

Registered number 4806503

Parker Hannifin Limited
Directors' report and financial statements
for the year ended 30 June 2007

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Parker Hannifin Limited

Directors' report and financial statements for the year ended 30 June 2007

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Parker Hannifin Limited

Directors and Advisors for the year ended 30 June 2007

Registered Office

Parker House
55 Maylands Avenue
Hemel Hempstead
Hertfordshire
HP2 4SJ

Directors

G M Ellinor
I L Clinton
I Molyneux
N Parsons

Company Secretary

G M Ellinor

Principal Bankers

Barclays Bank plc
PO Box 22
Gateshead Business Centre
Gateshead
Tyne and Wear
NE8 1BX

Solicitors

Eversheds LLP
Eversheds House
70 Great Bridgewater Street
Manchester
M1 5ES

Auditors

PricewaterhouseCoopers LLP
10 Bricket Road
St Albans
Hertfordshire
AL1 3JX

Parker Hannifin Limited

Directors' report for the year ended 30 June 2007

The Directors present their report and the audited financial statements of the Company for the year ended 30 June 2007

Principal activity

The principal activity of the Company is the manufacture and sale of motion control systems

Review of business and future developments

The Company made a loss during the year. However, the Directors expect to make a profit in future years as they do not expect the significant impairment charges that are recorded in these financial statements to reoccur and they expect present levels of activity to continue for the future

The Company acquired 100% of the Ordinary share capital of Parker Hannifin RAC Limited (formerly ACAL Controls Limited), Tecknit Europe Limited and Zander (UK) Limited on 6 September 2006, 16 October 2006 and 22 June 2007 respectively

Following the year end, the Company acquired 100% of the Ordinary share capital of Rectus-Tema UK Limited and Kay Pneumatics Group on 1 August 2007 and 1 November 2007 respectively

During the financial year, the entire trade and trading assets of certain subsidiary companies, SSD Drives Limited, Sterling Hydraulics Limited, Kenmore UK Limited, Virginia KMP Limited, domnick hunter Limited, domnick hunter Fabrications Limited, domnick hunter Technologies Limited, Tecknit Europe Limited and Parker Hannifin RAC Limited (formerly ACAL Controls Limited), were transferred to Parker Hannifin Limited at market value, with the exception of the pension scheme assets and liabilities of domnick hunter Limited and Kenmore UK Limited, which remained in the accounts of the legacy companies

Results and dividends

The Company's loss for the year was £9,109,000 (2006 profit £3,483,000). The Directors do not recommend the payment of a dividend for the year (2006 £Nil)

Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks

The key business risks and uncertainties affecting the Company are considered to relate to the expansion or contraction of the manufacturing economy, industry competition and employee retention. The Company believes there is a high correlation between interest rates and industrial manufacturing activity. Increases in interest rates could have a negative impact on industrial production, thereby lowering future orders.

Key performance indicators ("KPI's")

The Directors of Parker Hannifin Limited manage the Company's operations on a divisional basis. For this reason, the Company's Directors believe that analysis using key indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of the Company. The development, performance and position of the motion control systems sector is discussed in the Group annual report of the parent's ultimate holding company, Parker Hannifin Corporation, which does not form part of this report.

Parker Hannifin Limited

Directors' report for the year ended 30 June 2007 (continued)

Directors and their interests

The Directors who held office during the year are given below

I L Clinton

I Molyneux

N Parsons (appointed 3 August 2007)

G M Ellinor (appointed 6 April 2008)

R M Arthur (resigned 6 April 2008)

T G Maye (resigned 4 August 2007)

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

So far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware. Relevant information is defined as "information needed by the Company's auditors in connection with preparing their report"

The Directors have taken all steps (such as making enquiries of the auditors and any other steps required by the Directors' duty to exercise due care, skill and diligence) that they ought to have taken in their duty as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

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 2007 was 37 days

Research and development

The Company continued to invest in research and development programmes to support and expand its range of products

Employees

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Company continues and the appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that views are taken into account when decisions are made that are likely to effect their interests and that all employees are aware of the financial and economic performance of their business units and of the Company as a whole. Communication with all employees continues through internal communication, briefing groups and the distribution of the annual report

Parker Hannifin Limited

Directors' report for the year ended 30 June 2007 (continued)

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing 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 UK 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, in which case there should be supporting assumptions or qualifications as necessary.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

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.

