

Registered number 3503896

Parker Hannifin (UK) Limited

Directors' report and financial statements

for the year ended 30 June 2003



# Parker Hannifin (UK) Limited

## Directors' report and financial statements for the year ended 30 June 2003

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# **Parker Hannifin (UK) Limited**

## **Directors' report for the year ended 30 June 2003**

The directors present their report and the audited financial statements of the Company for the year ended 30 June 2003.

### **Principal activity**

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

### **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 2004.*

### **Results and dividends**

The Company's loss for the financial year is £1,703,000 (2002: loss £3,482,000 – as restated). No dividends have been declared during the year (2002: £nil); therefore, the deficit of £1,703,000 (2002: £3,482,000 – as restated) has been deducted from reserves.

### **Directors and their interests**

The directors who held office during the year are given below:

E J Bates (appointed 28 February 2003 and resigned 1 July 2003) (Company Secretary)

R M Arthur

I Molyneux

M Vadgama (resigned 28 February 2003)

(Company Secretary)

T G Maye (appointed 1 July 2003)

(Company Secretary)

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 any interest in the shares of the Company or any other group Company which are required by section 324 of the Companies Act 1985 to be notified to the Company.

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 year.

### **Statement of directors' responsibilities**

Company law requires the directors to prepare financial statements for each financial year that 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. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 30 June 2003 and that applicable accounting standards have been followed.

# **Parker Hannifin (UK) Limited**

## **Directors' report for the year ended 30 June 2003 (continued)**

### **Statement of directors' responsibilities (continued)**

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.

### **Auditors**

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 21 February 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors. A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the annual general meeting.

*By order of the Board*



**T G Maye**  
**Secretary**

**DATE: 18<sup>th</sup> May 2004**

# **Parker Hannifin (UK) Limited**

## **Independent auditors' report to the members of Parker Hannifin (UK) Limited**

We have audited the financial statements, which comprise the profit and loss account, the balance sheet and the related notes.

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

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable *United Kingdom law and 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 issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown, or in to whose hands it may come, save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the accounts 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 is not disclosed.

### **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 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 accounts 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 accounts.

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 30 June 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**PricewaterhouseCoopers LLP**  
Chartered Accountants and Registered Auditors  
Birmingham

18 May 2004

Dated

## Parker Hannifin (UK) Limited

### Profit and loss account for the year ended 30 June 2003

	Notes	2003 £'000	2002 £'000 (as restated)
Turnover			
- Continued operations	3	33,473	9,967
- acquisitions		-	12,795
<b>Total Turnover</b>		<b>33,473</b>	<b>22,762</b>
Cost of sales	4	(26,772)	(18,188)
<b>Gross profit</b>		<b>6,701</b>	<b>4,574</b>
Net operating expenses	4	(8,404)	(7,216)
<b>Operating loss - Continued operations</b>	5	<b>(1,703)</b>	<b>(1,643)</b>
- acquisitions	5	-	(999)
<b>Total Operating Loss</b>		<b>(1,703)</b>	<b>(2,642)</b>
Net interest payable and similar charges	8	-	(1,005)
Income from other fixed asset investments	12	-	159
<b>Loss on ordinary activities before taxation</b>		<b>(1,703)</b>	<b>(3,488)</b>
Tax charge/(credit) on loss on ordinary activities	9	-	6
<b>Loss for the financial year</b>	18	<b>(1,703)</b>	<b>(3,482)</b>

The Company has no recognised gains or losses other than the loss above therefore no separate statement of recognised gains and losses have been presented.

