

Mills Manufacturing Technology Limited

Financial statements

For the year ended 31 December 2006



Company No. 1156673

Company information

Company registration number	1156673
Registered office	Units 2&3 Tachbrook Link Tachbrook Park Drive Leamington Spa Warwickshire CV34 6RH
Directors	M Jenkins N Frampton A Jack N Ahluwalia
Secretary	N Ahluwalia
Bankers	Barclays Bank plc PO Box 885 Mortlock House Histon Cambridge CB4 9DE
Auditor	Grant Thornton UK LLP Chartered Accountants Registered Auditors Enterprise House 115 Edmund Street Birmingham B3 2HJ

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Report of the directors

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

Principal activities and business review

The company is primarily involved in the marketing, distribution and after sales servicing of CNC machine tools and is recognised as market leader within this sector

The board is confident of continued success in 2007 with a strong order book ensuring a good first quarter in line with budget. Fixed costs remain relatively high in support of the levels of new business being generated however the board remains committed to cost reductions where possible

The key performance indicators for the group are turnover growth, gross profit margin and future order book. Management are focused on continuing to improve performance in these areas

On a cautious note, the uncertain world political climate could have an unforeseen and adverse affect on the market. In particular, the Oil and Aerospace sectors remain most at risk

There remains a shortage of skilled labour in the market but in saying that, staff retention remains excellent

Results and dividends

The profit for the year, after taxation, amounted to £1,430,134 (2005 £1,000,156). The directors have not recommended a dividend

Financial risk management objectives and policies

The company principal financial instruments comprise a letter of credit facility, hire purchase contracts, cash and short-term deposits. The purpose of these financial instruments is to raise finance for the group's operations. The company has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations

It is, and has been throughout the period under review, the company's policy that no trading in financial instruments shall be undertaken. The main risks arising from the company's financial instruments are liquidity risk, foreign currency risk, and credit risk. The board reviews and agrees policies for managing each of these risks and they are summarised below

Liquidity risk

The company seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. Letters of credit are used to finance the purchase of CNC machines

Foreign currency risk

The company purchases the CNC machines from a supplier in Korea, therefore in order to minimise the foreign currency risk with these transactions the supplier invoices the company in sterling

Credit risk

The company trades with only recognised, creditworthy third parties. It is the company policy that all customers who wish to trade on credit terms are subject to credit vetting procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the company's exposure to bad debts is not significant.

The directors and their interests in the shares of the company

The directors who served the company during the year together with their beneficial interests in the shares of the company were as follows

	Ordinary Shares of £1 each	
	At	At
	31 December 2006	1 January 2006 or later date of appointment
M Jenkins	-	-
A Jack (appointed 13 October 2006)	-	-
N Ahluwalia (appointed 13 October 2006)	-	-
N Frampton (appointed 13 October 2006)	-	-
	<hr/>	<hr/>

None of the directors has an interest in the shares of the company or its subsidiary. The interests of the directors in the shares of the ultimate parent undertaking are disclosed in the financial statements of that company.

Directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The financial statements are required by law to 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 these 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,
- state whether applicable UK 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 that 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.

In so far as the directors are aware

- there is no relevant audit information of which the company's auditors are unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information

Auditor

Grant Thornton UK LLP were appointed auditors to fill a casual vacancy in accordance with section 388(1) of the Companies Act 1985 Special notice pursuant to section 388(3) having been given, a resolution to appoint Grant Thornton UK LLP as auditors will be proposed at the General Meeting

BY ORDER OF THE BOARD



N Ahluwalia
Secretary

23 April 2007

Report of the independent auditors to the members of Mills Manufacturing Technology Limited

We have audited the financial statements of Mills Manufacturing Technology Limited for the year ended 31 December 2006 on pages 10 to 20. These financial statements have been prepared under the historical cost convention and the accounting policies set out on pages 8 to 9.

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

The directors' responsibilities for preparing the Report of the Directors and the financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the Report of the Directors is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Report of the Directors and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 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.

