

SCHMITT EUROPE LIMITED

Financial Statements

Year ended 31 May 2010

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SCHMITT EUROPE LIMITED

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SCHMITT EUROPE LIMITED

COMPANY INFORMATION

DIRECTOR

W A Case

SECRETARY

J C Atkinson

REGISTERED OFFICE

Unit 4 The Venture Centre
University of Warwick Science Park
Sir William Lyons Road
Coventry
CV4 7EZ

REGISTERED NUMBER

3202316

AUDITORS

Mazars LLP
The Broadway
Dudley
West Midlands
DY1 4PY

BANKERS

HSBC Bank plc
Harry Weston Road
Binley
Coventry
CV3 2TQ

REPORT OF THE DIRECTOR

The director presents his report and the financial statements of the company for the year ended 31 May 2010

PRINCIPAL ACTIVITIES

The principal activity of the company during the year was the provision of balancing systems, machines and services. There have not been any significant changes in the Company's activities in the year under review. The directors are not aware, as at the date of this report, of any likely major changes in the Company's principal activities in the next year.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The company's principal financial instrument is cash. The main purpose of this financial instrument is to finance the company's operations. The company has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations. The company does not enter into derivative transactions.

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, credit risk and foreign currency risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Liquidity risk

As the company strives to maintain a profitable trading position, reliance is placed on the parent company for their continued support to ensure liquidity.

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, and that new customers pay on pro forma invoices before goods are delivered. In addition, receivable balances are monitored on an ongoing basis with the result that the company's exposure to bad debts is not significant.

Foreign currency risk

The company trades with customers outside the United Kingdom. The company's results can be affected by movements in exchange rates. The company does not seek to hedge this exposure.

DIRECTOR

The director who served the company during the year was as follows:

W A Case

RESPONSIBILITIES OF DIRECTORS

The directors are responsible for preparing the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

UK 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 and loss of the Company for that period. In preparing those financial statements, the directors are required to:

- * select suitable accounting policies and then apply them consistently,
- * make judgements and estimates that are reasonable and prudent,
- * state whether applicable UK accounting standards have been followed, and
- * 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 maintaining 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 2006. They are also responsible for the system of internal control, safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REPORT OF THE DIRECTOR

DIRECTORS' INDEMNITY

The Company's Articles of Association provide, subject to the provisions of UK legislation, an indemnity for directors and officers of the Company in respect of liabilities they may incur in the discharge of their duties or in the exercise of their powers, including any liabilities relating to the defence of any proceedings brought against them which relate to anything done or omitted, or alleged to have done or omitted, by them as officers or employees of the Company

Appropriate directors' and officers' liability insurance cover is in place in respect of all the Company's directors

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

In the case of each of the persons who are directors of the company at the date when this report was approved

- * so far as each of the directors is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the company's auditors are unaware, and
- * each of the directors has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information (as defined) and to establish that the company's auditors are aware of that information

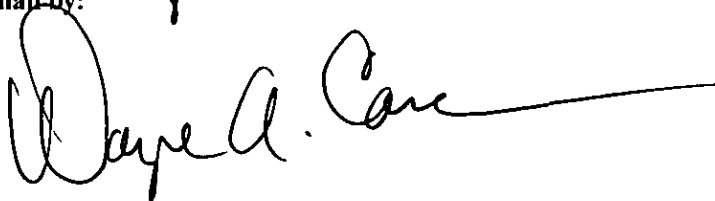
AUDITORS

Mazars LLP will continue in office in accordance with CA 2006 s487(2)

Approved by the Director on
and signed on their behalf by:

Sept. 1, 2010

W A Case
Director



**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
SCHMITT EUROPE LIMITED**

We have audited the financial statements of Schmitt Europe Limited for the year ended 31 May 2010 which comprise the profit and loss account, the balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors. This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/UKNP.

Opinion on the financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 May 2010 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on the other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.

Mazars LLP

Mazars LLP, Chartered Accountants (Statutory auditor)
Ian Holder (Senior statutory auditor)
The Broadway
Dudley
West Midlands
DY1 4PY

13 September 2010

SCHMITT EUROPE LIMITED**PROFIT AND LOSS ACCOUNT**
For the year ended 31 May 2010

	Notes	2010 £	2009 £
TURNOVER	2	731,561	879,335
Cost of sales		<u>(405,665)</u>	<u>(522,625)</u>
GROSS PROFIT		325,896	356,710
Other operating charges		<u>(358,580)</u>	<u>(293,204)</u>
OPERATING (LOSS)/PROFIT		(32,684)	63,506
Interest receivable		<u>4</u>	<u>664</u>
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	3	(32,680)	64,170
Taxation on (loss)/profit on ordinary activities	6	<u>6,164</u>	<u>(15,705)</u>
(LOSS)/PROFIT FOR THE FINANCIAL YEAR	11	<u>(26,516)</u>	<u>48,465</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

