

Schmitt Europe Limited

Report and Financial Statements

Year Ended

31 May 2003



BDO Stoy Hayward
Chartered Accountants



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Schmitt Europe Limited

Annual report and financial statements for the year ended 31 May 2003

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Directors

W A Case
D White

Secretary and registered office

D White, University of Warwick Science Park, Sir William Lyons Road, Coventry, CV4 7EZ

Company number

3202316

Auditors

BDO Stoy Hayward, 125 Colmore Row, Birmingham, B3 3SD

Schmitt Europe Limited

Report of the directors for the year ended 31 May 2003

The directors present their report together with the audited financial statements for the year ended 31 May 2003.

Results

The profit and loss account is set out on page 5 and shows the loss for the year.

Principal activities

The company's principal activity is the provision of balancing systems, machines and services.

Directors

The directors of the company during the year were:

	Ordinary shares of £1 each	
	31 May 2003	31 May 2002
W A Case	-	-
D White	-	-

W A Case is also a director of Schmitt Industries Inc., the company's ultimate holding company, and has an interest in 1,839,857 of its shares. D White has an interest in 15,000 stock options.

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 year. 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; 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 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.

Schmitt Europe Limited

Report of the directors for the year ended 31 May 2003 (*Continued*)

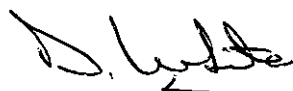
Auditors

BDO Stoy Hayward have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

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

On behalf of the board

D White



Director

Date:

14TH AUGUST 2003

Schmitt Europe Limited

Report of the independent auditors

To the shareholders of Schmitt Europe Limited

We have audited the financial statements of Schmitt Europe Limited for the year ended 31 May 2003 on pages 5 to 12 which have been prepared under the accounting policies set out on page 7 to 8.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards 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 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.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the the company's affairs 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

Schmitt Europe Limited

Report of the independent auditors (*Continued*)

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 May 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

BDO Stoy Hayward

BDO STOY HAYWARD

*Chartered Accountants
and Registered Auditors*
Birmingham

Date: *15 August 2003*

Schmitt Europe Limited**Profit and loss account for the year ended 31 May 2003**

	Note	2003 £	2002 £
Turnover	2	1,212,555	964,418
Cost of sales		652,502	552,817
		<hr/>	<hr/>
Gross profit		560,053	411,601
Administrative expenses		569,000	408,530
		<hr/>	<hr/>
Operating (loss)/profit	3	(8,947)	3,071
Other interest receivable and similar income	5	139	621
		<hr/>	<hr/>
(Loss)/profit on ordinary activities before and after taxation for the financial year		(8,808)	3,692
Accumulated loss brought forward		(173,714)	(177,406)
		<hr/>	<hr/>
Accumulated loss carried forward		(182,522)	(173,714)
		<hr/>	<hr/>

All amounts relate to continuing activities.

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

There are no movements in shareholders' funds in the current and prior year apart from the loss/profit for the year.

The notes on pages 7 to 12 form part of these financial statements.

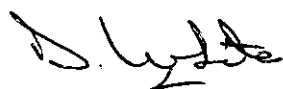
Schmitt Europe Limited

Balance sheet at 31 May 2003

	Note	2003 £	2003 £	2002 £	2002 £
Fixed assets					
Tangible assets	6		12,250		18,989
Current assets					
Stocks		119,109		150,952	
Debtors	7	304,000		282,617	
Cash at bank and in hand		63,604		62,896	
		<u>486,713</u>		<u>496,465</u>	
Creditors: amounts falling due within one year	8	<u>681,483</u>		<u>689,166</u>	
Net current liabilities			(194,770)		(192,701)
Total assets less current liabilities			<u>(182,520)</u>		<u>(173,712)</u>
Capital and reserves					
Called up share capital	9		2		2
Profit and loss account			(182,522)		(173,714)
Equity shareholders' funds			<u>(182,520)</u>		<u>(173,712)</u>

These 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 on



D White
Director

14TH AUGUST 2003

The notes on pages 7 to 12 form part of these financial statements.

1 Accounting policies

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

The following principal accounting policies have been applied:

Cash flow statement

The company has taken advantage of the exemption conferred by Financial Reporting Standard 1 'Cash Flow Statements (Revised 1996)' not to prepare a cash flow statement on the grounds that it is a 'small' company under the Companies Act 1985.

Depreciation

Depreciation is provided to write off the cost or valuation, less estimated residual values, of all tangible fixed assets evenly over their expected useful lives. It is calculated at the following rates:

Leasehold property improvements	- 10% per annum
Motor vehicles	- 33% per annum
Fixtures and fittings	- 33% per annum

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost is based on the cost of purchase on a first in, first out basis. Net realisable value is based on estimated selling price less additional costs to completion and disposal.

Foreign currency

Foreign currency transactions are translated into sterling at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet dates. Any differences are taken to the profit and loss account.

Deferred taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that the recognition of deferred tax assets is limited to the extent that the company anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances arising from underlying timing differences in respect of tax allowances on industrial buildings are reversed if and when all conditions for retaining those allowances have been met.