Report of the independent auditors to the members of Mills Manufacturing Technology Limited (continued)

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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Report of the Directors is consistent with the financial statements



GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
BIRMINGHAM
23 April 2007

Accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards

The company is itself a subsidiary company and is exempt from the requirement to prepare group accounts by virtue of section 228 of the companies Act 1985. These financial statements therefore present information about the company as an individual undertaking and not about its group

Cash flow statement

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (Revised 1996) from including a cash flow statement in the financial statements on the grounds that the company is a wholly owned subsidiary and its results are consolidated within Mills Manufacturing Group Limited for which accounts are publicly available

Turnover

Turnover comprises the amounts (excluding value added tax) derived from the provision of goods and services to third party customers. Machine sales are accounted for upon delivery of the machine to the customer. Income relating to maintenance contracts is spread over the period covered by the contract

Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives

Leasehold improvements	- over the lease term
Plant, machinery and motor vehicles	- over 3 - 10 years
Fixtures and fittings	- over 3 years

Stocks

Stock is 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. Net realisable value is based on estimated selling price allowing for all other costs of completion and disposal

Leasing and hire purchase commitments

Assets acquired under finance leases or hire purchase are treated as tangible fixed assets and depreciation is provided accordingly. The present value of future rentals is shown as a liability and the interest element of rental obligations is charged to the profit and loss account over the period of the lease

Operating lease rentals are charged in the profit and loss account on a straight line basis over the lease term

Pension costs

Defined contribution scheme

The company operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the company. The annual contributions payable are charged to the profit and loss account.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exceptions:

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be sustainable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the years in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Financial instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

Warranties for goods sold

Provision is made for the estimated liability relating to all goods sold still under warranty, including claims already received. Where parts are provided by the machine manufacturer free of charge the provision covers the cost labour element only. The value of the provision needed is determined by considering the cost of the labour used historically during the warranty period on machines of a similar type.

Where specific claims have been received that are outside of the warranty terms, but for which the company has an obligation to rectify a problem, then a rectification provision is made based on the best estimate of the costs involved.

Foreign currencies

Transactions in foreign currencies are translated at an average rate throughout the year. Monetary assets and liabilities in foreign currencies are translated at the closing rate at the end of the financial year. All other exchange differences are dealt with through the profit and loss account.

Profit and loss account

	Note	2006 £	2005 £
Turnover	1	30,382,285	25,034,548
Cost of sales		<u>22,999,493</u>	<u>19,171,901</u>
Gross profit		7,382,792	5,862,647
Other operating charges	2	<u>4,802,062</u>	<u>4,083,934</u>
Operating profit	3	2,580,730	1,778,713
Dividend received from subsidiary undertaking		21,422	-
Interest receivable		13,321	9,255
Interest payable and similar charges	6	<u>(568,568)</u>	<u>(338,545)</u>
Profit on ordinary activities before taxation		2,046,905	1,449,423
Tax on profit on ordinary activities	7	<u>616,771</u>	<u>449,267</u>
Profit for the financial year	21	<u>1,430,134</u>	<u>1,000,156</u>

All of the activities of the company are classed as continuing

The company has no recognised gains or losses other than the results for the year as set out above

The accompanying accounting policies and notes form part of these financial statements.

Balance sheet

	Note	2006 £	2005 £
Fixed assets			
Tangible assets	8	337,851	338,933
Investments	9	1,000	1,000
		<u>338,851</u>	<u>339,933</u>
Current assets			
Stocks	10	4,562,219	5,209,313
Debtors	11	7,926,989	5,517,473
Cash at bank		2,032,339	1,288,805
		<u>14,521,547</u>	<u>12,015,591</u>
Creditors: amounts falling due within one year	12	<u>8,796,631</u>	<u>8,146,263</u>
Net current assets		<u>5,724,916</u>	<u>3,869,328</u>
Total assets less current liabilities		<u>6,063,767</u>	<u>4,209,261</u>
Creditors: amounts falling due after more than one year	13	<u>53,472</u>	<u>–</u>
		<u>6,010,295</u>	<u>4,209,261</u>
Provisions for liabilities	16	<u>1,353,387</u>	<u>982,487</u>
		<u>4,656,908</u>	<u>3,226,774</u>
Capital and reserves			
Called-up equity share capital	20	212,600	212,600
Profit and loss account	21	4,444,308	3,014,174
Shareholders' funds	22	<u>4,656,908</u>	<u>3,226,774</u>