By order of the Board



G M Ellnor
Director
27 June 2008

Parker Hannifin Limited

Independent auditors' report to the members of Parker Hannifin Limited

We have audited the financial statements of Parker Hannifin Limited for the year ended 30 June 2007 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). 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 into 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 financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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.

Parker Hannifin Limited

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

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 30 June 2007 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
St Albans
27 June 2008

Parker Hannifin Limited

Profit and loss account for the year ended 30 June 2007

	Notes	2007 £'000	Restated 2006 £'000
Turnover	3		
Existing operations		193,094	186,834
Acquisitions		145,449	-
Continuing operations		338,543	186,834
Cost of sales	4	(255,050)	(142,619)
Gross profit		83,493	44,215
Exceptional administrative expenses	5	(85,643)	-
Other administrative expenses	4	(76,401)	(36,197)
Total administrative expenses		(162,044)	(36,197)
Operating (loss)/profit	6		
Existing operations		(2,507)	8,018
Acquisitions		(76,044)	-
		(78,551)	8,018
Income from fixed asset investments	9	82,102	-
Profit on ordinary activities before interest and taxation		3,551	8,018
Interest receivable	10	1,334	217
Interest payable	11	(32,087)	(7,196)
Other finance income	24	1,700	1,500
(Loss)/profit on ordinary activities before taxation		(25,502)	2,539
Tax on (loss)/profit on ordinary activities	12	16,393	944
(Loss)/profit for the financial year	22	(9,109)	3,483

All of the above items relate to continuing activities

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

The notes on pages 10 to 36 form part of these financial statements

Parker Hannifin Limited

Statement of total recognised gains and losses for the year ended 30 June 2007


		Restated
	2007	2006
	£'000	£'000
(Loss)/profit for the financial year	(9,109)	3,483
Actuarial gain/(loss) on pension scheme (note 24)	17,700	(6,800)
Current tax credit on pension relief (note 12)	1,749	1,830
Deferred tax on pension scheme (note 20)	1,040	-
Total recognised gains and losses relating to the year	11,380	(1,487)
Prior year adjustment (note 25)	-	(29,095)
Total gains and losses recognised	11,380	(30,582)

Parker Hannifin Limited

Balance sheet as at 30 June 2007

	Notes	2007 £'000	Restated 2006 £'000
Fixed assets			
Intangible assets	13	147,630	5,354
Tangible assets	14	43,117	11,456
Investments	15	384,707	381,464
		<u>575,454</u>	<u>398,274</u>
Current assets			
Stocks	16	31,766	17,090
Debtors	17	147,558	95,563
Cash at bank and in hand		80	-
		<u>179,404</u>	<u>112,653</u>
Creditors: amounts falling due within one year	18	<u>(509,333)</u>	<u>(486,597)</u>
Net current liabilities		<u>(329,929)</u>	<u>(373,944)</u>
Total assets less current liabilities		245,525	24,330
Creditors: amounts falling due after more than one year	19	<u>(114,901)</u>	<u>(1,371)</u>
Net assets excluding pension deficit		130,624	22,959
Pension deficit	24	<u>(2,188)</u>	<u>(27,200)</u>
Net assets/(liabilities)		<u>128,436</u>	<u>(4,241)</u>
Capital and reserves			
Called up share capital	21	151,766	30,805
Share premium account	22	7,900	7,900
Share option reserve	22	738	402
Profit and loss account	22	<u>(31,968)</u>	<u>(43,348)</u>
Equity shareholders' surplus/(deficit)	23	<u>128,436</u>	<u>(4,241)</u>

The financial statements on pages 7 to 36 were approved by the Board of Directors on 27 June 2008 and were signed on its behalf by


G M Ellnor
Director

Notes to the financial statements for the year ended 30 June 2007

1 Principal accounting policies

The financial statements are prepared under the historical cost convention, the accounting policies set out below and in accordance with the Companies Act 1985 and applicable accounting standards

Change in accounting policies

The Company has adopted FRS 20 "Share-based payment" and FRS 25 "Financial instruments Presentation" in these financial statements. The adoption of these standards represent a change in accounting policy.

The company's employees participate in share option plans operated by Parker Hannifin Corporation, the ultimate parent company. All share based payments are equity settled and are measured at fair value at the date of grant. As such, the company has adopted Financial Reporting Standard 20 "Share-based payment" for the year ended 30 June 2007. As a result, a charge is made to administration expenses to reflect the calculated fair value of employee options granted over and above the exercisable price paid by the employees (note 28). This charge is calculated at the date of the grant of the options and is charged equally over the vesting period. The credit entry is reported directly to reserves as a capital contribution from the ultimate parent company. The overall impact on shareholders funds is disclosed in note 23.

