

REGISTERED NO.3503896

PARKER HANNIFIN (U.K.) LIMITED

ACCOUNTS FOR THE YEAR ENDED  
30 JUNE 2000

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PARKER HANNIFIN (U.K.) LIMITED

REPORT OF THE DIRECTORS IN RESPECT OF THE YEAR  
ENDED 30 JUNE 2000

1. The Directors present herewith the audited accounts for the year ended 30 June 2000.

2. Principal Activity

The main activity of the Company is the manufacture and sale of filters and thermoplastic extruded hose.

3. Review of business and future developments

Trading conditions during the year were difficult and a loss was made. The Directors expect present levels of activity to increase and that the Company will be profitable for the year to 30 June 2001.

4. Results and Dividends

There was a loss for the year after taxation amounting to £1,614,000 (1999: 17 months £811,000). No dividends have been declared during the year (1999: nil), therefore, the deficit of £1,614,000 (1999 17 months: £811,000) has been transferred to reserves.

5. Investments

On 20 July 1999 the Company invested 1.88 billion Yen (£10,066,934) in 9.4 million shares in Kuroda Precision Industries, a holding of 31.2%.

6. Directors

The Directors of the Company who served during the whole year ended 30 June 2000 were:

E J Bates  
R M Arthur  
T A Piraino  
A J Sayer

7. Directors' Interests in Shares

According to the register required to be kept under Section 325 of the Companies Act 1985, no Directors had, either at the beginning or the end of the year ended 30 June 2000 any interest in the shares of the Company or any other group company which are required by section 324 of the Act to be notified to the Company.

8. Directors' Interests in Contracts

None of the Directors had a material interest in any contract of significance to which the Company or its subsidiary undertakings was a party during the financial period.

9. Payment to Suppliers

The Company's policy in relation to the payment of its suppliers is to settle its terms of payment with each supplier when agreeing the terms of each business transaction. The supplier is made aware of the terms which are detailed in the Company's purchase orders. It is Company practice to abide by the agreed terms of payment. The Company's average creditor payment period at 30 June 2000 was 48 days (1999: 40 days).

10. Employment of Disabled Persons

The Company employs Registered Disabled Persons and has a policy of giving full and fair consideration to applications for employment from Registered Disabled People. In cases where disablement occurs whilst in service, Company policy is, wherever practicable, to continue employment and to arrange for any necessary re-training and facilities. Opportunities for training, career development and promotion apply equally across the Company to disabled and non-disabled alike.

11. Employee Involvement and Participation

The Directors recognise the importance of good communications and relations with employees. At operating company level, regular discussions take place, both on formal and informal bases, with trade union representatives to achieve and maintain the highest possible standards of health and safety for all its employees.

12. EURO

The Directors have assessed the risks associated with the introduction of the Euro and do not consider them significant.

13. Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial period that give a true and fair view of the statement of affairs of the Company as at the end of the financial period and of the profit or 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 accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, 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 that 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.

14. Auditors

The auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office, and a resolution concerning their reappointment will be proposed at the Annual General Meeting

BY ORDER OF THE BOARD

*E. J. Bate*

Secretary:  
20 April 2001

## REPORT OF THE AUDITORS

### Auditor's report to the members of Parker Hannifin (U.K.) Limited

We have audited the financial statements on pages 5 to 14.

#### Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described on page 3 of the financial statements in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom, by statute, the Auditing Practices Board and our profession's ethical guidance.

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 United Kingdom Companies Act. 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 is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

#### Basis of audit 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 included 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 30 June 2000 and of its loss for the year then ended and have been properly prepared in accordance with the United Kingdom Companies Act 1985.

*PricewaterhouseCoopers*

PricewaterhouseCoopers

Chartered Accountants and Registered Auditors

Birmingham

20 April 2001

PARKER HANNIFIN (U.K.) LIMITEDPROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30 JUNE 2000

	<u>Notes</u>	<u>12 mths to</u> <u>30/06/00</u> <u>£'000's</u>	<u>17 mths to</u> <u>30/06/99</u> <u>£'000's</u>
TURNOVER	2	13,905	18,602
COST OF SALES		<u>(9,979)</u>	<u>(12,131)</u>
GROSS PROFIT		3,926	6,471
NET OPERATING EXPENSES	3	<u>(3,942)</u>	<u>(5,766)</u>
OPERATING (LOSS)/PROFIT	4	(16)	705
NET INTEREST PAYABLE	7	<u>(1,437)</u>	<u>(1,562)</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(1,453)	(857)
TAXATION (CHARGE)/CREDIT ON LOSS ON ORDINARY ACTIVITIES	8	<u>(161)</u>	<u>46</u>
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		<u>(1,614)</u>	<u>(811)</u>
RETAINED LOSS FOR THE PERIOD	18	<u>(1,614)</u>	<u>(811)</u>

•All activities relate to continuing operations.

