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REGISTRAR'S COPY

MMC HARDMETAL UK LTD

Annual report and financial statements for the year ended 31<sup>st</sup> December 1998

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Directors

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Directors

T Ohta  
I Morris  
H Nomura

Secretary and registered office (registered No: 897889)

S Woodman, Mitsubishi House, Galena Close, Amington Heights, Tamworth, Staffs. B77 4AS.

Auditors

Thomas Coombs & Son, 29 Clarendon Road, Leeds. LS2 9PG

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## MMC HARDMETAL UK LTD

### Report of the directors for the year ended 31<sup>st</sup> December 1998

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The directors submit their report together with the audited financial statements for the year ended 31<sup>st</sup> December 1998.

#### Results and Dividend

The results for the year, together with the retained reserves carried forward are set out in the profit and loss account on page 3.

The directors do not recommend the payment of a dividend.

#### Principal activity and trading review

The principal activity of the company is the sale of engineers' cutting tools and hardfacing alloys. The results of the year, together with the retained reserves carried forward are set out in the profit and loss account on page 3.

#### 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.

State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

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.

#### Directors

The directors of the company during the year were:-

I Morris  
T Ohta  
H Nomura

MMC HARDMETAL UK LTD

Report of the directors for the year ended 31 December 1998

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Auditors

Thomas Coombs have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the Annual General Meeting.

Share Capital

All share capital is held by MMC Hardmetal U.K. Limited's parent undertaking and none of the directors have an interest in the share capital.

By Order of the Board, approved ..... 24TH MAY ..... 1999

*S. Woodman*

S Woodman  
Secretary

MMC HARDMETAL UK LTD

Profit and loss account for the year ended 31 December 1998

	NOTE	1998 £	1997 £
Turnover	2	7,281,765	6,352,086
Cost of Sales	3	5,628,582	4,839,476
Gross Profit		<u>1,653,183</u>	<u>1,512,610</u>
Net Operating Expenses	3	1,538,233	1,418,238
Operating Profit	4	<u>114,950</u>	<u>94,372</u>
Interest Payable	6	120,323	83,938
(Loss)/Profit on Ordinary Activities Before Taxation		<u>(5,373)</u>	<u>10,434</u>
Taxation	7	4,657	7,000
Retained (Loss)/Profit For The Year		<u>(10,030)</u>	<u>3,434</u>
Retained Loss Brought Forward		<u>(56,036)</u>	<u>(59,470)</u>
Retained Loss Carried Forward		<u><u>(66,066)</u></u>	<u><u>(56,036)</u></u>

All recognised gains and losses are included in the profit and loss account for the year.

All amounts relate to continuing activities.

The notes on pages 6 to 12 form part of these accounts.

MMC HARDMETAL UK LTD

Balance sheet as at 31<sup>st</sup> December 1998

	Note	1998	1997
		£	£
Fixed assets			
Tangible assets	8	228,544	315,027
Current assets			
Stocks	9	1,972,060	1,495,560
Debtors	10	2,192,254	2,303,426
Cash in hand / bank		-	-
		<u>4,164,314</u>	<u>3,798,986</u>
Creditors: amount falling due within one year	11	3,934,704	3,572,134
		<u></u>	<u></u>
Net current assets		229,610	226,852
Total assets less current liabilities		<u>458,154</u>	<u>541,879</u>
Creditors: amounts falling due after more than one year	12	18,220	84,915
Provisions for liabilities and charges	13	6,000	13,000
		<u>433,934</u>	<u>443,964</u>
Called up equity share capital	14	500,000	500,000
Profit and loss account		(66,066)	(56,036)
		<u></u>	<u></u>
Equity shareholders' funds	15	433,934	443,964
		<u></u>	<u></u>

The accounts on pages 3 to 12 were approved by the Board on 24/5/1999.

I Morris  
Director



The notes on pages 6 to 12 form part of these accounts.