The company has taken advantage of the exemption available and has applied the provisions of FRS20 only to those options granted after 7 November 2002 and which had not vested on or before 1 January 2006.

Intangible assets

Goodwill

Goodwill pertaining to businesses acquired, being the excess of the fair value of the purchase price over the fair value of net assets acquired, is accumulated and amortised over the Directors' estimate of the life of the goodwill, not exceeding 20 years.

A full year's amortisation is charged in the year of acquisition.

Patent

Trademark

Trademark represents patents acquired from third parties which are amortised over the useful economic lives of the assets.

A full year's amortisation is charged in the year of acquisition.

Other intangibles

Negative goodwill

Negative goodwill pertaining to businesses acquired, being the excess of the fair value of the net assets acquired over the fair value of the purchase price, is accumulated and amortised to the profit and loss account in the periods in which the non-monetary assets acquired are recovered.

A full year's amortisation is recognised in the year of acquisition.

**Notes to the financial statements for the year ended 30 June 2007
(continued)**

1 Principal accounting policies (continued)

Tangible fixed assets and depreciation

Fixed assets are shown at cost less accumulated depreciation

Depreciation is provided on all tangible assets, other than freehold land, at rates calculated to write off the cost of fixed assets on a straight-line basis over their expected useful life. The principal rates used for this purpose are

Freehold building	1%-2.5%, improvements 5%-10%
Long leasehold land & building	2%-2.5% or over the lease of term
Plant and equipment	10%-30%

Fixed asset investments

Investments are stated at cost plus all other associated costs less any provision for impairment

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.

Deferred taxation

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

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.

**Notes to the financial statements for the year ended 30 June 2007
(continued)**

1 Principal accounting policies (continued)

Finance leases

The Company is a lessee under a number of finance lease agreements, that is, leases where substantially all of the risks and rewards of ownership accrue to the lessee

The policies adopted are as follows

- (i) the asset concerned is included in fixed assets at the cost or estimated cost to the lessor and is depreciated on a straight line basis over the shorter of the lease term or the life of the asset and,
- (ii) lease payments made are apportioned between repayments of capital and interest so as to amortise the total interest charge on a straight line basis over the life of the asset and,
 - the interest elements are charged to profit and loss account as they accrue,
 - the aggregate of the outstanding capital repayments payable is included as a liability in the balance sheet

Operating leases

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

Research and development

Costs associated with research and development are expensed in the profit and loss account in the period which they arise

Pension arrangements

The Company participates in schemes run on a group basis. The pension schemes of the Group are classified as either defined contribution or defined benefit schemes

The defined benefit scheme is now closed to all new employees. The assets of the scheme are held separately from those of the Company in an independently administered fund, and pensions payable under the scheme are based on final pensionable salary. In accordance with FRS 17 "Retirement Benefits" the operating costs of providing these benefits are recognised in the profit and loss account in the accounting period in which the benefits are earned by the employees, and related financing and other costs are recognised in the period in which they arise

For the defined contribution scheme, the charge for pension costs is equal to the contributions payable to the scheme

Turnover

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

**Notes to the financial statements for the year ended 30 June 2007
(continued)**

1 Principal accounting policies (continued)

Consolidated financial statements

The financial statements contain information about Parker Hannifin Limited as an individual company and do not contain consolidated financial information as the parent of a group. The results of the Company and its subsidiaries are included in the consolidated accounts of Parker Hannifin Corporation, a company incorporated in the USA. The Company considers these accounts, prepared under US Generally Accepted Accounting Practices, to be equivalent to the requirements of the 7th EU Directive in all material respects and have therefore taken advantage of Companies Act 1985 section 228A revised, and not prepared consolidated accounts.

Related party transactions

The Company is exempt under the terms of Financial Reporting Standard 8 from disclosing related party transactions with entities that are part of the Parker Hannifin Corporation group or investees of that group.

2 Cash flow statement

The Company is a 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 cash flow statement under the terms of FRS 1 (Revised 1996).

