Schmitt Europe Limited

Financial statements

For the year ended 31 May 2006

Grant Thornton

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COMPANIES HOUSE 548
04/11/2006

Company No. 3202316

Officers and professional advisers

Company registration number	3202316
Registered office	University of Warwick Science Park Sir William Lyons Road Coventry CV4 7EZ
Directors	W A Case D White
Secretary	D White
Auditor	Grant Thornton UK LLP Chartered Accountants Registered Auditors Enterprise House 115 Edmund Street Birmingham B3 2HJ

Contents

Report of the directors

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

Principal activities and business review

The principal activity of the company during the year was the provision of balancing systems, machines and services.

During the fiscal year 2006, Schmitt Europe Limited continued to experience soft and uncertain market conditions. However, the impact of a tighter fiscal policy, coupled with a more aggressive Sales and Marketing plan, resulted in a far more satisfactory set of results. This strategy will continue and the Directors remain positive about the future.

Results and dividends

The loss for the year amounted to £24,719 (2005 - loss £211,264).

The directors have not recommended a dividend.

Financial risk management objectives and policies

The company's principal financial instrument are cash and intergroup borrowings. The main purpose of these financial instruments 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 regain 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 and the company's results can be affected by movements in exchange rates. The company does not seek to hedge this exposure.

Directors

The directors who served the company during the year were as follows:

W A Case
D White

Report of the directors (continued)

None of the directors had an interest in the share capital of the company at any time during the year.

W A Case is also a director of the company's ultimate parent undertaking Schmitt Industries Inc. and has interests in the shares of that company. The details of these interests are disclosed within the financial statements of that company.

D White has no interest in the shares of Schmitt Industries Inc., but as at 31 May 2006 held 2,750 (2005 - 5,750) options in that company.

Directors' responsibilities

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

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 these 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 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.

Report of the directors (continued)

Auditor

BDO Stoy Hayward LLP resigned as auditors on 4 May 2006 and Grant Thornton UK LLP were appointed as auditors in their place.

Grant Thornton UK LLP offer themselves for reappointment as auditors in accordance with section 385 of the Companies Act 1985.

ON BEHALF OF THE BOARD

D White
Director
Date: 23/10/06

Schmitt Europe Ltd
University of Warwick Science Park
Sir William Lyons Road
Coventry, CV4 7EZ
Tel: 02476 697192 Fax: 02476 412697

Grant Thornton

Report of the independent auditor to the members of Schmitt Europe Limited

We have audited the financial statements of Schmitt Europe Limited for the year ended 31 May 2006 which comprise the accounting policies, profit and loss account, balance sheet and notes 1 to 18. 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 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 auditor

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 if, in our opinion, the Report of the Directors 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 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 auditor to the members of Schmitt Europe 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 May 2006 and of its loss 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 for the year ended 31 May 2006.

Grant Thornton UK LLP

GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
BIRMINGHAM

Date: 25 October 2006

Accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention.

In addition, the financial statements have been prepared under the accounting policies set out below and in accordance with applicable accounting standards.

Changes in accounting policies

In preparing the financial statements for the current year, the company has adopted the following Financial Reporting Standards:

-FRS 21 'Events after the Balance Sheet date (IAS 10)'; and

-the presentation requirements of 'FRS 25 'Financial Instruments: Disclosure and Presentation (IAS 32)''.

FRS 21 'Events after the Balance Sheet date (IAS 10)'

The adoption of FRS 21 has resulted in a change in accounting policy in respect of proposed equity dividends. If the company declares dividends to the holders of equity instruments after the balance sheet date, the company does not recognise those dividends as a liability at the balance sheet date. Previously, where these equity dividends were proposed after the balance sheet date, they were recorded as liabilities at the balance sheet date. There is no impact on these financial statements.

FRS 25 'Financial Instruments: Disclosure and Presentation (IAS 32)'

The adoption of FRS 25, presentation only, does not impact on these financial statements.

Going concern

The financial statements have been prepared on the going concern basis, notwithstanding net current liabilities of £500,980, which the directors believe 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 directors acknowledge 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 directors believe 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.

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 small.

Accounting policies (continued)

Turnover

The turnover shown in the profit and loss account represents amounts invoiced during the year, exclusive of VAT.

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Leasehold property improvements	-	10% per annum
Fixtures & fittings	-	33% per annum

Stocks

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

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 and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

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 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.

Deferred tax

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.

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

Accounting policies (continued)

Pension costs

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.

Profit and loss account

	Note	2006 £	2005 £
Turnover	1	**1,039,870**	1,062,840
Cost of sales		**651,557**	628,961
Gross profit		**388,313**	433,879
Other operating charges	2	**413,898**	645,668
Operating loss	3	**(25,585)**	(211,789)
Interest receivable		**875**	525
Interest payable and similar charges	6	**(9)**	–
Loss on ordinary activities before taxation		**(24,719)**	(211,264)
Tax on loss on ordinary activities	7	**–**	–
Loss for the financial year transferred from reserves	15	**(24,719)**	(211,264)

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.

Balance sheet

	Note	2006 £	2005 £
Fixed assets			
Tangible assets	8	**11,088**	15,144
Current assets			
Stocks	9	**77,315**	100,515
Debtors	10	**250,665**	406,796
Cash at bank		**86,273**	57,816
		414,253	565,127
Creditors: amounts falling due within one year	11	**926,321**	1,056,532
Net current liabilities		**(512,068)**	(491,405)
Total assets less current liabilities		**(500,980)**	(476,261)
Capital and reserves			
Called-up equity share capital	14	**2**	2
Profit and loss account	15	**(500,982)**	(476,263)
Deficit	16	**(500,980)**	(476,261)

These financial statements were approved by the directors on 23/10/06 and are signed on their behalf by:

D White
Director

23/10/06

Schmitt Europe Ltd
University of Warwick Science Park
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Coventry, CV4 7EZ
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Notes to the financial statements

1 Turnover

Turnover is wholly attributable to the principal activity of the company.