•The Group has no recognised gains or losses other than those included in the results above, and therefore no separate statement of total recognised gains and losses has been presented.

•There is no difference between the loss on ordinary activities before taxation and the retained loss for the period stated above, and their historical cost equivalents.

The notes on pages 7 to 14 form part of these accounts.  
Auditors' report page 4.

PARKER HANNIFIN (U.K.) LIMITED  
BALANCE SHEET - AS AT 30 JUNE 2000

	<u>Notes</u>	<u>2000</u> £'000's	£'000's	<u>1999</u> £'000's	£'000's
<b>FIXED ASSETS</b>					
Intangible assets	9		15,666		17,329
Tangible assets	10		4,608		4,680
Investments	11		10,067		24
			<u>30,341</u>		<u>22,033</u>
<b>CURRENT ASSETS</b>					
Stocks	12	3,926		3,580	
Debtors	13	10,548		9,371	
Cash at bank and in hand		<u>311</u>		<u>2,527</u>	
			14,785		15,478
<b>CREDITORS - Amounts falling due within one year</b>	14	<u>(3,888)</u>		<u>(6,236)</u>	
<b>NET CURRENT ASSETS</b>			<u>10,897</u>		<u>9,242</u>
<b>Total assets less current liabilities</b>			41,238		31,275
<b>CREDITORS - Amounts falling due after more than one year</b>	15		(23,131)		(21,732)
Provision for liabilities and charges	16		<u>(65)</u>		<u>46</u>
<b>NET ASSETS</b>			<u>18,042</u>		<u>9,589</u>
 <b>CAPITAL AND RESERVES</b>					
Called up share capital	17		10,400		10,400
General reserve	18		10,067		-
Profit and loss account	18		<u>(2,425)</u>		<u>(811)</u>
<b>Equity shareholders' fund</b>	19		<u>18,042</u>		<u>9,589</u>

These accounts were approved by the board of directors on 20 April 2001

*E. J. Baten* } Director

The notes on pages 7 to 14 form part of these accounts.  
Auditors' report page 4.

PARKER HANNIFIN (U.K.) LIMITED

NOTES TO THE ACCOUNTS - YEAR ENDED 30 JUNE 2000

1. Principal Accounting Policies

The accounts are prepared under the historical cost convention and in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies is set out below.

(a) Goodwill

Goodwill, representing the excess of the cost of investment of a subsidiary over the net assets acquired, is amortised over its useful economic life, in line with Financial Reporting Standards in the United Kingdom. This is taken to be 20 years.

(b) Capital instruments

Capital instruments are included at cost, adjusted for discount accretion or premium amortisation where the intention is to hold them to maturity.

Interest payable and the premium or discount where relevant is taken to the profit and loss account so as to produce a constant rate of return over the period to the date of expected redemption.

(c) Depreciation

Depreciation is calculated to write off the cost or valuation of fixed assets less their estimated residual values on a straight line basis over the expected useful lives of the assets concerned. The principal annual rates used for this purpose are:

Freehold buildings	2%
Plant and equipment	10%-20%
Motor vehicles	25%-33 $\frac{1}{3}$ %
Computer equipment	20%-50%

Leasehold land and buildings are amortised over 50 years or the period of the lease whichever is the shorter. Freehold land is not depreciated.

(d) Foreign Currencies

Assets and liabilities expressed in foreign currencies are translated to sterling at the rates of exchange ruling at the balance sheet date and results are translated at the average rate for the period. Gains or losses on translation are dealt with in the profit and loss account.

(e) Stocks

Stocks are stated at the lower of cost and net realisable value. In general, cost is determined on a first in, first out basis and in the case of manufactured products, includes all direct expenditure and production overheads, based on the normal level of activity incurred in bringing the stocks to their current state and location. Net realisable value is the amount at which it is expected items of stock can be disposed of in the normal course of business after allowing for all further costs to completion and all directly related costs to be incurred in marketing, selling and distribution. Provision is made for slow moving, obsolete and defective stock.

(f) Deferred Taxation

Provision is made for deferred taxation using the liability method except in the case of tax reductions arising from timing differences, mainly capital allowances, which are reasonably expected to continue for the foreseeable future.

