

MICRO – METALSMITHS LIMITED

Financial statements

for the year ended 3 April 2005

Directors

C W Shaw
M J R Shaw
B J Shaw
S D Parkin

Secretary

D J Cuming

Registered auditors

Moore Stephens
Chartered Accountants
12 – 13 Alma Square
Scarborough
North Yorkshire
YO11 1JU

Bankers

Barclays Bank PLC
6 East Parade
Leeds
LS1 2UX

Solicitors

Pinsent Curtis Biddle
1 Park Row
Leeds
LS1 5AB

**SIGNED COPY FOR
REGISTRAR OF COMPANIES**

Registered office

Kirkdale Road
Kirkbymoorside
York
YO62 6PX

Company registration

England 786 649



MICRO—METALSMITHS LIMITED

Directors report

for the year ended 3 April 2005

The directors have pleasure in presenting their annual report to shareholders together with the company's audited accounts for the year ended 3 April 2005.

Principal activity

The company is principally engaged in the manufacture and assembly of precision components from investment castings and associated machining operations and the design and production of state of the art microwave sub-systems.

Business review

The year has seen a continuing reduction in the size of the U.K. manufacturing and engineering sector which has traditionally been the company's biggest market. Additionally, the U.S.A. defence market has remained essentially closed to us due to the imposition of the ITARS regulations. (The so-called ITARS waiver which is said to have been negotiated by our politicians means nothing at company level.) Under the circumstances, shareholders should appreciate the very considerable effort made by management and workforce to return a profit on a continuing low level of business.

Our response to the business trends referred to above is to increase our coverage of world markets. Start-up costs have had to be absorbed; more will be incurred in the coming year; but results are beginning to show. In particular, our non-defence U.S.A. business now provides us with our fastest growth area though its profitability is subject to currency fluctuations.

Overall, the outlook for the coming year is for another small advance in both sales volume and profitability.

The profit and loss account reflects the following results:

	£'000
Profit after taxation	169

The directors do not recommend the payment of a dividend.

Post balance sheet events

The company has purchased its formerly leased premises in Pickering for an overall cost of £850,000. This purchase has been financed by a combination of long term mortgage provided by Barclays Bank and by funds available within company's resources. The purchase will increase the range of options available to the company to re-organise its present two-site operation.

Directors and their interests in the capital of the company

The directors and their family interests in the capital of the company during the period were:

	3 April 2005	Ordinary £1 shares 28 March 2004
C W Shaw	20,173	20,173
M J R Shaw	24,471	24,471
B J Shaw	—	—
S D Parkin	—	—

Statement of directors' responsibilities

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 judgments 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 to 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.

This report has been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies.

By Order of the Board



C W Shaw
Director

MICRO-METALSMITHS LIMITED

Independent auditors' report to the shareholders of Micro – Metalsmiths Limited

for the year ended 3 April 2005

We have audited the financial statements of Micro–Metalsmiths Limited for the year ended 3 April 2005 set out on pages 4 to 12. These financial statements have been prepared in accordance with the Financial Reporting Standard for Smaller Entities, under the historical cost convention as modified by the revaluation of freehold property and the accounting policies set out on page 6.

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 auditor's 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 directors and auditors

As described in the Statement of Directors' Responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom 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 to you if, in our opinion, the Directors' 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 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 financial statements. It also includes an assessment of the significant estimates and judgments made by the directors 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 3 April 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Moore Stephens

12–13 Alma Square
Scarborough
YO11 1JU
3 October 2005

MOORE STEPHENS

Registered Auditors
Chartered Accountants

MICRO – METALSMITHS LIMITED

Profit and loss account

for the year ended 3 April 2005

	Note	£'000	2004 £'000
Turnover	1	4,350	4,126
Cost of sales		2,784	2,717
Gross profit		<u>1,566</u>	<u>1,409</u>
Other operating charges	3	(1,355)	(1,342)
Operating profit – continuing operations	2	<u>211</u>	<u>67</u>
Interest receivable		1	1
Interest payable	4	(55)	(56)
Profit on ordinary activities before taxation		<u>157</u>	<u>12</u>
Taxation on profit on ordinary activities	6	12	15
Retained profit for the year	15	<u><u>169</u></u>	<u><u>27</u></u>