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

## **Parker Hannifin (UK) Limited**

### **Statement of total recognised gains and losses for the year ended 30 June 2003**

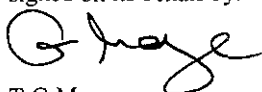
	<b>Year ended 30 June 2003</b>	<b>Year ended 30 June 2002 as restated</b>
	<b>£000</b>	<b>£000</b>
<b>Loss for the financial year</b>	<b>(1,703)</b>	<b>(3,482)</b>
Total recognised gains and losses relating to the financial year	(1,703)	(3,482)
Prior year adjustment (note 8)	1,921	
<b>Total gains and losses recognised since last annual report</b>	<b>218</b>	

# Parker Hannifin (UK) Limited

## Balance sheet as at 30 June 2003

	Note	2003 £'000	2002 £'000
		(as restated)	
<b>Fixed assets</b>			
Intangible assets	10	13,039	13,889
Tangible assets	11	5,694	6,209
Investments	12	6,444	6,444
		25,177	26,542
<b>Current assets</b>			
Stocks	13	4,544	6,309
Debtors	14	12,516	19,560
		17,060	25,869
Creditors - Amounts falling due within one year	15	(11,568)	(20,008)
<b>Net current assets</b>		5,492	5,861
<b>Total assets less current liabilities</b>		30,669	32,403
<b>Provision for liabilities and charges</b>	16	-	(31)
<b>Net assets</b>		30,669	33,372
<b>Capital and reserves</b>			
Called up share capital	17	36,400	36,400
General reserve	18	10,067	10,067
Profit and loss account	18	(15,798)	(14,095)
<b>Equity shareholders' funds</b>	19	30,669	33,372

The financial statements on pages 4 to 18 were approved by the board of directors on 18<sup>th</sup> May 2004 and were signed on its behalf by:



T G Maye  
Director



# **Parker Hannifin (UK) Limited**

## **Notes to the financial statements for the year ended 30 June 2003**

### **1 Principal accounting policies**

These financial statements are prepared under the historical cost convention, the accounting policies set out below and in accordance with applicable accounting standards.

#### **Tangible fixed assets and depreciation**

Fixed assets are shown at cost less accumulated depreciation.

Depreciation is calculated to write off the cost of fixed assets on a straight-line basis over the expected useful lives of the assets concerned. The principal annual rates used for this purpose, which are consistent with those of the previous year are:

Freehold buildings	2%-5%
Plant and equipment	10%-20%
Motor vehicles	25%-33 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.

#### **Fixed asset investments**

Investments are stated at cost of the shares plus all other associated costs less any provision for impairment.

#### **Foreign currencies**

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date or at contracted rates and results are translated at the exchange ruling at the date of the transaction. In both instances, foreign exchange differences are taken as part of the loss on ordinary activities before taxation in the period in which they arise.

#### **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.

# **Parker Hannifin (UK) Limited**

## **Notes to the financial statements for the year ended 30 June 2003 (continued)**

### **1 Principal accounting policies (continued)**

#### **Deferred taxation**

Following the introduction of FRS 19, provision is made for deferred tax in so far as a liability or asset arises as a result of transactions that have occurred by the balance sheet date and gives rise to an obligation to pay more tax in future, or a right to pay less tax in future. Assets have not been recognised to the extent that the transfer of future economic benefits is uncertain. Deferred tax assets and liabilities have not been discounted.

#### **Operating leases**

The annual rentals in relation to operating leases are charged to operating profit on a straight-line basis over the lease term.

#### **Pension arrangements**

Pension contributions are made to the Parker Plan. The Company has accounted for its contributions to the Parker plan defined benefit scheme as if it was a defined contribution scheme and accounts for contributions to the scheme in the accounting period in which they fall due.

#### **Turnover**

Turnover, which excludes value added tax, comprises UK sales at invoiced value and export sales on a free on board basis.

#### **Goodwill**

Goodwill represents amounts reclassified from investments following the transfer of the trade and assets of fellow group undertakings to the Company, and is amortised over the directors' estimate of the life of the goodwill, which is taken to be 20 years, in line with Financial Reporting Standards in the United Kingdom.