Deferred tax balances are not discounted.

Schmitt Europe Limited

Notes forming part of the financial statements for the year ended 31 May 2003 (Continued)

1 Accounting policies (continued)

Leased assets

Operating lease payments are charged to the profit and loss account in the period in which they are incurred.

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.

Going concern

The financial statements have been prepared on the going concern basis as assurances have been received from the company's parent undertaking, Schmitt Industries Inc., that it will continue to provide financial support.

2 Turnover

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.

3 Operating (loss)/profit

	2003 £	2002 £
This is arrived at after charging/(crediting):		
Depreciation of tangible fixed assets	9,535	8,285
Loss/(profit) on disposal of tangible fixed assets	269	(1,942)
Operating lease rentals - land and buildings	30,607	20,500
Auditors' remuneration - audit services	3,500	3,500
Auditors' remuneration - other	3,903	4,924
	<hr/>	<hr/>

Schmitt Europe Limited

Notes forming part of the financial statements for the year ended 31 May 2003 (*Continued*)

4 Directors' remuneration

	2003 £	2002 £
Aggregate emoluments, pension contributions and amounts receivable under long term incentive schemes	93,648	88,550
Company contributions to money purchase pension schemes	4,120	3,519
	<u> </u>	<u> </u>

One director is accruing benefits under a defined contribution pension scheme (2001 - 1).

5 Other interest receivable and similar income

	2003 £	2002 £
Bank deposits	139	621
	<u> </u>	<u> </u>

6 Tangible fixed assets

	Land and buildings £	Plant and machinery etc £	Total £
<i>Cost</i>			
At 1 June 2002	16,509	42,171	58,680
Additions	1,015	2,350	3,365
Disposals	-	(11,304)	(11,304)
	<u> </u>	<u> </u>	<u> </u>
At 31 May 2003	17,524	33,217	50,741
<i>Depreciation</i>			
At 1 June 2002	8,271	31,420	39,691
Provided for the year	1,730	7,805	9,535
Disposals	-	(10,735)	(10,735)
	<u> </u>	<u> </u>	<u> </u>
At 31 May 2003	10,001	28,490	38,491
<i>Net book value</i>			
At 31 May 2003	7,523	4,727	12,250
	<u> </u>	<u> </u>	<u> </u>
At 31 May 2002	8,238	10,751	18,989
	<u> </u>	<u> </u>	<u> </u>

Schmitt Europe Limited

Notes forming part of the financial statements for the year ended 31 May 2003 (*Continued*)

7 Debtors

	2003 £	2002 £
Trade debtors	247,914	254,497
Other debtors	56,086	28,120
	<u>304,000</u>	<u>282,617</u>

All amounts shown under debtors fall due for payment within one year.

8 Creditors: amounts falling due within one year

	2003 £	2002 £
Bank loans and overdrafts (secured)	-	1,273
Trade creditors	62,387	83,340
Amounts owed to group undertakings	586,942	565,177
Taxation and social security	7,472	8,319
Other creditors	24,682	31,057
	<u>681,483</u>	<u>689,166</u>

9 Share capital

	2003 £	Authorised 2002 £	Allotted, called up and fully paid 2003 £	2002 £
<i>Equity share capital</i>				
Ordinary shares of £1 each	100,000	100,000	2	2
	<u>100,000</u>	<u>100,000</u>	<u>2</u>	<u>2</u>

Schmitt Europe Limited

Notes forming part of the financial statements for the year ended 31 May 2003 (*Continued*)

10 Pensions

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. The pension charge represents contributions payable by the company to the fund and amounted to £8,313 (2002 - £7,353). Contributions amounting to £721 (2002 - £727) were payable to the fund and are included in other creditors.

11 Commitments under operating leases

The company had annual commitments under non-cancellable operating leases as set out below:

	2003 Land and buildings £	2003 Other £	2002 Land and buildings £	2002 Other £
Operating leases which expire:				
Within one year	-	3,312	-	-
In one to two years	-	4,653	-	-
In two to five years	28,173	-	26,834	7,965
	<hr/>	<hr/>	<hr/>	<hr/>
	28,173	7,965	26,834	7,965
	<hr/>	<hr/>	<hr/>	<hr/>

Schmitt Europe Limited

Notes forming part of the financial statements for the year ended 31 May 2003 (*Continued*)

12 Related party disclosures

Related party transactions and balances

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 any single party. Group financial statements are prepared and are publicly available.

The amounts owing to the parent company, Schmitt Industries Inc. at the balance sheet date amounted to £565,797 (2002 - £570,165).

The company owed Schmitt Measurement Systems Inc. £6,071 (2002 - £3,316) at the balance sheet date.

The company owed/(owed an amount from) Schmitt Europa GmbH of £10,098 (2002 - (£8,304)) at the balance sheet date.

The company owed Acuity Research Inc. £4,976 (2002 - £nil) at the balance sheet date.

During the year Oceanhurst Developments Limited, a company in which W A Case has an interest, charged Schmitt Europe Limited rent of £22,500 (2002 - £20,500).

During the year the company loaned Schmitt Europa GmbH £21,536. This loan was outstanding at the balance sheet date.