at agreed residual values. These repurchase obligations amounted to £96,615 at 31 May 2002 (2001 £107,464) of which £36,751 (2001 £36,311) is due to be paid out within the next year. In the director's opinion, future income streams from these vehicles will be in excess of the agreed residual values.

21. RELATED PARTY TRANSACTIONS AND ULTIMATE CONTROLLING PARTY

The director regards Schmidt Holding GmbH, a company incorporated in Germany, as the ultimate parent company and the ultimate controlling party.

Schmidt Holdings Limited is the parent company of the smallest group of which the company is a member and for which group accounts are drawn up. Copies of the accounts are available from Schmidt Holdings Limited, Southgate Way, Orton Southgate, Peterborough, PE2 6GP.

Schmidt Holding GmbH is the parent company of the largest group of which the company is a member and for which group accounts are available from Schmidt Holding GmbH, Kurze Strasse 40, Filderstadt 70794, Bonlanden, Germany.

As a subsidiary undertaking of Schmidt Holding GmbH, the company has taken advantage of the exemption in FRS8 'Related party disclosures' from disclosing transactions with other members of the group headed by Schmidt Holding GmbH.

22. POST BALANCE SHEET EVENTS

a) Sale of freehold property

On 28 June 2002 the company sold its freehold land and buildings for £5,675,000 and on the same date signed a lease agreement for those premises for 20 years at an annual rental of £470,000.

b) Relocation of manufacturing operations

In December 2002 the manufacturing operations were relocated to another Schmidt company in Germany. All fixed assets and stock related to the manufacturing process were transferred to that company at net book value.

As a result of the above the headcount of the company will fall by approximately 120. 80 people left the company in December 2002 and a further 40 are planned to leave by March 2003.