### **2 Cash flow statement and related party disclosures**

The Company is a wholly owned subsidiary of Parker Hannifin Corporation and is included in the consolidated financial statements of Parker Hannifin Corporation which are publicly available. Consequently the Company has taken advantage of the exemption from preparing a cashflow statement under the terms of FRS 1 (Revised 1996). The Company is also exempt under the terms of FRS 8 from disclosing related party transactions with entities that are part of the Parker Hannifin Corporation group or investees of Parker Hannifin Corporation.

# Parker Hannifin (UK) Limited

## Notes to the financial statements for the year ended 30 June 2003 (continued)

### 3 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:

	2003			2002	
	Continuing Operations	Total	Acquired Operations	Continuing Operations	Total
	£'000	£'000	£'000	£'000	£'000
United Kingdom	9,790	<b>9,790</b>	3,586	3,685	7,271
Rest of Europe	18,922	<b>18,922</b>	7,382	4,637	12,019
Rest of world	4,761	<b>4,761</b>	1,827	1,645	3,472
	<b>33,473</b>	<b>33,473</b>	<b>12,795</b>	<b>9,967</b>	<b>22,762</b>

### 4 Cost of sales and net operating expenses

Included within cost of sales is an amount of £nil (2002: £13,767,000) which relates to acquisitions.

The table below relates to net operating expenses.

	2003			2002	
	Continuing Operations	Total	Acquired Operations	Continuing Operations	Total
	£'000	£'000	£'000	£'000	£'000
Other operating costs	3,401	<b>3,401</b>	1,178	1,546	2,724
Sales expenses	2,283	<b>2,283</b>	460	1,909	2,369
Administrative expenses	2,720	<b>2,720</b>	1,092	1,031	2,123
Net operating expenses	<b>8,404</b>	<b>8,404</b>	<b>2,730</b>	<b>4,486</b>	<b>7,216</b>

Included within net continuing operating expenses of £7,654,000 (2002: £4,326,000), is an amount of £nil (2002: £35,000) relating to redundancy costs.

Included within gross profit is an amount of £nil (2002: £1,731,000) which relates to acquisitions.

## Parker Hannifin (UK) Limited

### Notes to the financial statements for the year ended 30 June 2003 (continued)

#### 5 Operating loss

	2003	2002
	£'000	£'000
<b>Operating loss is stated after charging/(crediting)</b>		
Depreciation of tangible fixed assets (note 11)	682	586
Amortisation of goodwill (note 10)	850	814
Operating lease charge		
- plant and machinery	291	109
-other	67	223
Exchange gain	(38)	-

Audit fees were borne by Parker Hannifin plc a fellow group undertaking, in the current and prior year and not recharged.

#### 6 Directors' emoluments

The directors who held office at any time during the year to 30 June 2003 received no remuneration for their services to the Company during the year (2002: nil). There are no retirement benefits accruing for any of the directors in respect of their services to the Company (2002: nil).

#### 7 Employee information

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

	2003	2002
	Number	Number
Production	133	91
Administration	148	102
	281	193

	2003	2002
	£'000	£'000
Wages and salaries	3,050	3,582
Social security costs	487	372
Other pension costs (note 20)	567	344
	4,104	4,298

# Parker Hannifin (UK) Limited

## Notes to the financial statements for the year ended 30 June 2003 (continued)

### 8 Net interest payable and similar charges

	2003	2002
	£'000	£'000
		(as restated)
Interest payable on overdrafts and bank loans	-	-
Interest payable to group undertakings	-	(1,035)
Total interest payable and similar charges	-	(1,035)
Other finance income	-	30
	-	(1,005)

Of the interest payable to group undertakings, £nil (2002: £1,035,000) represents the interest charge in respect of a deep discount bond issued by the Company to Alenco (Holdings) Limited a fellow subsidiary (note 15).

The prior period interest payable has been reduced as a result of an error that was noted in the underlying books and records of the Company in respect of amounts due to Alenco (Holdings) Limited a fellow subsidiary company.

### 9 Tax on loss on ordinary activities (as restated)

The current tax year charge for the period is £nil.

