

## **DENSO MARSTON LIMITED**

### **Directors' report and financial statements**

31 December 1998

Registered number 305275



## **Directors' report and financial statements**

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## Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 1998.

### Principal activity

The principal activity of the company during the year was the production of heat exchangers for the automotive industry.

### Business review

Sales increased by 3% in the year to £72,011,000 taking advantage of the increased production capacity installed during 1997 and 1998. Further investment will continue to increase the capacity of the business and enable future growth targets to be achieved.

### Research and development

Research and development activity has been concerned with products and process reliability and also the development of products to increase the company's competitive position.

### Proposed dividend and transfer to reserves

The directors do not recommend the payment of a dividend. The deficit for the financial year of £3,007,000 (1997: £924,000) is to be transferred from reserves.

### Significant changes in fixed assets

Changes in fixed assets are detailed in note 9 to the financial statements.

### Directors and directors' interests

The directors who held office during the year were as follows:

K Sato (President)	(resigned 17 July 1998)
M Oshita (President)	(appointed 20 July 1998, resigned 31 December 1998)
T Doi	(appointed 1 August 1998, Managing Director from 1 January 1999)
M Nakagawa	
J Burnand	(appointed 14 May 1998)
D Clegg	
M Fukuzaki	(appointed 26 June 1998)
N Mitsuya	
T Nagara	(resigned 26 June 1998)
M Nicolelli	
T Takada	
H Uchiyama	

None of the directors held shares or other beneficial interests in the shares of the company at any time during the year.

## Directors' report (continued)

### Employees

The directors believe that considerable benefit can be derived from the provisions of systematic channels for employee participation. Formal joint consultative machinery has been in operation for many years and exchanges of information between management and employees is strongly encouraged.

During 1998 joint consultation has continued, through exchange of information and constructive discussion, to play a vital role in ensuring consideration of employees' views on matters likely to affect their interest and in developing an understanding of factors affecting the performance of the company.

During the year, the company continued to give full and fair consideration to application for employment from disabled persons and wherever practicable, in any case that arose, to retain by appropriate training any employee who became disabled during the year. All employees shared equally in training, career development and promotion programmes.

### Political and charitable contributions

The company made no political contributions during the year. Charitable donations of £2,000 (1997: £2,000) were made during the year.

### Year 2000

The directors have undertaken a review of the likely impact of the Year 2000 on the company's computer systems and operations. A plan has been implemented to address and where necessary resolve such issues arising. Significant costs are not expected to result.

### Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

  
**D Clegg**  
Secretary

Otley Road  
Baildon  
Shipley  
West Yorkshire  
BD17 7JR

13 July 1999

## **Statement of 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 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 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



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Leeds  
LS1 4DW

## **Auditors' report to the members of DENSO MARSTON LIMITED**

We have audited the financial statements on pages 5 to 18 in accordance with Auditing Standards.

### **Respective responsibilities of directors and auditors**

As described on page 3 the company's directors are responsible for the preparation of 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 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.

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 of the state of the company's affairs as at 31 December 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*KPMG*

**KPMG**  
*Chartered Accountants*  
*Registered Auditors*

*13 June* 1999

**Profit and loss account**  
*for the year ended 31 December 1998*

	Note	1998 £000	1997 £000
<b>Turnover</b>	2	<b>72,011</b>	69,756
Cost of sales		(66,778)	(62,498)
		<hr/>	<hr/>
<b>Gross profit</b>		<b>5,233</b>	7,258
Distribution costs		(1,967)	(2,108)
Administrative expenses		(5,858)	(5,837)
Other operating income		150	306
		<hr/>	<hr/>
<b>Operating loss</b>	3-5	<b>(2,442)</b>	(381)
Interest receivable	6	82	49
Interest payable	7	(647)	(592)
		<hr/>	<hr/>
<b>Loss on ordinary activities before taxation</b>		<b>(3,007)</b>	(924)
Tax on loss on ordinary activities	8	-	-
		<hr/>	<hr/>
<b>Deficit for the financial year</b>	16	<b>(3,007)</b>	(924)
		<hr/>	<hr/>

The results of the current and previous year derive wholly from continuing operations.


There are no gains or losses in the year other than those recognised in the profit and loss account above.

A reconciliation of movements in shareholders' funds is given in note 17 to the financial statements.