These financial statements were approved by the directors on 23 April 2007 and are signed on their behalf by


M. Jenkins
Director

Notes to the financial statements

1 Turnover

Turnover is attributable to one class of business

Turnover is analysed by geographical market as follows

	2006 £	2005 £
United Kingdom	29,595,576	23,890,083
Other European Countries	463,909	549,945
Other	322,800	594,520
	<u>30,382,285</u>	<u>25,034,548</u>

2 Other operating charges

	2006 £	2005 £
Distribution costs	159,165	115,014
Administrative expenses	4,642,897	3,968,920
	<u>4,802,062</u>	<u>4,083,934</u>

3 Operating profit

Operating profit is stated after charging

	2006 £	2005 £
Depreciation of owned fixed assets	89,589	72,755
Depreciation of assets held under finance leases and hire purchase agreements	38,195	10,390
Impairment of fixed assets	30,329	—
Loss on disposal of fixed assets	—	707
Auditor's remuneration		
Audit fees	19,000	16,586
Taxation fees	3,750	13,582
Operating lease costs		
Property	216,374	165,759
Vehicle	<u>214,707</u>	<u>212,069</u>

4 Particulars of employees

The average number of staff employed by the company during the financial year amounted to

	2006 No	2005 No
Operations staff	32	27
Finance and administration staff	6	6
Directors	4	3
Sales and marketing staff	15	15
	<u>57</u>	<u>51</u>

The aggregate payroll costs of the above were

	2006 £	2005 £
Wages and salaries	2,448,939	2,321,824
Social security costs	340,512	268,819
Other pension costs	175,574	129,188
	<u>2,965,025</u>	<u>2,719,831</u>

5 Directors

Remuneration in respect of directors was as follows

	2006 £	2005 £
Emoluments receivable	758,058	446,855
Value of company pension contributions to money purchase schemes	73,444	40,788
	<u>831,502</u>	<u>487,643</u>

Emoluments of highest paid director

	2006 £	2005 £
Total emoluments (excluding pension contributions)	323,615	223,954
Value of company pension contributions to money purchase schemes	55,849	27,063
	<u>379,464</u>	<u>251,017</u>

The number of directors who accrued benefits under company pension schemes was as follows

	2006 No	2005 No
Money purchase schemes	<u>4</u>	<u>4</u>

6 Interest payable and similar charges

	2006 £	2005 £
Interest payable on bank borrowing	7,729	—
Finance charges	873	2,129
Supplier and stocking loan interest	<u>559,966</u>	<u>336,416</u>
	<u>568,568</u>	<u>338,545</u>

7 Taxation on ordinary activities

(a) Analysis of charge in the year

	2006 £	2005 £
Current tax		
In respect of the year		
UK Corporation tax based on the results for the year at 30% (2005 - 30%)	612,771	458,000
Adjustments in respect of prior periods	<u>-</u>	<u>(12,733)</u>
Total current tax	612,771	445,267
Deferred tax		
Origination and reversal of timing differences	4,000	(11,000)
Adjustments to deferred tax assets arising in previous periods	<u>-</u>	<u>15,000</u>
Tax on profit on ordinary activities	<u>616,771</u>	<u>449,267</u>

7 Taxation on ordinary activities (continued)

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is different to the standard rate of corporation tax in the UK of 30% (2005 - 30%) as explained below