	2003	2002
	£'000	£'000
Current tax:	-	-
Adjustments in respect of previous periods	-	(12)
Overseas tax	-	18
	-	6
Deferred tax:		
Origination and reversal of timing differences	-	-
	-	6

# Parker Hannifin (UK) Limited

## Notes to the financial statements for the year ended 30 June 2003 (continued)

### 9 Tax on loss on ordinary activities (continued)

The tax assessed for the period is higher (2002: lower) than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2003 £'000	2002 £'000
Loss on ordinary activities before tax	(1,703)	(3,488)
Loss on ordinary activities multiplied by standard rate in the UK 30% (2002: 30%)	(511)	(1,046)
Effects of:		
Adjustment to tax in respect of prior period	-	(12)
Tax losses carried forward	3	625
Expenses not deductible for tax purposes	278	244
Other timing differences	-	(36)
Depreciation in excess of capital allowances	230	213
Withholding tax on dividend received	-	18
Current tax charge for the period	-	6
The unrecognised deferred tax asset is as follows:		
Accelerated capital allowances	(663)	(441)
Tax losses	(1,190)	(1,187)

### 10 Intangible fixed assets

	Goodwill £'000
<b>Cost</b>	
At 1 July 2002	16,994
<b>At 30 June 2003</b>	<b>16,994</b>
<b>Aggregate amortisation</b>	
1 July 2002	3,105
Charge for the year	850
<b>At 30 June 2003</b>	<b>3,955</b>
<b>Net book value</b>	
<b>At 30 June 2003</b>	<b>13,039</b>
At 30 June 2002	13,889

Following the transfer of the trade and assets of UCC Securities Limited (a subsidiary undertaking which has since been dissolved) 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.

# Parker Hannifin (UK) Limited

## Notes to the financial statements for the year ended 30 June 2003 (continued)

### 11 Tangible fixed assets

	Freehold land and buildings	Plant and equipment	Total
	£'000	£'000	£'000
<b>Cost</b>			
At 1 July 2002	3,726	5,363	9,089
Additions	6	218	224
Disposals	-	(128)	(128)
<b>At 30 June 2003</b>	<b>3,732</b>	<b>5,453</b>	<b>9,185</b>
<b>Depreciation</b>			
At 1 July 2002	129	2,751	2,880
Charge for the period	139	543	682
Disposals	-	(71)	(71)
<b>At 30 June 2003</b>	<b>268</b>	<b>3,223</b>	<b>3,491</b>
<b>Net book value</b>			
<b>At 30 June 2003</b>	<b>3,464</b>	<b>2,230</b>	<b>5,694</b>
At 30 June 2002	3,597	2,612	6,209

The value of freehold land not subject to depreciation is £790,000 (2002: £790,000).

## Parker Hannifin (UK) Limited

### Notes to the financial statements for the year ended 30 June 2003 (continued)

#### 12 Investments

	£'000
<b>Cost and net book value at 1 July 2002 and 30 June 2003</b>	<b>6,444</b>

At 30 June 2003 the Company held shares in the allotted share capital of the following:

	Country of registration and operation	Percentage held	Nature of business
Kuroda Precision Industries	Japan	31.2%	Active

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.

#### 13 Stocks

	2003	2002
	£'000	£'000
Raw materials	2,295	3,902
Work in progress	75	661
Finished goods	2,174	1,746
	4,544	6,309

#### 14 Debtors

	2003	2002
	£'000	£'000
Trade debtors	4,684	5,453
Amounts owed by group undertakings	7,498	13,754
Prepayments and accrued income	334	353
	12,516	19,560

Amounts owed by group undertakings are unsecured, interest free and have no fixed date of repayment.



# Parker Hannifin (UK) Limited

## Notes to the financial statements for the year ended 30 June 2003 (continued)

### 15 Creditors - Amounts falling due within one year

	2003 £'000	2002 £'000 (as restated)
Bank overdraft	275	156
Trade creditors	2,554	2,111
Amounts owed to group undertakings	8,723	17,544
Accruals and deferred income	16	197
Corporation tax	-	-
	<b>11,568</b>	<b>20,008</b>

Amounts owed to group undertakings are unsecured, interest free and have no fixed date of repayment. The prior year comparative relates to the loan note principal and accrued discount.