MMC HARDMETAL UK LTD

Cash flow statement for the year ended 31<sup>st</sup> December 1998

	Note	1998	1997
Net cash (outflow) from operating activities	20	(252,065)	(567,795)
Returns on investment and servicing of finance	22	(120,323)	(83,938)
Taxation		6,224	(40,249)
Capital Expenditure	23	(15,540)	(121,716)
Cash outflow before financing		<u>(381,704)</u>	<u>(813,698)</u>
Financing	24	419,074	(101,359)
Increase/(Decrease) in Cash	25	<u>37,370</u>	<u>(915,057)</u>

The notes on pages 6 to 12 form part of these accounts.

## MMC HARDMETAL UK LTD

Notes forming part of the accounts for the year ended 31<sup>st</sup> December 1998

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### 1. Accounting Policies

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

#### Turnover

Turnover represents the total amount receivable for goods sold, net of Value Added Tax.

#### Depreciation

Depreciation is provided on all tangible fixed assets, to write off the cost of each asset over its expected useful life in equal annual instalments.

The rates used are as follows:-

Tooling dies	20%
Motor vehicles	33%
Fixtures, fittings and equipment	15%
Computer equipment	33%
Leasehold improvements	Remaining Term of Lease

#### Leased Assets

Fixed assets acquired under finance leases are included in the balance sheet at their equivalent capital value and depreciated over their expected useful lives. The corresponding liability is recorded as a creditor. The interest element of the instalment payments is charged as a cost at a constant rate over the primary lease period. All other leases are treated as operating leases. Their annual rentals are charged to the profit and loss account on a straight-line basis over the term of the lease.

#### Stocks

Stocks are valued at the lower of cost and net realisable value using the first in first out method.

#### Deferred Taxation

Deferred taxation using the liability method is provided in respect of all timing differences to the extent that it is considered probable that a liability or asset will crystallise.

#### Pensions

Contributions to the company's defined contribution pension scheme are charged to the profit and loss account in the year in which they become payable.

### 2. Turnover and (loss)/profits on ordinary activities before taxation

The turnover and (loss)/profit before taxation is attributable to the activities of the sale of engineers' cutting tools and components and accessories and hardfacing alloys.

No further geographical analysis of turnover is given as this, in the opinion of the directors, would not be in the best interests of the company.

MMC HARDMETAL UK LTD

Notes forming part of the accounts for the year ended 31<sup>st</sup> December 1998

	1998	1997
3. <u>Cost of Sales</u>	<u>5,628,582</u>	<u>4,839,476</u>
<u>Net operating expenses</u>		
Selling and distribution costs	1,181,157	1,095,792
Administration costs	<u>357,076</u>	<u>322,446</u>
	<u>1,538,233</u>	<u>1,418,238</u>
4. <u>Operating Profit</u>	1998	1997
Operating profit is stated after charging:-		
Staff costs (note 5)	771,982	798,055
Auditors remuneration	8,592	5,503
Operating lease rentals – motor vehicles	90,513	71,996
Depreciation	109,662	82,898
(Profit)/loss on disposal	(7,639)	3,866
	1998	1997
5. <u>Staff costs</u> (including directors) comprise:		
Wages and salaries	661,323	698,724
Social security costs	68,049	61,671
Other pension costs	42,610	37,660
	<u>771,982</u>	<u>798,055</u>

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

	<u>No.</u>	<u>No.</u>
Sales / distribution	25	24
Administration	5	5
	<u>30</u>	<u>29</u>
Directors' emoluments	£	£
Management remuneration (including benefits in kind)	72,398	64,860
Pension contributions	7,458	5,488
	<u>79,856</u>	<u>70,348</u>



MMC HARDMETAL UK LTD

Notes forming part of the accounts for the year ended 31<sup>st</sup> December 1998