	2006 £	2005 £
Profit on ordinary activities before taxation	<u>2,046,905</u>	<u>1,449,423</u>
Profit on ordinary activities by rate of tax	614,072	434,827
Income not subject to tax	(6,427)	-
Expenses not deductible for tax purposes	30,685	31,338
Capital allowances for period in excess of depreciation	16,825	(2,879)
Adjustments to tax charge in respect of previous periods	-	(12,733)
Group relieved profits	(22,494)	(19,712)
Short term timing differences	(19,890)	13,998
Other	-	428
Total current tax (note 7(a))	<u>612,771</u>	<u>445,267</u>

8 Tangible fixed assets

	Leasehold improvements £	Plant, machinery and motor vehicles £	Fixtures and fittings £	Total £
Cost				
At 1 January 2006	446,360	526,493	49,709	1,022,562
Additions	15,736	139,415	1,880	157,031
At 31 December 2006	<u>462,096</u>	<u>665,908</u>	<u>51,589</u>	<u>1,179,593</u>
Depreciation				
At 1 January 2006	208,114	437,404	38,111	683,629
Charge for the year	42,624	81,079	4,081	127,784
Provision for impairment	21,927	6,895	1,507	30,329
At 31 December 2006	<u>272,665</u>	<u>525,378</u>	<u>43,699</u>	<u>841,742</u>
Net book value				
At 31 December 2006	<u>189,431</u>	<u>140,530</u>	<u>7,890</u>	<u>337,851</u>
At 31 December 2005	<u>238,246</u>	<u>89,089</u>	<u>11,598</u>	<u>338,933</u>

Included within the net book value of £337,851 is £99,305 (2005 - £20,007) relating to assets held under finance leases and hire purchase agreements. The depreciation charged to the financial statements in the year in respect of such assets amounted to £38,195 (2005 - £10,390).

9 Investments

Shares in subsidiary undertakings

£

Cost

At 1 January 2006 and 31 December 2006

1,000

Net book value

At 31 December 2006

1,000

At 31 December 2005

1,000

Investments relate to an investment in a subsidiary, Mills Marketing Services Limited, a company incorporated in England and Wales, comprising a holding of 100% of its issued ordinary capital

Mills Marketing Services did not trade during 2005 and 2006 and therefore made neither a profit nor a loss although it did declare a dividend amount to £21,422 (2005 £Nil) At the end of the year the aggregate of its capital and reserves was £1,000 (2005 £22,422)

10 Stocks

	2006 £	2005 £
Machines held for resale	3,755,863	4,577,624
Parts stock	806,356	631,689
	<u>4,562,219</u>	<u>5,209,313</u>

11 Debtors

	2006 £	2005 £
Due within one year		
Trade debtors	2,467,968	1,774,459
Amounts owed by group undertakings	5,097,396	3,470,491
Other debtors	145,033	144,397
Prepayments and accrued income	189,592	97,126
	<u>7,899,989</u>	<u>5,486,473</u>
Due after one year		
Deferred taxation	27,000	31,000
	<u>7,926,989</u>	<u>5,517,473</u>

Details relating to the net deferred tax asset are set out in note 15

12 Creditors: amounts falling due within one year

	2006 £	2005 £
Trade creditors	7,232,312	6,501,292
Corporation tax	349,771	208,000
Other taxation	480,306	80,764
Amounts due under finance leases and hire purchase agreements	45,834	123,261
Other creditors	125,226	538,812
Accruals and deferred income	563,182	694,134
	<u>8,796,631</u>	<u>8,146,263</u>

Other creditors includes £nil (2005 £470,121) which is secured on specific items of stock.