**Notes to the financial statements for the year ended 30 June 2007
(continued)**

3 Segmental information

The Directors regard the operations of the Company as comprising a single activity. All turnover and profits or losses, were derived from continuing activities, arose in, and all net assets are based within, the United Kingdom. The geographical analysis of turnover by destination was as follows:

	2007 £'000	2006 £'000
United Kingdom	141,808	104,520
Rest of Europe	125,922	61,676
Rest of the World	70,813	20,638
	<u>338,543</u>	<u>186,834</u>

4 Cost of sales, gross profit and net operating expenses

	Existing operations £'000	Acquisitions £'000	2007 Total £'000	Restated 2006 Total £'000
			Continuing operations £'000	Continuing operations £'000
Cost of sales	148,971	106,079	255,050	142,619
Gross profit	44,123	39,370	83,493	44,215
Other administrative expenses	33,932	42,469	76,401	36,197
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

5 Exceptional administrative expenses

	2007 £'000	2006 £'000
Impairment of goodwill (note 13)	81,933	-
Write down of fixed asset investments (note 15)	3,710	-
	<u>85,643</u>	<u>-</u>

At 30 June 2007, the Directors considered the carrying value of investments as compared to the underlying net assets represented by the subsidiary undertakings. This led to an impairment provision of £3,710,000. At the same date, the Directors also considered the carrying value of goodwill as compared to the discounted future cashflows of the underlying individual business units. This led to an impairment provision of £81,933,000.

Parker Hannifin Limited

Notes to the financial statements for the year ended 30 June 2007 (continued)

6 Operating (loss)/profit

	2007	2006
	£'000	£'000
Operating (loss)/profit is stated after charging/(crediting):		
Auditor's remuneration	592	261
Fees paid to Company's auditors in respect of taxation and other services	73	61
Depreciation of tangible fixed assets (note 14)	9,439	5,346
Amortisation of intangible fixed assets (note 13)	12,722	838
Profit from fixed asset disposals	3,297	(170)
Hire of machinery and equipment	560	309
Other operating lease rentals	7,030	4,884

Included in the above depreciation figure is depreciation of leased assets amounting to £989,348 (2006 £751,816)

7 Directors' emoluments

	2007	2006
	£'000	£'000
Aggregate emoluments	389	344
	<u>389</u>	<u>344</u>

Retirement benefits are accruing to three directors under the Company's defined benefit scheme

Three Directors (2006 three) hold share options in the ultimate holding company, Parker Hannifin Corporation, one of the Directors exercised 13,535 options during the year

	2007	2006
	£'000	£'000
Highest paid director		
Aggregate emoluments	157	141
	<u>157</u>	<u>141</u>

The amount of pension, and pension lump sum accruing for the highest paid director at 30 June 2007 is £25,264 (2006 £20,846) and £63,160 (2006 £52,116) respectively

**Notes to the financial statements for the year ended 30 June 2007
(continued)**

8 Employee information

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

	2007 Number	2006 Number
Production	1,714	819
Administration	1,389	703
	<u>3,103</u>	<u>1,522</u>
	2007 £'000	2006 £'000
The aggregate remuneration of the persons employed comprised		
Wages and salaries	71,104	41,940
Social security costs	7,104	3,917
Pension costs	7,795	5,802
	<u>86,003</u>	<u>51,659</u>

9 Income from fixed asset investments

	2007 £'000	2006 £'000
Dividend from subsidiary undertaking	<u>82,102</u>	<u>-</u>

10 Interest receivable

	2007 £'000	2006 £'000
On bank deposits	450	106
On amount receivable from Parker Hannifin affiliates	884	111
	<u>1,334</u>	<u>217</u>

11 Interest payable

	2007 £'000	2006 £'000
On overdrafts and bank loans	1,206	6,596
On amounts payable to Parker Hannifin affiliates	30,881	600
	<u>32,087</u>	<u>7,196</u>

**Notes to the financial statements for the year ended 30 June 2007
(continued)**

12 Tax on (loss)/profit on ordinary activities

	2007 £'000	Restated 2006 £'000
UK corporation tax on (loss)/profit of the year	(3,061)	(1,167)
Adjustments in respect of prior years	(615)	223
Total current taxation	(3,676)	(944)
Deferred taxation		
Origination and reversal of timing differences	(12,717)	-
Taxation on (loss)/profit on ordinary activities	(16,393)	(944)

Factors affecting the credit for the year

The difference between the current tax credit disclosed above and the amount calculated by applying the standard rate of UK corporation tax to the reported profit before taxation is as follows