6. <u>Interest payable</u>	<u>1998</u>	<u>1997</u>		
	£	£		
Bank loans and overdrafts and other loans repayable within five years	111,789	76,511		
Leasing and hire purchase contracts	8,534	7,427		
	<u>120,323</u>	<u>83,938</u>		
7. <u>Taxation</u>	<u>1998</u>	<u>1997</u>		
UK corporation tax at 31% (1997 : 31%)				
Current - based upon the profit for the year	11,881	(6,000)		
Deferred taxation at 31%	(7,000)	13,000		
Overprovision in prior years	<u>(224)</u>	<u>-</u>		
	<u>4,657</u>	<u>7,000</u>		
8. <u>Tangible fixed assets</u>				
	Motor Vehicles	Fixtures & Fittings	Leasehold Improvements	Total
	£	£	£	£
Cost				
At 1 January 1998	49,300	490,051	26,724	566,075
Additions	-	31,070	-	31,070
Disposals	(9,300)	(34,695)	-	(43,995)
At 31 December 1998	<u>40,000</u>	<u>486,426</u>	<u>26,725</u>	<u>553,151</u>
Depreciation				
At 1 January 1998	9,403	218,174	23,471	251,048
Charge for the year	10,216	98,815	631	109,662
Elimination on disposals	(4,300)	(31,804)	-	(36,104)
At 31 December 1998	<u>15,319</u>	<u>285,185</u>	<u>24,102</u>	<u>324,606</u>
Net book value				
At 31 December 1998	<u>24,681</u>	<u>201,240</u>	<u>2,623</u>	<u>228,544</u>
At 31 December 1997	<u>39,897</u>	<u>271,877</u>	<u>3,253</u>	<u>315,027</u>

The net book value of leased assets at 31 December 1998 was £144,014 (1997-£215,640).  
Depreciation charged on these assets was £ 66,626 (1997 - £40,744)

9. <u>Stocks</u>	<u>1998</u>	<u>1997</u>
	£	£
Finished goods for resale	<u>1,972,060</u>	<u>1,495,560</u>

MMC HARDMETAL U.K. LTD

Notes forming part of the accounts for the year ended 31<sup>st</sup> December 1998

10. Debtors	<u>1998</u>	<u>1997</u>
	£	£
Amount owed by other group undertakings	16,035	6,562
Trade debtors	2,109,988	2,207,089
Other debtors (* note)	22,860	28,166
Prepayments	43,371	55,609
Corporation Tax	-	6,000
	<u>2,192,254</u>	<u>2,303,426</u>

\* Note - Included in other debtors is an amount of £3,000 (1997 : £5,618) due from I Morris (Director). The maximum amount outstanding during the year was £5,618.

11. Creditors: amounts falling due within one year		
Bank Loan (* NOTE)	1,050,000	550,000
Trade creditors	179,977	148,430
Amounts owed to other group undertakings	1,659,512	1,838,553
Amounts owed to fellow subsidiary undertakings	148,976	102,650
Obligations under finance leases and		
Hire purchase contracts	64,626	78,857
Taxation and social security	136,712	100,443
Corporation Tax	11,881	NIL
Accruals	108,110	140,921
Bank overdraft	574,910	612,280
	<u>3,934,704</u>	<u>3,572,134</u>

\* NOTE

The loan of £1,050,000 matured on 31<sup>st</sup> January 1999. On that date it was rolled over into a further loan which is payable after more than one year.

12. Creditors: amounts falling due after more than one year		
Obligations under finance leases and hire		
purchase contracts falling due within		
1-2 years	18,220	64,626
2-5 years	-	20,289
	<u>18,220</u>	<u>84,915</u>

13. Deferred taxation	<u>Amount provided</u>		<u>Amount unprovided</u>	
	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>
	£	£	£	£
Accelerated capital allowances	<u>6,000</u>	<u>13,000</u>	-	-

# MMC HARDMETAL UK LTD

Notes forming part of the accounts for the year ended 31<sup>st</sup> December 1998

## 14. Share Capital

Authorised, allotted, called up and fully paid	<u>1998</u>	<u>1997</u>
	£	£
Ordinary shares of £1 each	500,000	500,000

## 15. Reconciliation of Movements in Equity Shareholders' Funds

	<u>1998</u>	<u>1997</u>
	£	£
(Loss)/Profit for the year	(10,030)	3,434
Net (decrease)/increase in Equity Shareholders' funds	(10,030)	3,434
Opening equity shareholders' funds	443,964	440,530
Closing equity shareholders' funds	433,934	443,964

## 16. Commitments under operating leases

At 31<sup>st</sup> December 1998 the Company had annual commitments under non-cancellable operating leases as set out below:

	<u>1998</u>		<u>1997</u>	
	Land and Buildings £	Contract Hire £	Land and Buildings £	Contract Hire £
Operating lease which expire:				
Within 1 year	9,500	-	-	18,222
Within 2-5 years	-	82,086	9,500	-
Over 5 years	35,200	-	35,200	-
	<u>44,700</u>	<u>82,086</u>	<u>44,700</u>	<u>18,222</u>

## 17. Capital commitments

At 31<sup>st</sup> December 1998 the Company had authorised, but not contracted for, capital expenditure amounting to £NIL (1997 - NIL).