**Balance sheet**  
*at 31 December 1998*

	Note	1998 £000	1997 (restated) £000
<b>Fixed assets</b>			
Tangible assets	9	30,782	26,458
Investments	10	3	17
		<u>30,785</u>	<u>26,475</u>
<b>Current assets</b>			
Stocks	11	5,206	6,263
Debtors: due within one year	12	14,489	16,829
Debtors: due after one year	12	595	2,692
Cash at bank and in hand		2,005	1,030
		<u>22,295</u>	<u>26,814</u>
<b>Creditors: amounts falling due within one year</b>	13	<u>(25,607)</u>	<u>(21,394)</u>
<b>Net current (liabilities)/assets</b>		<u>(3,312)</u>	<u>5,420</u>
<b>Total assets less current liabilities</b>		<u>27,473</u>	<u>31,895</u>
<b>Creditors: amounts falling due after more than one year</b>	14	<u>(7,612)</u>	<u>(9,027)</u>
<b>Net assets</b>		<u>19,861</u>	<u>22,868</u>
<b>Capital and reserves</b>			
Called up share capital	15	33,080	33,080
Share premium account	16	10,135	10,135
Revaluation reserve	16	-	7
Profit and loss account	16	(23,354)	(20,354)
<b>Equity shareholders' funds</b>	17	<u>19,861</u>	<u>22,868</u>

These financial statements were approved by the board of directors on 13 July 1999 and were signed on its behalf by:

  
T Doi  
Director



## **Cash flow statement**

*for the year ended 31 December 1998*

	<i>Note</i>	1998 £000	£000	1997 (restated) £000	£000
<b>Net cash inflow from operating activities</b>	21		4,873		2,562
<b>Returns on investments and servicing of finance</b>					
Interest received		82		50	
Interest paid		(543)		(239)	
Interest element of finance lease rental payments		(109)		(377)	
		<hr/>		<hr/>	
<b>Net cash outflow from returns on investment and servicing of finance</b>			(570)		(566)
<b>Capital expenditure and financial investment</b>					
Purchase of tangible fixed assets		(9,515)		(3,907)	
Sale of tangible fixed assets		24		157	
		<hr/>		<hr/>	
<b>Net cash outflow from investing activities</b>			(9,491)		(3,750)
<b>Cash outflow before financing</b>			(5,188)		(1,754)
<b>Financing</b>					
Issue of shares		-		4,280	
Increase/(repayment) of bills of exchange		2,200		(2,500)	
Increase of group loan		5,900		40	
Capital element of finance lease rental payments		(1,723)		(1,495)	
		<hr/>		<hr/>	
<b>Net cash inflow from financing</b>			6,377		325
<b>Increase/(decrease) in cash</b>	22		1,189		(1,429)
			<hr/> <hr/>		<hr/> <hr/>

## Notes

*(forming part of the financial statements)*

### 1 Accounting policies

The following statements have been prepared in accordance with applicable accounting standards.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

#### ***Basis of preparation***

The financial statements have been prepared under alternative accounting rules set out in Schedule 4 to the Companies Act 1985. Certain freehold properties and plant are stated at revalued amounts; all other items are stated in the accounts at historical cost. The balance sheet and cash flow statement for 1997 have been restated as a result of reclassification of bills of exchange and group loans.

#### ***Consolidation***

The company has not prepared consolidated accounts. The directors are of the opinion that preparation of consolidated accounts would be of no real value to the members in view of the insignificant amounts involved.

#### ***Depreciation***

Depreciation is calculated so as to write off the cost or valuation of tangible fixed assets by equal annual instalments over their estimated useful lives as follows:

Freehold buildings	-	40 years
Leasehold land and buildings	-	Life of lease
Plant, tools, fixtures and fittings and equipment	-	between 4 and 15 years

No depreciation is provided on freehold land.

Expenditure on patents purchased by the company is charged against profits in the year in which it is incurred.

#### ***Stocks***

Stocks and work in progress are valued at the lower of cost and net realisable value. For work in progress and finished goods cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

#### ***Taxation***

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise in the foreseeable future.

#### ***Research and development expenditure***

Expenditure on research and development is written off against profits in the year in which it is incurred.

#### ***Government grants***

Capital based government grants are included within accruals and deferred income in the balance sheet and credited to operating profit over the estimated useful economic lives of the assets to which they relate.

## Notes (continued)

### Tools

Purchases of process tooling are included in tangible fixed assets. Tooling for the production of specific components is held as a current asset and to the extent that it is not recoverable from the respective customer is charged to the profit and loss account over its estimated useful life.