MICRO-METALSMITHS LIMITED

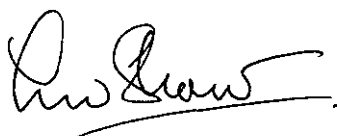
Balance sheet

as at 3 April 2005

	Note	£'000	£'000	2004 £'000	£'000
Fixed assets					
Tangible assets	7		1,007		1,080
Investments	8		10		10
			<u>1,017</u>		<u>1,090</u>
Current assets					
Stocks		394		382	
Debtors	9	811		1,035	
Cash at bank and in hand		27		20	
		<u>1,232</u>		<u>1,437</u>	
Creditors: amounts falling due within one year	10	441		922	
Net current assets			791		515
Total assets less current liabilities			<u>1,808</u>		<u>1,605</u>
Creditors: amounts falling due after more than one year	11		572		591
Provisions for liabilities and charges					
Pension provision	12	53		—	
Deferred taxation	13	—		—	
		<u>53</u>		<u>—</u>	
Net assets			<u>1,183</u>		<u>1,014</u>
Capital and reserves					
Called up share capital	14		82		82
Property revaluation reserve	15		118		124
Profit and loss account	15		983		808
			<u>1,183</u>		<u>1,014</u>

The financial statements have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies.

The financial statements were approved by the board of directors on 26th September 2005



C W Shaw
Director



S D Parkin
Director

Notes to the accounts

for the year ended 3 April 2005

1 Accounting policies

These accounts have been prepared under the historical cost convention as modified by the revaluation of freehold property and in accordance with the Financial Reporting Standard for Smaller Entities (effective June 2002) adopting the following principal accounting policies.

1.01 Turnover

Turnover is the total amount receivable by the company for goods supplied and services provided, excluding value added tax and trade discounts.

1.02 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment. Depreciation is calculated on a straight line basis to write down the cost or valuation of all tangible fixed assets other than freehold land over their estimated useful lives. The rates generally applicable are:

Freehold buildings	6.66% per annum
Leasehold buildings	evenly over the lease term
Other fixed assets	10% – 33% per annum

1.03 Stocks

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

1.04 Deferred taxation

Deferred tax is recognised as a liability or asset if the transactions or events that give an obligation to pay more tax in future or a right to pay less tax in future have occurred by the balance sheet date, although deferred tax assets are recognised only when it becomes more likely than not that they will be recoverable and deferred tax is not provided on timing differences arising when a fixed asset is revalued without there being any commitment to sell the asset.

1.05 Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denoted in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Exchange differences are dealt with through the profit and loss account.

1.06 Research and development

Research and development expenditure not chargeable to customers is written off in the year of expenditure.

1.07 Retirement benefits

Defined benefit pension scheme

Contributions are charged to the profit and loss account so as to spread the cost of pensions over the employees' working lives. Variations in pension cost, which are identified as a result of actuarial valuations, are amortised over the average expected remaining working lives of employees in proportion to their expected payroll costs. Differences between the amounts funded and the amounts charged to the profit and loss account are treated as either provisions or prepayments in the balance sheet.

FRS 17 "Retirement benefits" replaces the use of actuarial values for assets in a defined benefit pension scheme with a market value approach. Fluctuations in market values will be reflected in the statement of recognised gains and losses whilst the standard requires the profit and loss account to show the service cost, the interest cost and the expected return on scheme assets. The company has complied with the transitional disclosure requirements of the standard as reflected in the Financial Reporting Standard for Smaller Entities (effective June 2002).

Defined contribution pension scheme

The pension costs charged against operating profits represent the amount of the contributions payable to the scheme in respect of the accounting period.

1.08 Leased assets

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over their expected useful lives. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the profit and loss account over the period of the lease. All other leases are regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight line basis over the lease term.

MICRO – METALSMITHS LIMITED

Notes to the accounts

for the year ended 3 April 2005

2 Turnover and profit/loss on ordinary activities before taxation

43% (2004 – 48%) of the turnover of the company is attributable to markets outside the United Kingdom.

The profit on ordinary activities is stated after charging/(crediting):

	2004 £'000	2004 £'000
Auditors remuneration	9	8
Depreciation	218	287
Exchange (gains)/losses	(1)	33
Exceptional items:		
– redundancy costs	–	11
– bad debt	–	9
	<u> </u>	<u> </u>

3 Other operating charges

	2004 £'000	2004 £'000
Research and development	17	35
Selling and distribution costs	477	473
Administrative expenses	861	834
	<u>1,355</u>	<u>1,342</u>

4 Interest payable

	2004 £'000	2004 £'000
Bank overdraft and short term loan interest	8	20
Interest on long term loans	43	31
Finance lease charges	4	5
	<u>55</u>	<u>56</u>

5 Directors' emoluments

	2004 £'000	2004 £'000
Emoluments	160	159
Pension contributions	4	5
	<u>164</u>	<u>164</u>

During the year no (2004 – 1) director participated in a defined benefit pension scheme.