The analysis of turnover by geographical market required by paragraph 55 of Schedule 4 of the Companies Act 1985 has not been provided as, in the opinion of the directors, such disclosure would be seriously prejudicial to the interests of the company.

2 Other operating charges

	2006	2005
	£	£
Administrative expenses	**413,898**	645,668

3 Operating loss

Operating loss is stated after charging:

	2006	2005
	£	£
Depreciation of owned fixed assets	**6,536**	3,997
Loss on disposal of fixed assets	**344**	180
Auditors' remuneration:		
Audit fees	**9,000**	5,500
Accountancy fees	**1,000**	4,000
Previous auditors' remuneration - non audit services	**6,550**	–
Hire of other assets - operating leases	**10,126**	9,340
Operating lease rentals - land and buildings	**22,500**	30,820
Net loss on foreign currency translation	**20,006**	–

4 Particulars of employees

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

	2006	2005
	No	No
	6	6

The aggregate payroll costs of the above were:

	2006	2005
	£	£
Wages and salaries	172,220	231,717
Social security costs	31,403	20,926
Other pension costs	9,854	8,049
	213,477	260,692

5 Directors

Remuneration in respect of directors was as follows:

	2006	2005
	£	£
Emoluments receivable	82,600	79,044
Value of company pension contributions to money purchase schemes	4,166	4,120
	86,766	83,164

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

	2006	2005
	No	No
Money purchase schemes	1	1

6 Interest payable and similar charges

	2006	2005
	£	£
Interest payable on bank borrowing	9	–

7 Taxation on ordinary activities

No corporation tax charge has arisen during the year (2005 - £nil).

7 Taxation on ordinary activities (continued)

The tax assessed for the year is different than the standard rate of corporation tax in the UK of 19% (2005 - 19%). The differences are detailed below.:

(a) Factors affecting current tax charge

	2006	2005
	£	£
Loss on ordinary activities before taxation	**(24,719)**	(211,264)
Loss on ordinary activities multiplied by the rate of tax	**(4,697)**	(40,140)
Expenses not deductible for tax purposes	**925**	9,153
Depreciation for period in excess of capital allowances	**241**	759
Unrelieved tax losses	**3,531**	30,228
Total current tax (note 7(a))	**-**	-

(b) Factors that may affect future tax charges

The company has unrelieved tax losses of £376,000 (2005 - £357,000) available to carry forward at 31 May 2006.

8 Tangible fixed assets

	Leasehold property improvements	**Fixtures & fittings**	**Total**
	£	**£**	**£**
Cost			
At 1 June 2005	17,524	36,277	53,801
Additions	–	2,925	2,925
Disposals	–	(638)	(638)
At 31 May 2006	17,524	38,564	56,088
Depreciation			
At 1 June 2005	13,505	25,152	38,657
Charge for the year	1,753	4,783	6,536
On disposals	–	(193)	(193)
At 31 May 2006	15,258	29,742	45,000
Net book value			
At 31 May 2006	**2,266**	**8,822**	**11,088**
At 31 May 2005	4,019	11,125	15,144

9 Stocks

	2006	2005
	£	£
Finished goods and goods for resale	**77,315**	100,515

10 Debtors

	2006	2005
	£	£
Trade debtors	199,194	357,573
Other debtors	51,471	49,223
	250,665	406,796

11 Creditors: amounts falling due within one year

	2006	2005
	£	£
Trade creditors	32,612	76,470
Amounts owed to group undertakings	831,640	898,965
Other taxation and social security	14,798	7,716
Other creditors	47,271	73,381
	926,321	1,056,532

12 Commitments under operating leases

At 31 May 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 2 to 5 years	22,500	10,126	22,500	10,407

13 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 and therefore the company is exempt from the requirements of FRS8 to disclose details of transactions with other members of the group headed by this company. Schmitt Industries Inc. is the parent company of the smallest and largest group to consolidate these financial statements. Copies of these group accounts are publicly available.

Mr W A Case, a director and president and chief executive officer of Schmitt Industries Inc, has an interest in Oceanhurst Developments Limited. During the period Oceanhurst Developments Limited charged the company £22,500 (2005 - £22,500) for rent. The directors of Schmitt Europe Limited believe these rental values are less than the prevailing rates in the local area. At the balance sheet date the company owed Oceanhurst Developments Limited £2,203 (2005 - £6,609).

14 Share capital

Authorised share capital:

	2006 £	2005 £
100,000 Ordinary shares of £1 each	**100,000**	100,000

Allotted, called up and fully paid:

	2006 No	2006 £	2005 No	2005 £
Ordinary shares of £1 each	**2**	**2**	2	2
Equity shares				
Ordinary shares of £1 each	**2**	**2**	2	2

15 Profit and loss account

	2006 £	2005 £
Balance brought forward	**(476,263)**	(264,999)
Loss for the financial year	**(24,719)**	(211,264)
Balance carried forward	**(500,982)**	(476,263)

16 Reconciliation of movements in shareholders' deficit

	2006 £	2005 £
Loss for the financial year	**(24,719)**	(211,264)
Opening shareholders' deficit	**(476,261)**	(264,997)
Closing shareholders' deficit	**(500,980)**	(476,261)

17 Capital commitments

There were no capital commitments at 31 May 2006 or 31 May 2005.

18 Contingent liabilities

There were no contingent liabilities at 31 May 2006 or 31 May 2005.