PARKER HANNIFIN (U.K.) LIMITED

NOTES TO THE ACCOUNTS - YEAR ENDED 30 JUNE 2000 - CONTINUED

1. Principal Accounting Policies - Continued

(g) Investments

Investments are stated at the lower of cost and net realisable value.

(h) Pension Arrangements

The Company funds pension liabilities, on the advice of external actuaries, by payments to the Company pension fund. The Company's contributions are charged to the profit and loss account for the period in which payments are made and are calculated to meet current and past service liabilities. The fund is actuarially valued every three years (see note 20).

(i) Turnover

Turnover, which excludes value added tax comprises UK sales at invoiced value and export sales on a f.o.b. basis.

(j) Cash Flow Statement

The Company is a wholly-owned subsidiary of Parker Hannifin International Corporation, which is a publically owned company in the United States of America. Consequently the Company is exempt under the terms of Financial Reporting Standard No. 1 (Revised 1996) from publishing a cash flow statement, as cashflow information is incorporated in that Company's financial statements.

2. Segmental Information

The Directors regard the operations of the Company as comprising a single activity. All turnover originates from, and all net assets are based within, the United Kingdom. The geographical analysis of Group turnover by destination was as follows:

	<u>12 mths to</u> <u>30/06/00</u> £'000's	<u>17 mths to</u> <u>30/06/99</u> £'000's
United Kingdom	6,756	9,460
Rest of Europe	4,895	6,524
Rest of World	2,254	2,618
	<hr/>	<hr/>
	13,905	18,602

3. Net Operating Expenses

Group net operating expenses are made up as follows:

	<u>12 mths to</u> <u>30/06/00</u> £'000's	<u>17 mths to</u> <u>30/06/99</u> £'000's
Other operating costs	1,332	1,965
Sales expense	1,191	780
Administrative expenses	1,419	3,021
	<hr/>	<hr/>
	3,942	5,766

PARKER HANNIFIN (U.K.) LIMITED

NOTES TO THE ACCOUNTS - YEAR ENDED 30 JUNE 2000 - CONTINUED

4. Operating (Loss)/Profit

Operating (loss)/profit is stated after charging:

	<u>12 mths to</u> <u>30/06/00</u> £'000's	<u>17 mths to</u> <u>30/06/99</u> £'000's
Depreciation of tangible fixed assets (see note 10)	1,191	1,475
Amortisation of intangible fixed assets (see note 9)	919	1,082
Auditor's remuneration – audit services	35	37
Auditor's remuneration – non audit services	6	6
Losses from fixed asset disposals	11	84
Royalty	90	46

5. Directors' Emoluments

The directors who held office at any time during the period to 30 June 2000 received no remuneration for their services to the Company during the year (1999: nil).

There are no retirement benefits accruing for any of the directors in respect of their services to the Company (1999: nil).

6. Employee Information

The average number of persons employed by the Company, including executive directors, during the year and their payroll costs were:

	<u>12 mths to</u> <u>30/06/00</u> Number	<u>17 mths to</u> <u>30/06/99</u> Number
Production	94	95
Selling	18	11
Administration	57	61
	<u>169</u>	<u>167</u>

	<u>12 mths to</u> <u>30/06/00</u> £'000's	<u>17 mths to</u> <u>30/06/99</u> £'000's
Aggregate gross wages and salaries	3,146	3,506
Employer's national insurance contributions	258	336
Employer's pension contributions under the company pension scheme (see note 20)	198	312
	<u>3,602</u>	<u>4,154</u>

PARKER HANNIFIN (U.K.) LIMITED

NOTES TO THE ACCOUNTS - YEAR ENDED 30 JUNE 2000 - CONTINUED

7. Net Interest Payable

	<u>12 mths to</u> <u>30/06/00</u> £'000's	<u>17 mths to</u> <u>30/06/99</u> £'000's
Bank loans and overdrafts	9	29
On amounts owed to Group undertakings	1,449	1,582
Interest receivable	1,458 (21)	1,611 (49)
	<u>1,437</u>	<u>1,562</u>

Interest payable to Group undertakings represents the interest charge in respect of a deep discount bond issued by the company to Alenco (Holdings) Limited a fellow subsidiary (see note 15)

8. Tax on Loss on Ordinary Activities

The (charge)/credit based on losses for the year comprises:

	<u>12 mths to</u> <u>30/06/00</u> £'000's	<u>17 mths to</u> <u>30/06/99</u> £'000's
UK Corporation tax at 30% (1999:30.25%)	(50)	46
Deferred tax	182	-
Prior year adjustment for under-provision	(293)	-
	<u>(161)</u>	<u>46</u>