SCHMITT EUROPE LIMITED

BALANCE SHEET

As at 31 May 2010

	Notes	2010 £	2009 £
CURRENT ASSETS			
Stocks		80,417	68,697
Debtors	8	139,277	167,967
Cash at bank and in hand		64,847	123,503
		<u>284,541</u>	<u>360,167</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	9	(334,020)	(383,130)
NET CURRENT LIABILITIES		(49,479)	(22,963)
TOTAL ASSETS LESS CURRENT LIABILITIES		(49,479)	(22,963)
CAPITAL AND RESERVES			
Called up equity share capital	10	2	2
Profit and loss account	11	(49,481)	(22,965)
SHAREHOLDERS' DEFICIT	12	(49,479)	(22,963)

Approved by the board of Directors on
and signed on its behalf

Sept. 1, 2010

W A Case
Director

Wayne A. Case

Registered number 3202316

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 May 2010

1 ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable accounting standards

Accounting convention

The financial statements are prepared under the historical cost convention

Going concern

The financial statements have been prepared on the going concern basis, notwithstanding net current liabilities of £55,463 which the director believes to be appropriate for the following reasons. The company is dependent for its working capital on funds provided to it by Schmitt Industries Inc, the company's ultimate holding company. Schmitt Industries Inc has provided the company with an undertaking that for at least 12 months from the date of approval of these financial statements, it will continue to make available such funds as are needed by the company, and in particular will only seek repayment if Schmitt Europe Limited has the ability to make these repayments. This should enable the company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment. As with any company placing reliance on other group entities for financial support, the director acknowledges that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Based on this undertaking the director believes that it remains appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

Turnover

The turnover shown in the profit and loss account represents amounts invoiced on despatch of goods during the year, excluding VAT and trade discounts.

Tangible fixed assets

Tangible fixed assets are initially measured at cost and subsequently measured at cost less depreciation and any provision for impairment.

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life:

Leasehold improvements	- straight line over the term of the lease
Plant and machinery	- 10-33% straight line
Office equipment	- 25% straight line

Stocks

Stocks are valued at the lower of weighted average cost and net realisable value, after making due allowance for obsolete and slow moving items.

Stock used for demonstration purposes is written off over its useful economic life of three years.

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

Foreign currencies

Assets, liabilities, revenues and costs expressed in foreign currencies are translated into sterling at the rates of exchange ruling on the date on which the transaction occurs, except for:

- (i) Monetary assets and liabilities which are translated at the rate ruling at the balance sheet date (other than those in (ii) below) and
- (ii) transactions to be settled at a contracted rate and trading transactions covered by a related or matching forward contract which are translated at those contracted rates.

Differences arising on translation of such items are dealt in the profit and loss account.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 May 2010

1 ACCOUNTING POLICIES (Continued)

Related parties transactions

The company is a wholly owned subsidiary of Schmitt Industries Inc, the consolidated accounts of which are publicly available. Accordingly, the company has taken advantage of the exemption in FRS 8 from disclosing transactions with other entities that are part of, or investees in, Schmitt Industries Inc.

Share based payments

The company previously issued equity settled based payments to certain employees (including directors). Equity settled share based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity settled share based payments is expensed on a straight line basis over the vesting period, together with a corresponding increase in equity, based upon the company's estimate of the shares that will eventually vest.

Fair value is measured using the Black Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Where the terms of an equity settled transaction are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result, of the modification, as measured at the date of modification.

Where an equity settled transaction is cancelled, it is treated as if it had vested on the date of the cancellation, and any expense not yet recognised for the transaction is recognised immediately. However, if a new transaction is substituted for the cancelled transaction, and designated as a replacement transaction on the date that it is granted, the cancelled and new transactions are treated as if they were a modification of the original transaction, as described in the previous paragraph.

There were no unexercised options at 31 May 2010 or 31 May 2009.

Deferred tax

Deferred tax is provided in respect of the tax effect of all timing differences that have originated but not reversed at the balance sheet date.

A 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 profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Pension costs

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. Contributions payable for the year are charged in the profit and loss account.

2 TURNOVER

Turnover is wholly attributable to the principal activity of the company, of which 74% (2009: 83%) was generated outside the UK.