One director is accruing benefits under a defined contribution pension scheme.

6 Taxation

	2004 £'000	2004 £'000
Analysis of tax charge in the year		
Current tax		
UK corporation tax on results of the period	–	(15)
Adjustments in respect of previous periods	–	–
Total current tax	<u>–</u>	<u>(15)</u>
Deferred tax		
Origination and reversal of timing differences		
– current period	(12)	–
– from previous periods	–	–
	<u>(12)</u>	<u>–</u>
Tax (credit)/charge on profit on ordinary activities	<u>(12)</u>	<u>(15)</u>

MICRO – METALSMITHS LIMITED

Notes to the accounts

for the year ended 3 April 2005

7 Tangible assets

	Land & buildings		Vehicles & office equipment	Plant, machinery & tooling	Total
Cost or valuation	Freehold £'000	Short leasehold £'000	£'000	£'000	£'000
As at 28.03.04	507	74	535	5,169	6,285
Additions	–	–	35	111	146
Disposals	–	–	(34)	(1)	(35)
As at 03.04.05	507	74	536	5,279	6,396
Depreciation					
As at 28.03.04	58	43	494	4,610	5,205
Provided in year	23	4	22	169	218
Disposals	–	–	(33)	(1)	(34)
As at 03.04.05	81	47	483	4,778	5,389
Net book value					
As at 28.03.04	449	31	41	559	1,080
As at 03.04.05	426	27	53	501	1,007
Cost or valuation					
Cost	7	74	536	5,279	5,896
Valuation – 2002	500	–	–	–	500
	507	74	536	5,279	6,396

	2004 £'000	2004 £'000
Freehold land on which no depreciation provided	155	155
Original cost of assets stated at valuation *	363	363
Accumulated depreciation on assets stated at valuation	81	58
Assets held under finance leases are included in fixed assets at a net book value of	80	107
Depreciation on these assets during the year amounted to	27	21

* Cost has been determined as the net book value at 31 March 1985 adjusted for subsequent additions and disposals at cost.

The estimated current market value of the freehold land and buildings is in the region of £610,000.

8 Investments

	Unlisted shares £'000
Cost	
As at 28.03.04	10
Additions	–
As at 03.04.05	10

9 Debtors

	2004 £'000	2004 £'000
Trade debtors	767	970
Corporation tax	–	15
Prepayments and accrued income	44	50
	811	1,035

MICRO-METALSMITHS LIMITED

Notes to the accounts

for the year ended 3 April 2005

10 Creditors: amounts falling due within one year

	£'000	2004 £'000
Trade creditors	195	415
Payroll, social security and other taxes	110	99
Finance leases	33	29
Other creditors	43	319
Accruals and deferred income	60	60
	<u>441</u>	<u>922</u>

Included in other creditors is £29,308 (2004 £69,088) secured by a fixed and floating charge over the company's book debts. Finance leases are secured on the underlying assets.

11 Creditors: amounts falling due after more than one year

	£'000	2004 £'000
Director's loan	231	214
Finance leases	33	66
Other creditors	300	300
Accruals and deferred income	8	11
	<u>572</u>	<u>591</u>

Finance leases are secured on the underlying assets. The director's loan has no specific repayment terms and bears interest at a capped rate not to exceed 7.25%. Other creditors are scheduled for repayment by February 2014, bear interest at 2.5% over LIBOR and are secured by a legal charge over freehold land and buildings owned by the company.

12 Pension provision

	£'000	2004 £'000
As at 28.03.04	—	—
Provided in year (note 17)	65	—
	<u>65</u>	<u>—</u>
As at 03.04.05	(12)	—
less deferred tax asset (note 13)		
	<u>53</u>	<u>—</u>

MICRO-METALSMITHS LIMITED

Notes to the accounts

for the year ended 3 April 2005

13 Deferred taxation

The full potential liability and amount provided in the accounts relating to deferred taxation, assuming a tax rate of 19% (2004 – 19%), arises from the following timing differences between the tax computations and accounts:–

	£'000	2004 £'000
Full potential liability/(asset)		
Capital allowances in excess of depreciation	27	19
Short term timing differences	(1)	(2)
Losses	(39)	(68)
On disposal of revalued assets	–	–
	<u>(13)</u>	<u>(51)</u>
Timing difference relating to pension provision	(12)	–
	<u>(25)</u>	<u>(51)</u>
Of which provided in the accounts		
Capital allowances in excess of depreciation	27	19
Short term timing differences	(1)	(2)
Losses	(26)	(17)
	<u>–</u>	<u>–</u>
Timing difference relating to pension provision (note 12)	(12)	–
	<u>(12)</u>	<u>–</u>
being:		
As at 28.03.04	–	–
Provided in year	(12)	–
As at 03.04.05 (deducted from pension provision in note 12)	<u>(12)</u>	<u>–</u>