	2007 £'000	Restated 2006 £'000
(Loss)/profit on ordinary activities before tax	(25,502)	2,539
(Loss)/profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2006 30%)	(7,651)	762
Expenses not deductible for tax (permanent differences)	29,812	11
Dividend income not assessable to tax	(24,631)	-
Capital allowances for the year in excess of depreciation and other timing differences	(2,000)	(3,770)
Transfer pricing adjustment – imputed interest	(184)	-
Adjustments to tax charge in respect of prior years	(615)	223
Tax booked directly to equity	1,749	1,830
R&D relief	(156)	-
Current tax credit for the year	(3,676)	(944)

Factors that may affect future tax charges

There are no known factors which are expected to have a material effect on future tax charges

**Notes to the financial statements for the year ended 30 June 2007
(continued)**

13 Intangible fixed assets

	Goodwill	Patent	Trademark	Other intangibles	Negative goodwill	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost						
At 1 July 2006	8,343	-	-	-	(388)	7,955
Additions	-	-	228	-	-	228
Additions from trade transfer	163,975	6,305	27,794	38,629	-	236,703
At 30 June 2007	172,318	6,305	28,022	38,629	(388)	244,886
Amortisation						
At 1 July 2006	2,747	-	-	-	(146)	2,601
Charge for the year	9,116	315	1,438	1,931	(78)	12,722
Impairment charge	81,933	-	-	-	-	81,933
At 30 June 2007	93,796	315	1,438	1,931	(224)	97,256
Net book value						
At 30 June 2007	78,522	5,990	26,584	36,698	(164)	147,630
At 30 June 2006	5,596	-	-	-	(242)	5,354

At 30 June 2007, the directors considered the carrying value of goodwill as compared to the discounted future cashflows of the underlying individual business units. This led to an impairment provision of £81,933,000.

In October 2005, the intangible assets arising from the trade transfers were valued by Corporate Valuation Advisors Inc, Brookfield, WI, USA, which is an independent valuation company and a RICS qualified Chartered Surveyor. These amounts have been used as the fair values recognised on acquisition by Parker Hannifin Limited.

**Notes to the financial statements for the year ended 30 June 2007
(continued)**

14 Tangible fixed assets

	Land and buildings		Plant and equipment	Total
	Freehold	Long leasehold		
	£'000	£'000	£'000	£'000
Cost				
At 1 July 2006	-	-	20,616	20,616
Additions	16	20	5,889	5,925
Disposals	-	-	(3,635)	(3,635)
Intra-group transfer in	13,506	2,335	20,943	36,784
Intra-group transfer out	-	-	(1,558)	(1,558)
At 30 June 2007	13,522	2,355	42,255	58,132
Depreciation				
At 1 July 2006	-	-	9,160	9,160
Charge for the year	513	91	8,835	9,439
Disposals	-	-	(3,584)	(3,584)
At 30 June 2007	513	91	14,411	15,015
Net book value				
At 30 June 2007	13,009	2,264	27,844	43,117
At 30 June 2006	-	-	11,456	11,456

Included in plant and equipment are assets held under finance leases with a capitalised cost of £3,030,800 (2006 £3,007,266) and net book value of £1,266,102 (2006 £2,255,450)

**Notes to the financial statements for the year ended 30 June 2007
(continued)**

15 Investments

	Investments in subsidiary undertakings £'000
Cost	
At 1 July 2006	381,464
Additions	6,953
At 30 June 2007	388,417
Provision for impairment	
At 1 July 2006	-
Charge for the year	3,710
At 30 June 2007	3,710
Net book value	
At 30 June 2007	384,707
At 30 June 2006	381,464

On 6 September 2006, the Company acquired 100% of the Ordinary share capital of Parker Hannifin RAC Limited (formerly ACAL Controls Limited) and £2,892,000 is included in investment additions

On 16 October 2006, the Company acquired 100% of the Ordinary share capital of Tecknit Europe Limited and £2,258,793 is included in investment additions

On 22 June 2007, the Company acquired 100% of the Ordinary share capital of Zander (UK) Limited and £1,803,000 is included in investment additions

At 30 June 2007, the directors considered the carrying value of investments as compared to the underlying net assets represented by the subsidiary undertakings. This led to an impairment provision of £3,710,000

At 30 June 2007 the Company held shares in the allotted share capital of the following

	Country of registration and incorporation	Percentage held	Nature of business
* Indirectly held			
Parker Hannifin (2004) Limited	England	100%	Active
Parker Hannifin Pension Trustees Limited	England	100%	Dormant
Commercial Intertech Limited	England	100%	Dormant
Maxam Pneumatics Limited	England	100%	Dormant