Finance lease and hire purchase creditors are secured on the assets concerned

13 Creditors: amounts falling due after more than one year

	2006 £	2005 £
Amounts due under finance leases and hire purchase agreements	<u>53,472</u>	<u>-</u>

14 Commitments under finance leases and hire purchase agreements

Future commitments under finance leases and hire purchase agreements are as follows

	2006 £	2005 £
Amounts payable within 1 year	45,834	123,261
Amounts payable between 1 and 2 years	<u>53,472</u>	<u>-</u>
	<u>99,306</u>	<u>123,261</u>

15 Deferred taxation

The deferred tax asset included in the balance sheet is as follows

	2006 £	2005 £
Capital allowances	19,000	3,000
Other timing differences	<u>8,000</u>	<u>28,000</u>
	<u>27,000</u>	<u>31,000</u>

The movement in the deferred taxation asset during the year was

	2006 £	2005 £
Brought forward	31,000	35,000
Profit and loss account movement arising during the year	<u>(4,000)</u>	<u>(4,000)</u>
Carried forward	<u>27,000</u>	<u>31,000</u>

16 Provisions for liabilities and charges

	2006
Warranty and rectification provision	£
At 1 January 2006	982,487
Increase in provision	313,900
	<u>1,296,387</u>
Dilapidations provision	57,000
As at 31 December 2006	<u>1,353,387</u>

The warranty element of the provision is based on projected costs to fulfil warranty obligations. The warranty period varies from one to six years. The rectification element of the provision allows for work needed relating to specific machines, as notified to the company by customers, that are not covered by the normal warranty terms.

17 Commitments under operating leases

At 31 December 2006, the company had annual commitments under non-cancellable operating leases as set out below:

	2006		2005	
	Land & buildings	Other items	Land & buildings	Other items
	£	£	£	£
Operating leases which expire				
Within 1 year	-	32,353	-	29,887
Within 2 to 5 years	-	138,856	-	180,486
After more than 5 years	143,902	-	143,902	-
	<u>143,902</u>	<u>171,209</u>	<u>143,902</u>	<u>210,373</u>

18 Contingent liabilities

There is an unlimited cross guarantee in place in respect of bank loans and overdrafts of the group. At the year end the group guaranteed amount was £3,220,000.

There is also group VAT registration in place. The net creditor at the year end was £266,779 (2005 debtor £58,172).

The company has outstanding letters of credit in favour of its suppliers amounting to £4,158,206 (2005 £3,084,925).

19 Related party transactions

The company has taken advantage of the exemptions conferred under FRS 8 from the disclosure of certain related party transactions on the grounds that it is a wholly owned subsidiary

There were no transactions not covered by this exemption

20 Share capital

Authorised share capital

	2006 £	2005 £
500,000 Ordinary shares of £1 each	<u>500,000</u>	<u>500,000</u>

Allotted, called up and fully paid

	2006 No	£	2005 No	£
Ordinary shares of £1 each	<u>212,600</u>	<u>212,600</u>	<u>216,000</u>	<u>212,600</u>

21 Profit and loss account

	2006 £	2005 £
Balance brought forward	3,014,174	2,014,018
Profit for the financial year	<u>1,430,134</u>	<u>1,000,156</u>
Balance carried forward	<u>4,444,308</u>	<u>3,014,174</u>

22 Reconciliation of movements in shareholders' funds

	2006 £	2005 £
Profit for the financial year	1,430,134	1,000,156
Opening shareholders' funds	<u>3,226,774</u>	<u>2,226,618</u>
Closing shareholders' funds	<u>4,656,908</u>	<u>3,226,774</u>

23 Capital commitments

Amounts contracted for but not provided in the financial statements amounted to £Nil (2005 - £110,000)

24 Parent undertakings and controlling party

The company is owned by Mills Manufacturing Technology Holdings Limited.

The parent undertaking of the largest and smallest group for which consolidated accounts are prepared is Mills Manufacturing Group Limited. Consolidated accounts are available from The Secretary, Mills Manufacturing Group Limited, Units 2&3 Tachbrook Link, Tachbrook Park Drive, Leamington Spa, Warwickshire, CV34 6RH.

In the opinion of the directors Mills Manufacturing Group Limited is the company's ultimate parent company and ultimate controlling party.