## 18. Pension Costs

The Company's defined contribution pension scheme is operated in conjunction with Friends Provident Life. The assets of the scheme are held in trustee administered funds separate from the finances of the Company.

# MMC HARDMETAL UK LTD

Notes forming part of the accounts for the year ended 31<sup>st</sup> December 1998

## 19. Related Party Transactions

Mitsubishi Materials of Japan is the major shareholder of MMC Hardmetal GmbH and Mitsubishi Materials Espana, from which purchases were made on an arms length basis on normal credit terms amounting to £ 2,619,729 and £ 311,347 respectively. Purchases were also made directly from MMC Japan on an arms length basis on normal credit terms amounting to £ 2,663,358.

Also sales were made of £ 69,643 to MMC Hartmetal GmbH on normal trading terms.

## 20. Reconciliation of Operating Profit to Net Cash (Outflow) From Operating Activities

	£ <u>1998</u>	£ <u>1997</u>
Operating Profit	114,950	94,372
Depreciation	109,662	82,898
(Profit)/Loss on sale of fixed assets	(7,639)	3,866
(Increase) in stocks	(476,500)	(895,853)
Decrease/(increase) in debtors	105,172	(1,176,954)
(Decrease)/increase in creditors	(97,710)	1,323,876
	<u>(252,065)</u>	<u>(567,795)</u>

## 21. Reconciliation of net cash flow to movement in net debt

Change in net debt	37,370
Net funds at 1 <sup>st</sup> January 1998	(612,280)
Net debt at 31 <sup>st</sup> December 1998	<u>(574,910)</u>

## 22. Returns on investments and servicing of finance

	1998 £	1997 £
Interest received	1,678	-
Hire purchase / finance lease		
Interest paid	(10,614)	(6,323)
Bank interest paid	(111,387)	(77,615)
	<u>(120,323)</u>	<u>(83,938)</u>

MMC HARDMETAL UK LTD

Notes forming part of the accounts for the year ended 31<sup>st</sup> December 1998

23. Capital Expenditure

	1998	1997
	£	£
Payments to acquire tangible fixed assets	(31,070)	(128,566)
Receipts from the sale of tangible fixed assets	15,530	6,850
	<u>(15,540)</u>	<u>(121,716)</u>

24. Financing

New loan advanced	500,000	-
Loan repaid	-	(50,000)
Payments for the capital element of hire purchase and finance lease contracts	(80,926)	(51,359)
	<u>419,074</u>	<u>(101,359)</u>

25. Analysis of Changes in Net Debt

	At 1 January 1998	Cash Flows	At 31 December 1998
Cash in hand and at bank	-	-	-
Bank overdraft	612,280	37,370	574,910
	<u>612,280</u>	<u>37,370</u>	<u>574,910</u>

26. Ultimate parent undertaking

The Company is a subsidiary undertaking of:

Mitsubishi Materials Corporation  
1-6-1  
Otemachi  
Chiyoda-Ku  
Tokyo 100  
Japan

Incorporated in Japan

Report of the auditors to the shareholders of MMC Hardmetal UK Limited

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We have audited the financial statements on page 3 to 12 which have been prepared under the accounting policies set out on page 6.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 1, the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

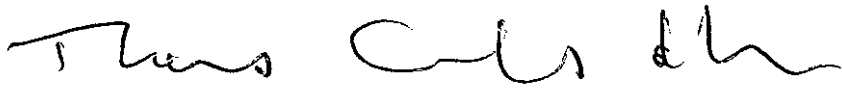
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments 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 mis-statement, 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 31<sup>st</sup> December 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Thomas Coombs & Son  
Chartered Accountants  
and Registered Auditors  
Century House  
29 Clarendon Road  
LEEDS  
LS2 9PG



25th May 1999