**Notes to the financial statements for the year ended 30 June 2007
(continued)**

15 Investments (continued)

At 30 June 2007 the Company held shares in the allotted share capital of the following (continued)

	Country of registration and incorporation	Percentage held	Nature of business
* Indirectly held			
Fairey Arlon Limited	England	100%	Dormant
* Denison International Limited	England	100%	Active
* Denison Financial Holdings Limited	England	100%	Active
* Denison Hydraulics UK Limited	England	100%	Active
* Denison Holdings Limited	England	100%	Dormant
SSD Drives Holdings Limited	England	100%	Active
* SSD Drives Limited	England	100%	Active
* SSD Drives Holdings 2 Limited	England	100%	Active
* SSD Drives Holdings 3 Limited	England	100%	Active
* SSD Drives Holdings 4 Limited	England	100%	Active
* SSD Drives Holdings 5 Limited	England	100%	Active
* Eurotherm Drives Limited	England	100%	Dormant
Sterling Hydraulics Limited	England	100%	Active
Kenmore UK Limited	England	100%	Active
Virginia KMP Limited	England	100%	Active
Parker Hannifin RAC Limited (formerly ACAL Controls Limited)	England	100%	Active
Zander (UK) Limited	England	100%	Active
Tecknit Europe Limited	England	100%	Active
domnick hunter Group Limited (formerly plc)	England	100%	Active
* domnick hunter Limited	England	100%	Active
* domnick hunter Fabrication Limited	England	100%	Active
* domnick hunter Overseas Limited	England	100%	Active

**Notes to the financial statements for the year ended 30 June 2007
(continued)**

15 Investments (continued)

At 30 June 2007 the Company held shares in the allotted share capital of the following (continued)

	Country of registration and incorporation	Percentage held	Nature of business
* Indirectly held			
* domnick hunter Nihon Limited	England	100%	Active
* domnick hunter Iberica Limited	England	100%	Active
* domnick hunter Finance Limited	England	100%	Active
* domnick hunter Trustees Limited	England	100%	Active
* domnick hunter Investments Limited	Scotland	100%	Active
* domnick hunter Technologies Limited	England	100%	Active
* Tanlea Engineering Limited	England	100%	Active
* domnick hunter France Limited	England	100%	Dormant
* domnick hunter Filters Limited	England	100%	Dormant
* domnick hunter Engineers Limited	England	100%	Dormant
* domnick hunter China Limited	England	100%	Dormant
* Nitrox Limited	England	100%	Active
* PTI Technologies (UK) Limited	England	100%	Active
* Dumfries Realisations (No1) Limited	Scotland	100%	Dormant
* Abbotshaugh Enterprises Limited	Scotland	100%	Dormant
* domnick hunter WAI Limited	Scotland	100%	Dormant
* Clevegirth Finance Limited	Scotland	100%	Dormant
* Solsgirth Finance Limited	Scotland	100%	Dormant
* Cleveleys Investments Limited	Scotland	100%	Dormant

Parker Hannifin Limited

Notes to the financial statements for the year ended 30 June 2007 (continued)

16 Stocks

	2007 £'000	2006 £'000
Raw materials	3,431	2,369
Work in progress	3,411	1,115
Finished goods	24,924	13,606
	<u>31,766</u>	<u>17,090</u>

17 Debtors

	2007 £'000	2006 £'000
Trade debtors	52,748	28,380
Amounts receivable from Parker Hannifin affiliates	81,062	60,303
Deferred tax (note 20)	10,390	-
Prepayments and accrued income	3,358	6,880
	<u>147,558</u>	<u>95,563</u>

Amounts receivable from Parker Hannifin affiliates are unsecured and have no fixed date of repayment

18 Creditors - amounts falling due within one year

	2007 £'000	2006 £'000
Bank overdraft	-	2,645
Trade creditors	25,766	9,106
Amounts owed to Parker Hannifin affiliates	472,875	470,215
Obligations under finance leases	947	914
Accruals and deferred income	9,745	3,717
	<u>509,333</u>	<u>486,597</u>

Amounts owed to Parker Hannifin affiliates are unsecured and repayable on demand

The obligations under finance leases of £988,300 (2006 £957,700) gross are reduced by deferred interest of £41,300 (2006 £43,400)

Parker Hannifin Limited

Notes to the financial statements for the year ended 30 June 2007 (continued)