### Foreign currencies

Balances denominated in a foreign currency are translated into sterling at the exchange rates ruling at the balance sheet date. Exchange differences arising on normal trading transactions in the year are included in the profit and loss account. Exchange differences arising on the retranslation at year end exchange rates of currency loans used for overseas investments are taken directly to reserves.

### Pension costs

DENSO MARSTON LIMITED operates a company pension fund - THE DENSO MARSTON PENSION SCHEME. The funds are administered by trustees and are independent of the company finances. The scheme is of the defined benefit type whereby annual contributions are determined on the recommendations of independent actuaries (see note 24).

### Leases

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease'. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as 'operating leases' and the rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

## 2 Turnover

Turnover represents amounts invoiced by the company in respect of goods and services provided during the year, excluding value added tax.

	1998 £000	1997 £000
United Kingdom	31,659	29,794
Europe	33,742	30,570
North America	5,114	4,716
South America	785	3,428
Asia	709	1,248
Australia	2	-
	<hr/> 72,011 <hr/>	<hr/> 69,756 <hr/>

The directors consider that the company operates in one business segment.

**Notes (continued)**

**3 Operating loss**

	1998 £000	1997 £000
<i>Operating loss is stated after charging/(crediting)</i>		
Auditors' remuneration:		
Audit	30	30
Other services	5	5
Depreciation of tangible fixed assets:		
Owned	3,980	3,791
Leased	1,206	1,206
Hire of plant and machinery	83	64
Loss on sale of fixed assets	19	4
Capital grants amortised	(164)	(163)
	<u>          </u>	<u>          </u>

**4 Remuneration of directors**

	1998 £000	1997 £000
Directors' emoluments	309	307
Compensation for loss of office	-	56
	<u>          </u>	<u>          </u>
	<u>309</u>	<u>363</u>

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £71,000 (1997: £66,000).

	Number of directors 1998	1997
Retirement benefits are accruing to the following number of directors under:		
Defined benefit schemes	<u>2</u>	<u>1</u>

**Notes (continued)**

**5 Staff numbers and costs**

The average number of persons employed by the company (including directors) during the year was as follows:

<b>Number of employees</b>	
<b>1998</b>	<b>1997</b>
<b>1,110</b>	<b>939</b>
<u>          </u>	<u>          </u>

The aggregate payroll costs of these persons were as follows:

	<b>1998</b>	<b>1997</b>
	<b>£000</b>	<b>£000</b>
Wages and salaries	<b>18,114</b>	<b>16,446</b>
Social security costs	<b>1,596</b>	<b>1,364</b>
Other pension costs	<b>954</b>	<b>991</b>
	<u>          </u>	<u>          </u>
	<b>20,664</b>	<b>18,801</b>
	<u>          </u>	<u>          </u>

**6 Interest receivable**

	<b>1998</b>	<b>1997</b>
	<b>£000</b>	<b>£000</b>
Bank interest	<b>82</b>	<b>49</b>
	<u>          </u>	<u>          </u>

**7 Interest payable**

	<b>1998</b>	<b>1997</b>
	<b>£000</b>	<b>£000</b>
Bank loans and overdrafts repayable within five years	<b>539</b>	<b>327</b>
Finance leases	<b>108</b>	<b>265</b>
	<u>          </u>	<u>          </u>
	<b>647</b>	<b>592</b>
	<u>          </u>	<u>          </u>

**8 Taxation**

There is no tax charge for the current and previous year. The Company has taxable losses to carry forward for relief against future trading profits amounting to approximately £8,000,000.

## Notes (continued)

### 9 Tangible fixed assets

	Land and buildings		Plant and machinery £000	Payments on account and assets in the course of construction £000	£000
	Freehold property £000	Long leasehold £000			
<b>Cost and valuation</b>					
At beginning of year	7,450	5,018	42,289	1,437	56,194
Additions	15	-	7,212	2,288	9,515
Transfers	-	-	1,437	(1,437)	-
Disposals	-	-	(156)		(156)
At end of year	7,465	5,018	50,782	2,288	65,553
<b>Depreciation</b>					
At beginning of year	1,015	588	28,133	-	29,736
Charge for year	161	58	4,967	-	5,186
On disposals	-	-	(151)	-	(151)
At end of year	1,176	646	32,949	-	34,771
<b>Net book value</b>					
At 31 December 1998	6,289	4,372	17,833	2,288	30,782
At 31 December 1997	6,435	4,430	14,156	1,437	26,458

The cost or valuation of depreciable assets is £61,610,000 (1997: 53,102,000).