SCHMITT EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 May 2010

3 (LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2010	2009
	£	£
(Loss)/profit on ordinary activities before taxation is stated after charging/(crediting)		
Depreciation of owned fixed assets	-	79
Operating lease rentals - land and buildings	11,702	11,702
- other		10,562
Net loss/(profit) on foreign currency translation	47,355	48,741

The director is remunerated through the parent undertaking

4 AUDITORS' REMUNERATION

	2010	2009
	£	£
Fees payable to the Company's auditors		
For the audit of the Company's annual accounts	9,000	9,000
For other services relating to taxation services	1,000	1,000
Total fees payable	10,000	10,000

5 STAFF COSTS

	2010	2009
	£	£
Staff costs, including directors' emoluments		
Wages and salaries	118,054	117,714
Social security costs	16,670	16,557
Pension contributions	4,943	5,155
	139,667	139,426

Average number of persons, including directors employed by the company during the year

	Number	Number
Management and administration	3	3

SCHMITT EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 May 2010

6 TAXATION

	2010 £	2009 £
(a) Analysis of charge in the year		
Current tax		
UK Corporation tax based on the results for the year	(6,164)	13,433
Under provision in prior year	-	2,272
	<u>(6,164)</u>	<u>15,705</u>

(b) Factors affecting current tax charge

The tax assessed on the (loss)/profit on ordinary activities for the year is different to the small company rate of corporation tax in the UK of 21% (2009 - 21%)

(Loss)/profit on ordinary activities before taxation	<u>(32,680)</u>	<u>64,170</u>
(Loss)/profit on ordinary activities multiplied by the standard rate of tax	(6,863)	13,476
Expenses not deductible for tax purposes	571	318
Capital allowances for period in excess of depreciation	(403)	(361)
Adjustments in respect of previous periods	-	2,272
Movement in short term timing differences	531	-
	<u>(6,164)</u>	<u>15,705</u>

7 TANGIBLE FIXED ASSETS

	Fixtures & fittings £
COST	
At 1 June 2009 and 31 May 2010	<u>12,088</u>
DEPRECIATION	
At 1 June 2009 and 31 May 2010	<u>12,088</u>
NET BOOK VALUE	
At 31 May 2010	<u>-</u>
At 31 May 2009	<u>-</u>

SCHMITT EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 May 2010

8 DEBTORS

	2010 £	2009 £
Trade debtors	120,920	149,546
Other debtors	12,193	18,421
Corporation tax recoverable	6,164	-
	<u>139,277</u>	<u>167,967</u>

9 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2010 £	2009 £
Trade creditors	16,935	9,135
Amounts owed to group undertakings	289,577	320,625
Corporation tax	-	13,433
Other taxation and social security	7,804	5,620
Other creditors	19,704	34,317
	<u>344,020</u>	<u>383,130</u>

10 SHARE CAPITAL

	2010 £	2009 £
Authorised share capital:		
100,000 Ordinary shares of £1 each	<u>100,000</u>	<u>100,000</u>

	No.	2010 £	No.	2009 £
Allotted, called up and fully paid:				
Ordinary shares of £1 each	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>

11 PROFIT AND LOSS ACCOUNT

	2010 £	2009 £
Balance brought forward	(22,965)	(71,430)
(Loss)/profit for the financial year	<u>(26,516)</u>	<u>48,465</u>
Balance carried forward	<u>(49,481)</u>	<u>(22,965)</u>

SCHMITT EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 May 2010

12 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' DEFICIT

	2010 £	2009 £
(Loss)/profit for the financial year	(26,516)	48,465
Opening shareholders' deficit	(22,963)	(71,428)
Closing shareholders' deficit	<u>(49,479)</u>	<u>(22,963)</u>

13 SHARE BASED PAYMENTS

Equity settled share based payments

The company is part of a share based payment scheme operated by it's parent undertaking, Schmitt Industries Inc. There were no unexercised share options at 31 May 2010 or 31 May 2009

14 OTHER FINANCIAL COMMITMENTS

At 31 May 2010 the company was committed to making the following payments under non-cancellable operating leases in the year to 31 May 2011

	2010		2009	
	Land & buildings £	Other items £	Land & buildings £	Other items £
Operating leases which expire				
Within 1 year	10,727	6,050	-	417
Within 2 to 5 years	-	-	11,702	10,562
	<u>10,727</u>	<u>6,050</u>	<u>11,702</u>	<u>10,979</u>

15 RELATED PARTY TRANSACTIONS AND CONTROLLING PARTIES

Schmitt Europe Limited is a wholly owned subsidiary of Schmitt Industries Inc, a company incorporated in the United States of America, which is not controlled by a single party. Group financial statements are prepared and are publicly available. Schmitt Industries Inc is the smallest and largest group to consolidate these financial statements

16 CAPITAL COMMITMENTS

There were no capital commitments at 31 May 2010 or 31 May 2009

17 CONTINGENT LIABILITIES

There were no contingent liabilities at 31 May 2010 or 31 May 2009