19 Creditors - amounts falling due after more than one year

	2007 £'000	2006 £'000
Obligations under finance leases (2-5 years)	541	1,371
Debenture loan	114,360	-
	<u>114,901</u>	<u>1,371</u>

The obligation under finance leases is £549,700 (2006 £1,436,500) gross which is offset by deferred interest of £8,300 (2006 £65,000)

On 14 June 2007, the Company issued a 7.4% fixed rate unsecured loan note of £114,360,452 to a fellow group undertaking. The loan note is redeemable at par on 14 June 2012, quoted on the Guernsey Channel Island Stock Exchange

20 Deferred taxation

The closing deferred tax balance is as follows

	2007 Provided £'000	2007 Unprovided £'000	2006 Provided £'000	2006 Unprovided £'000
Accelerated capital allowances	(5,330)	-	-	(5,635)
Losses	(3,790)	-	-	(3,731)
Pension	(1,914)	-	-	(9,767)
Share options	(207)	-	-	(113)
Other timing differences	-	-	-	(2)
	<u>(11,241)</u>	<u>-</u>	<u>-</u>	<u>(19,248)</u>
Deferred tax asset on pension deficit (note 24)	851	-	-	-
Deferred tax assets	<u>(10,390)</u>	<u>-</u>	<u>-</u>	<u>(19,248)</u>

Deferred tax assets were now recognised as the Company foresees it has sufficient future taxable profits against which the assets can be utilised

Analysis of the movement in the year is as follows

	2007 £'000
At 1 July 2006	-
Intra-group transfer	2,516
Credit to profit and loss account in the year	(12,717)
Credit to statement of total recognised gains and losses	<u>(1,040)</u>
	(11,241)
Deferred tax provision at 30 June 2007 on pension deficit	<u>851</u>
Deferred tax assets at 30 June 2007	<u>(10,390)</u>

Parker Hannifin Limited

Notes to the financial statements for the year ended 30 June 2007 (continued)

21 Called up share capital

	2007 £'000	2006 £'000
Authorised		
151,766,621 Ordinary shares of £1 each	<u>151,766</u>	<u>128,267</u>
Allotted, issued and fully paid	£'000	£'000
151,766,621 Ordinary shares of £1 each	<u>151,766</u>	<u>30,805</u>

On 17 November 2006, the Company increased the authorised share capital from 128,266,617 to 151,766,621 and issued 120,960,899 Ordinary £1 shares at par for cash

22 Reserves

	Share premium account £'000	Share option reserve £'000	Profit and loss account £'000
At 1 July 2006 – as previously reported	7,900	-	(42,946)
Prior year adjustment (note 25)	-	402	(402)
At 1 July 2006 – as restated	<u>7,900</u>	<u>402</u>	<u>(43,348)</u>
Addition to share option reserve	-	336	-
Actuarial gain on pension scheme	-	-	17,700
Current tax credit on pension relief	-	-	1,749
Deferred tax on pension scheme	-	-	1,040
Loss for the year	-	-	(9,109)
At 30 June 2007	<u>7,900</u>	<u>738</u>	<u>(31,968)</u>

23 Reconciliation of movements in equity shareholders' funds

	2007 £'000	Restated 2006 £'000
Total recognised gains and losses relating to the year	11,380	(1,487)
Addition to share option reserve	336	284
Net proceeds of issue of Ordinary share capital (note 21)	<u>120,961</u>	<u>6,317</u>
Net addition to shareholders' funds	<u>132,677</u>	<u>5,114</u>
Opening shareholders' funds – as previously reported	(4,241)	19,740
Prior year adjustments (note 25)	-	(29,095)
Opening shareholders' deficit – as restated	<u>(4,241)</u>	<u>(9,355)</u>
Closing equity shareholders' surplus/(deficit)	<u>128,436</u>	<u>(4,241)</u>

**Notes to the financial statements for the year ended 30 June 2007
(continued)**

24 Pensions

The Company's main pension arrangement in the UK is the Parker Hannifin Pension and Death Benefit Plan ('the Parker Plan'), which provides benefits on a defined benefit basis. On 30 June 2004 the Parker Plan was closed to new employees, however benefits continue to accrue for existing members. The Company also operates four closed defined benefit schemes under which benefits cease to accrue. These schemes are Commercial Hydraulics Kontak Pension Life and Assurance Scheme, Commercial Intertech Limited Retirement Benefits Plan, Ultra Group Pension Scheme and Commercial Hydraulics Kontak Limited Cash Retirement and Death Benefit Plan for Works Employees.