Included in the total net book value of plant and machinery is £2,052,000 (1997: £3,258,000) in respect of assets held under finance leases. Depreciation for the year on these assets was £1,206,000 (1997: £1,206,000).

**Notes (continued)**

**10 Fixed asset investments**

	<b>1998</b>	<b>1997</b>
	<b>£000</b>	<b>£000</b>
Shareholding in subsidiary undertaking	<u>3</u>	<u>17</u>

The shareholding in the subsidiary undertaking relates to a 100% equity interest in DENSO MARSTON DEUTSCHLAND GmbH which is incorporated in Germany. It was established during 1991 to provide support to the company's marketing in Germany.

DENSO MARSTON USA Inc was wound up at 31 December 1997.

**11 Stocks**

	<b>1998</b>	<b>1997</b>
	<b>£000</b>	<b>£000</b>
Raw materials and consumables	2,071	2,771
Work in progress	1,821	1,882
Finished goods	1,314	1,610
	<u>5,206</u>	<u>6,263</u>

**12 Debtors**

	<b>1998</b>	<b>1997</b>
	<b>£000</b>	<b>£000</b>
Trade debtors	9,713	13,757
Amounts owed by group undertaking	2,080	1,268
Other debtors	327	422
Prepayments and accrued income	365	303
Tooling debtor	2,599	3,771
	<u>15,084</u>	<u>19,521</u>

Of the tooling debtor £595,000 (1997: £2,692,000) is due after more than one year.

**Notes (continued)**

**13 Creditors: amounts falling due within one year**

	1998 £000	1997 £000
Bank overdraft	364	578
Obligations under finance leases and hire purchase contracts	702	1,718
Trade creditors	7,932	10,562
Bills of exchange payable	3,700	1,500
Amounts owed to group undertakings	11,074	4,781
Other creditors including taxation and social security	984	934
Accruals and deferred income	851	1,321
	<u>25,607</u>	<u>21,394</u>

**14 Creditors: amounts falling due after more than one year**

	1998 £000	1997 £000
Obligations under finance leases and hire purchase contracts	2	709
Deferred income	-	118
Amounts owed to group undertakings	7,610	8,200
	<u>7,612</u>	<u>9,027</u>

The maturity of the above net obligations under finance leases and hire purchase contracts is as follows:

	1998 £000	1997 £000
Between one and two years	<u>2</u>	<u>709</u>



## Notes (continued)

### 14 Creditors: amounts falling due after more than one year (continued)

The maturity of obligations under group loans is as follows:

	1998 £000	1997 £000
Within one year	6,490	-
Between one and two years	1,710	6,490
Between two and five years	5,900	1,710
	<hr/> 14,100	<hr/> 8,200
	<hr/> <hr/>	<hr/> <hr/>

Loans totalling £2,500,000 bear interest at 5% per annum. The remaining loans do not bear interest.

### 15 Called up share capital

	1998 £000	1997 £000
<i>Authorised</i>		
Ordinary shares of £1 each	40,000	40,000
	<hr/>	<hr/>
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £1 each		
A shares	24,810	24,810
B shares	8,270	8,270
	<hr/> 33,080	<hr/> 33,080
	<hr/> <hr/>	<hr/> <hr/>

The rights attaching to each class of ordinary share do not differ other than in respect of rights to appoint and remove directors. The board of directors is made up of a number of A Directors plus one B Director. The right to appoint and to remove A Directors or the B Director is a class right attached to the A Shares and the B Shares respectively. The chairman of the board of directors and the managing director are appointed by the A Shareholders.

### 16 Reserves

	Share premium account £000	Revaluation reserve £000	Profit and loss account £000
At beginning of year	10,135	7	(20,354)
Retained loss	-	-	(3,007)
Transfers	-	(7)	7
	<hr/> 10,135	<hr/> -	<hr/> (23,354)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

## Notes (continued)

### 17 Reconciliation of movements in shareholders' funds

	1998 £000	1997 £000
Issue of share capital	-	4,280
Retained loss for the year	(3,007)	(924)
	<hr/>	<hr/>
	(3,007)	3,356
Opening shareholders' funds	22,868	19,512
	<hr/>	<hr/>
Closing shareholders' funds	19,861	22,868
	<hr/> <hr/>	<hr/> <hr/>

### 18 Commitments

Capital commitments at the end of the financial year for which no provision has been made, are as follows:

	1998 £000	1997 £000
Contracted	885	4,735
	<hr/> <hr/>	<hr/> <hr/>

### 19 Contingent liabilities

Contingent liabilities unprovided at the balance sheet date amounted to £600,000 (1997: £500,000) in respect of bank guarantees.