9. Intangible Fixed Assets

A summary of the Company's intangible fixed assets is as follows:

<u>Cost</u>	<u>Goodwill</u> <u>£'000's</u>
At 1 July 1999	18,411
Written off in year	(744)
At 30 June 2000	<u>17,667</u>
<u>Aggregate Amortisation</u>	
1 July 1999	1,082
Charge for the year	919
At 30 June 2000	<u>2,001</u>
Net book amount at 30 June 2000	<u>15,666</u>
Net book amount at 30 June 1999	<u>17,329</u>

Following the transfer of the trade and assets of UCC Securities Limited (a subsidiary undertaking which has since been dissolved (see note 11)) and Extrudit Limited to Parker Hannifin (UK) Limited at net book value on 30 June 1998 the original investment in subsidiaries was reclassified as goodwill in the period ended 30 June 1999. This goodwill was based on provisional fair value adjustments in respect of additional tax liabilities of £744,000 made at the original date of acquisition of UCC Securities Limited. Following subsequent review by management these amounts no longer represent valid liabilities and consequently goodwill has been adjusted.

PARKER HANNIFIN (U.K.) LIMITED

NOTES TO THE ACCOUNTS - YEAR ENDED 30 JUNE 2000 - CONTINUED

10. Tangible Fixed Assets

A summary of the Group and Company's tangible fixed assets are as follows:

<u>Cost</u>	<u>Freehold land and buildings</u> £'000's	<u>Plant and machinery</u> £'000's	<u>Total</u> £'000's
At 1 July 1999	2,517	3,600	6,117
Additions	-	1,184	1,184
Disposals	(24)	(144)	(168)
At 30 June 2000	2,493	4,640	7,133
<u>Depreciation</u>			
At 1 July 1999	50	1,387	1,437
Charge for the period	50	1,141	1,191
Disposals	-	(103)	(103)
At 30 June 2000	100	2,425	2,525
Net book value at 30 June 2000	2,393	2,215	4,608
Net book value at 30 June 1999	2,467	2,213	4,680

The value of freehold land not subject to depreciation is £24,000 (1999: £24,000).

All fixed assets are stated at historic cost.

11. Investments

	£'000's
Cost at 1 July 1999	24
Additions	10,067
Write-off during year	(24)
Cost and net book value at 30 June 2000	10,067

At 30 June 2000 the Company held shares in the allotted share capital of the following:

	Country of registration and operation	Percentage held	Nature of business
Extrudit Limited	England	100%	Dormant
Kuroda Precision Industries	Japan	31.2%	Active

PARKER HANNIFIN (U.K.) LIMITED

NOTES TO THE ACCOUNTS - YEAR ENDED 30 JUNE 2000 - CONTINUED

The directors consider that although the Company maintains a 31.2% interest in the share capital of Kuroda Precision Industries, it does not maintain any influence over the operating and financial policies of the undertaking. Therefore the directors consider it appropriate to account for this holding as a trade investment.

Extrudit Limited was dissolved pursuant to Section 652A of the Companies Act 1985 on 1 August 2000.

UCC Securities Limited (and its subsidiaries), the share capital of which was held by the Company, were dissolved pursuant to Section 652A of the Companies Act 1985 on 28 March 2000.

12. Stocks

	<u>30/06/00</u>	<u>30/06/99</u>
	£'000's	£'000's
Raw materials	2,636	2,008
Work in progress	167	126
Finished goods	1,123	1,446
	<u>3,926</u>	<u>3,580</u>

13. Debtors - Amounts Falling Due Within One Year

	<u>30/06/00</u>	<u>30/06/99</u>
	£'000's	£'000's
Trade debtors	2,305	2,568
Amounts owed by group undertakings	7,710	5,720
Other debtors	6	38
Prepayments and accrued income	337	855
	<u>10,358</u>	<u>9,181</u>

Debtors - Amounts Falling Due After One Year

Pension Prepayment (see note 20)	<u>190</u>	<u>190</u>
	<u>10,548</u>	<u>9,371</u>

14. Creditors - Amounts Falling Due Within One Year

	<u>30/06/00</u>	<u>30/06/99</u>
	£'000's	£'000's
Trade creditors	1,338	1,309
Amounts owed to group undertakings	2,561	4,169
Accruals and deferred income	(336)	483
Corporation tax	325	275
	<u>3,888</u>	<u>6,236</u>

Amounts owed to group undertakings are unsecured, interest free and repayable on demand.