14 Share capital

	£'000	2004 £'000
Authorised – 200,000 ordinary £1 shares	<u>200</u>	<u>200</u>
Issued & fully paid – 81,606 ordinary £1 shares	<u>82</u>	<u>82</u>

15 Reserves

	Property revaluation reserve £'000	Profit & loss account £'000
As at 28.03.04	124	808
Retained profit for the year	–	169
Realised on depreciation	(6)	6
As at 03.04.05	<u>118</u>	<u>983</u>

16 Operating lease commitments

	£'000	2004 £'000
Rentals payable next year under leases which expire:–		
Within one year	17	–
Within two to five years	–	–
After five years	–	70
	<u>17</u>	<u>70</u>

MICRO – METALSMITHS LIMITED

Notes to the accounts

for the year ended 3 April 2005

17 Retirement benefits

Defined contribution pension scheme

The company operates a group personal pension plan for the benefit of employees. The assets of the scheme are administered by trustees in a fund independent from those of the company. The company paid contributions of £63,547 (2004 – £48,153) during the year.

Defined benefit pension scheme

The company operates a funded defined benefit pension scheme. The scheme has been closed to future accrual of benefits since 6 June 2003. The pension cost and provision are assessed in accordance with the advice of a professionally qualified actuary. The most recent formal actuarial valuation of the scheme was carried out as at 6 April 2003.

The pension charge for the year ended 3 April 2005 was £89,000. This was wholly in respect of the experience deficit that is being amortised over 17 years, the average period to retirement of current deferred members. The deficit calculated on a current funding level basis as at 28 March 2004 was £983,000.

A provision of £65,000 has arisen over the year ended 3 April 2005, representing the difference between the actual contributions paid by the company in respect of the year (£24,000), and the pension charge shown above.

The most recent formal actuarial valuation showed that the market value of the scheme's assets was £3,392,000 and that the value of those assets represented 66% of the value of the benefits that had accrued to members.

The company has agreed to pay contributions to the scheme at the rate of £60,000 per annum. This rate will be reviewed at each future formal actuarial valuation of the scheme.

The assets of the scheme, the present value of the scheme liabilities and the resulting surplus/(deficit) are shown in the following table:

	Value as at 3 April 2005 £'000	Value as at 28 March 2004 £'000
Present value of scheme liabilities:	5,372	4,868
Fair value of scheme assets:	4,057	3,885
Surplus/(deficit) in the scheme:	<u>(1,315)</u>	<u>(983)</u>

An analysis of the movement in the deficit in the scheme is as follows:

	3 April 2005 £'000	28 March 2004 £'000
Surplus/(deficit) in scheme at beginning of year	(983)	(1,416)
Movement in year:		
charge to operating profit	–	(24)
employer contributions	24	73
credit/(charge) to other financial income	(38)	(65)
actuarial gain/(loss)	(318)	449
Surplus/(deficit) in scheme at end of year	<u>(1,315)</u>	<u>(983)</u>

The company paid contributions of £24,000 (2004 – £71,449) during the year.

The actuarial gain/(loss) arises from the following factors:

	3 April 2005 £'000
Actual return less expected return on pension scheme assets	70
Experience gains and losses arising on the scheme liabilities as compared with assumptions e.g. price inflation, mortality, transfers out etc	61
Changes in assumptions underlying the present value of the scheme liabilities	
– reduction in discount rate	(104)
– mortality assumptions updated	(345)
	<u>(318)</u>

MICRO – METALSMITHS LIMITED

Notes to the accounts

for the year ended 3 April 2005

18 Capital commitments

	£'000	2004 £'000
Contracted for but not provided in the financial statements	<u>–</u>	<u>15</u>

19 Related party transactions

	£'000	2004 £'000
Amount included in creditors owed to Mohawk Overseas Investments Limited, a shareholder of this company	300	550
Interest charged	<u>24</u>	<u>18</u>
Amount included in creditors owed to C W Shaw, a director	231	214
Interest charged	<u>16</u>	<u>13</u>

During the year the company received a loan of £129,241 from Mrs B J Shaw, a director, this was repaid before the year end. Interest of £2,097 was charged.