### 20 Operating lease commitments

Annual commitments under operating leases are as follows:

	1998 £000	1997 £000
Contracts expiring:		
Within one year	45	57
In the second to fifth years	369	338
Over five years	83	-
	<hr/>	<hr/>
	497	395
	<hr/> <hr/>	<hr/> <hr/>

## Notes (continued)

### 21 Reconciliation of operating loss to operating cash flows

	1998 £000	1997 £000
Operating loss	(2,442)	(381)
Depreciation charge	5,186	4,997
Profit on sale of tangible fixed assets	(19)	4
Decrease/(increase) in stocks	1,057	(2,366)
Decrease/(increase) in debtors	4,437	(6,507)
(Decrease)/increase in creditors	(3,346)	6,979
Grant amortisation	-	(164)
<b>Net cash inflow from operating activities</b>	<b>4,873</b>	<b>2,562</b>

### 22 Analysis of net debt

	At 1 January 1998 £000	Cash Flow £000	At 31 December 1998 £000
Cash at bank and in hand	1,030	975	2,005
Overdrafts	(578)	214	(364)
	452	1,189	1,641
Creditors due within one year	(9,700)	(490)	(10,190)
Creditors due after more than one year	-	(7,610)	(7,610)
Finance leases	(2,427)	1,723	(704)
<b>Net debt</b>	<b>(11,675)</b>	<b>(5,188)</b>	<b>(16,863)</b>

### 23 Reconciliation of net cash flow to movement in net debt

	1998 £000	1997 £000
Net cash outflow/(outflow)	1,189	(1,429)
Net cash outflow from finance leases	1,723	1,495
Net cash (inflow)/outflow from bills of exchange	(2,200)	2,500
Net cash (inflow)/outflow from group loan	(5,900)	40
<b>Net change in debt resulting from cash flows</b>	<b>(5,188)</b>	<b>2,606</b>
Net debt at 1 January 1998	(11,675)	(14,281)
<b>Net debt at 31 December 1998</b>	<b>(16,863)</b>	<b>(11,675)</b>

## Notes (continued)

### 24 Pension costs

The Scheme operated by the Company is of the funded defined benefit type. The assets of the scheme are held separately from the company and are administered by the Schemes' trustees.

Contributions are paid to the scheme after taking actuarial advice and with the objective of maintaining the Scheme's solvency. In any one year differences may arise between the accounting pension cost and the rate of company contribution.

The pension costs and accrual for the current year have been determined in accordance with the advice of an independent professionally qualified actuary using the Projected Unit method based on a review of the Scheme's finances as at 6 April 1997. The principal assumptions adopted were as follows:-

	<b>Rate in excess of Price Inflation % per annum compound</b>
■ Future investment return	5.0
■ Future salary inflation	2.0
■ Future pensions increases in payment	nil
■ Future increase in state benefits	nil

At the date of the review the market value of the Scheme's assets was £26,300,000. The actuarial value of these assets represented 116% of the accrued liabilities calculated on an ongoing basis making full allowance for future increase in salaries.

The accounting policy is to recognise the costs of the Scheme's benefits systematically and rationally over the expected future service lives of the Schemes' members. Any surplus in the Scheme (net of any balance sheet prepayment/accrual) is being spread as a variation from regular costs using a level percentage of payroll method.

The pension cost for the year to 31 December 1998 was £954,000 (1997: £991,000).

### 25 Ultimate parent company and parent undertaking of larger group of which the company is a member

The ultimate parent company is DENSO CORPORATION LIMITED incorporated in Japan.

The parent undertaking of the smallest group for which group accounts are drawn up and of which the company is a member is DENSO INTERNATIONAL (EUROPE) BV incorporated in Holland.

### 26 Related party transactions

During the year DENSO MARSTON LIMITED made sales to Magnetti Marelli Climatizzazione S.R.L., a shareholder of the company. The value of transactions during 1998 were £8,431,000 (1997: £6,456,000) and £2,862,000 (1997: £3,655,000) was due from this related party at the year end and is included within trade debtors.