15. Creditors - Amounts Falling Due After More Than One Year

	<u>30/06/00</u>	<u>30/06/99</u>
	£'000's	£'000's
Bank loans as other borrowings	100	150
Amounts owed to group undertakings	23,031	21,582
	<u>23,131</u>	<u>21,732</u>

Bank loans and other borrowings are unsecured and are repayable between two and five years. Interest on the borrowings is payable at 1% above LIBOR.

Amounts owed to group undertakings relate to a note in the principal amount of £31,511,265 issued by the company to Alenco (Holdings) Limited at a price of £20,000,000.

PARKER HANNIFIN (U.K.) LIMITED

NOTES TO THE ACCOUNTS - YEAR ENDED 30 JUNE 2000 - CONTINUED

15. Creditors - Amounts Falling Due After More Than One Year - continued

The bond carries no interest charge but is repayable on demand.

In accordance with FRS4, the effective finance cost of £11,511,265 is charged to the profit and loss account in the period using an effective interest rate of 6.71% over the life of the Note. Unpaid interest is added to the outstanding principal amount at period end. Unpaid interest for the year amounts to £1,449,000 (1999: £1,582,000).

The Notes are repayable on 27 April 2005 at the principal amount. The holder of the notes may (by giving at least 30 days' notice) at redemption date subscribe for 6.59% preference shares in the principal amount in the capital of the company.

16. Provision for Liabilities and Charges

The deferred tax liability (asset) is analysed as follows:

	30/06/00 £'000's	30/06/99 £'000's
Accelerated capital allowances	70	-
Other short term timing differences	(5)	(46)
	<u>65</u>	<u>(46)</u>

There is no difference between the amount provided and the total potential liability/(asset).

17. Called up Share Capital

	30/06/00 £'000's	30/06/99 £'000's
Authorised share capital		
12,000,000 (1999: 12,000,000) ordinary shares of £1 each	12,000	12,000
	=====	=====
Allotted and fully paid		
10,400,000 (1999: 10,400,000) ordinary shares of £1 each	10,400	10,400
	=====	=====

18. Reserves

	<u>General reserve</u> £'000's	<u>Profit and loss</u> £'000's
At 1 July 1999	-	(811)
Retained loss for the year	-	(1,614)
Additions	10,067	-
	<u>10,067</u>	<u>(2,425)</u>
At 30 June 2000		

19. Reconciliation of Movements in Shareholders' Funds

	<u>Company</u> <u>30/06/00</u> £'000's	<u>30/06/99</u> £'000's
Loss for the period attributable to shareholders	(1,614)	(811)
Net proceeds of issue of ordinary share capital	-	10,400
Capital contribution by parent company taken to general reserves	10,067	-
	<u>8,453</u>	<u>9,589</u>
Net increase in shareholders' funds		
Opening shareholders fund	9,589	-
	<u>18,042</u>	<u>9,589</u>
Closing shareholders' funds		

PARKER HANNIFIN (U.K.) LIMITED

NOTES TO THE ACCOUNTS - YEAR ENDED 30 JUNE 2000 - CONTINUED

20. Pensions

The Company's pension arrangements are dealt with under a defined benefit scheme managed in this country by Parker Hannifin plc.

The last full actuarial valuation of the scheme was carried out as at 30 June 1999 using the projected unit credit method. As a result of the valuation disclosed, the Company's contribution to the scheme has remained at 11.5% effective 1 July 1999. The scheme is externally funded and the market value of the assets at 30 June 2000 was £69.78 million. The costings assumed that the long-term yield on investments would exceed the general rate of increases in salaries by 2.75% per annum, with any surplus being spread evenly over the next year. The pension charge for the year was £198,000 (1999: £312,000). The balance sheet prepayment based on the fair value at the date of acquisition of the UCC Securities Limited and Extrudit Limited amounts to £190,000 (1999: £190,000).

21. Capital Commitments

Capital commitments contracted for but not provided for at year end amounted to £nil (1999: £nil),

22. Related Party Transactions

The Company has taken advantage of the exemption granted under (paragraph 3(c)) of FRS8 and not disclosed any transactions with other group companies.

23. Ultimate Holding Company

The immediate parent company is Parker Hannifin International Corporation. The ultimate holding company and controlling party is Parker Hannifin Corporation which is incorporated in the USA. Copies of its annual financial statements may be obtained from The Company Secretary, Parker Hannifin Corporation, 6035 Parkland Boulevard, Cleveland, Ohio 44124-4141, USA.