### 16 Provision for liabilities and charges

Provisions for liabilities and charges are analysed as follows:

	£'000
At 1 July 2002	31
Utilised in the year	(31)
Charged in the year	
<b>At 30 June 2003</b>	<b>-</b>

The provisions relates to redundancy costs that were provided for as part of the re-organisation programme undertaken by the Company in 2002.

Deferred tax assets have not been recognised as they mainly relate to carried forward losses for which there is insufficient evidence of utilisation in the foreseeable future. The potential deferred tax asset is analysed as follows:

	2003 £'000	2002 £'000
Accelerated capital allowances	(740)	(441)
Tax losses	(1,597)	(1,764)
Other short term timing differences		-
	<b>(2,337)</b>	<b>(2,205)</b>

# Parker Hannifin (UK) Limited

## Notes to the financial statements for the year ended 30 June 2003 (continued)

### 17 Called up share capital

	2003	2002
	£'000	£'000
<b>Authorised</b>		
38,000,000 (2002: 12,000,000) ordinary shares of £1 each	<b>38,000</b>	38,000
<b>Allotted and fully paid</b>		
36,400,000 (2002: 10,400,000) ordinary shares of £1 each	<b>36,400</b>	36,400

### 18 Reserves

	General reserve	Profit and loss
	£'000	£'000
At 1 July 2002 as previously reported	10,067	(16,016)
Prior year adjustment (note 8)	-	1,921
At 1 July 2002 as restated		(14,095)
Loss for the financial year	-	(1,703)
<b>At 30 June 2003</b>	<b>10,067</b>	<b>(15,798)</b>

# Parker Hannifin (UK) Limited

## Notes to the financial statements for the year ended 30 June 2003 (continued)

### 19 Reconciliation of movements in shareholders' funds

	2003	2002
	£'000	£'000
		(as restated)
Loss for the year	(1,703)	(3,482)
Net proceeds of issue of ordinary share capital (note 17)	-	26,000
Net (reduction)/addition in shareholders' funds	(1,703)	22,518
Opening shareholders' funds as restated (originally £30,451,000 before prior year adjustment of £1,921,000)	32,372	9,854
Closing shareholders' funds	30,699	32,372

### 20 Pensions

The Company participates in a group funded defined benefit scheme operated by Parker Hannifin (GB) Limited in the United Kingdom. The assets of the scheme are held separately from the assets of the Company or group.

The latest actuarial valuation of the Parker plan was carried out as at 31 March 2002. This has been updated to 30 June 2003 by qualified actuaries.

The total pension cost charged in the profit and loss account for the year ended 30 June 2003 its share of the Parker Plan was £567,000 (2002 - £344,000).

The Company is required to provide disclosure under the transitional arrangements within FRS17 "Retirement Benefits". Parker Hannifin (UK) Limited is unable to identify its share of the underlying assets and liabilities and hence it is accounted for as a multi-employer under FRS17. Full disclosure of the underlying assets and liabilities of the scheme, together with key assumptions, are disclosed in the financial statements of Parker Hannifin (GB) Limited.

### 21 Capital commitments

Capital commitments contracted for but not provided for at year end amounted to £78,000 (2002: £233,000),

# **Parker Hannifin (UK) Limited**

## **Notes to the financial statements for the year ended 30 June 2003 (continued)**

### **22 Financial commitments**

At 30 June 2003, the company had annual commitments under non-cancellable operating leases expiring as follows:

	<b>Land &amp; buildings</b>		<b>Other</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Within two to five years	<b>67</b>	<b>67</b>	<b>292</b>	<b>266</b>
	<b>67</b>	<b>67</b>	<b>292</b>	<b>266</b>

### **23 Ultimate parent undertaking**

The immediate parent company is Parker Hannifin Holdings Limited.

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.