Following the valuation carried out as at 30 June 2002, the Company made a commitment to eliminate the deficit within five years by making five annual contributions to the Parker Plan. During the year the Company made a special contribution of £5,830,000 (2006: £5,730,000). The Company's current contribution rate to the Parker Plan is 15% of pensionable pay. The Company contributed £9.9m in total to the Parker Plan during the year ended 30 June 2007 which included the special contribution of £5.8m.

For the purpose of FRS 17, the disclosures below set out the valuations as at 30 June 2007 of the Defined Benefit Section of the Parker Hannifin Pension and Death Benefit Plan ('the Parker Plan') and of the closed Commercial Hydraulics Kontak Pension and Life Assurance Scheme (the 'Kontak Staff Plan'). The valuation has been made under the Projected Unit Credit actuarial method to assess the Plans' liabilities. The most recent assessment of the Parker Plan's financial position was carried out as at 31 March 2006 and the most recent formal valuation of the Kontak Staff Plan was carried out in 2004. These assessments have been updated to 30 June 2007 by qualified actuaries who are independent of the company.

The Commercial Intertech Limited Retirement Benefits Plan and the Ultra Group Pension Scheme were merged into the Parker Plan on 3 July 2003 and historic figures in respect of these arrangements are included in the disclosures. Historic figures are also included in respect of the Commercial Hydraulics Kontak Limited Cash Retirement and Death Benefit Plan for Works Employees (the 'Kontak Works Plan') which was wound up and members' benefits secured with an insurance company with effect from 30 June 2004.

The Parker Plan closed to new members on 30 June 2004 and so the service cost is expected to increase as the members approach their retirements.

The financial assumptions used to calculate scheme liabilities under FRS 17 at 30 June 2007 were:

	30 June 2007	30 June 2006	30 June 2005
	% pa	% pa	% pa
Rate of increase in salaries	4.40	4.05	3.75
Rate of increase in pensions in payment and in deferment	3.15	2.80	2.50
Discount rate	5.80	5.30	5.00
Inflation	3.15	2.80	2.50

The AM92 table for males and the AF92 table for females have been used to determine the mortality assumptions.

Parker Hannifin Limited

Notes to the financial statements for the year ended 30 June 2007 (continued)

24 Pensions (continued)

Scheme assets valued at 30 June 2007 (£m) and expected rate of return

The investments of the Plans are externally managed. The breakdowns of the Plans' assets are as follows

	Value at 30 June 2007 (£m)				Value at 30 June 2006 (£m)			
	Long-term rate of return expected at 30 June 2007	Schemes in surplus	Schemes in deficit	Total	Long-term rate of return expected at 30 June 2006	Schemes in surplus	Schemes in deficit	Total
Equities	7.75% pa	1.3	73.3	74.6	7.60% pa	1.1	63.1	64.2
Equities (overseas)	7.75% pa	-	73.3	73.3	7.60% pa	-	63.1	63.1
Bonds	5.80% pa	0.1	23.8	23.9	5.30% pa	0.1	23.0	23.1
Property	7.55% pa	0.1	4.9	5.0	7.20% pa	0.1	4.9	5.0
Index linked gilts	4.95% pa	-	23.8	23.8	4.30% pa	-	23.0	23.0
Other	4.65% pa	-	0.5	0.5	3.80% pa	-	1.2	1.2
Total market value of assets		1.5	199.6	201.1		1.3	178.3	179.6
Present value of plan liabilities		(1.2)	(202.6)	(203.8)		(1.2)	(205.5)	(206.7)
Surplus/(deficit) in the plan		0.3	(3.0)	(2.7)		0.1	(27.2)	(27.1)
Less irrecoverable surplus		(0.3)	-	(0.3)		(0.1)	-	(0.1)
Recognised pension liability		-	(3.0)	(3.0)		-	(27.2)	(27.2)
Related deferred tax asset		-	0.8	0.8		-	-	-
Net pension liability		-	(2.2)	(2.2)		-	(27.2)	(27.2)

**Notes to the financial statements for the year ended 30 June 2007
(continued)**

24 Pensions (continued)

Scheme assets valued at 30 June 2007 (£m) and expected rate of return (continued)

		Value at 30 June 2005 (£m)		
	Long-term rate of return expected at 30 June 2005	Schemes in surplus	Schemes in deficit	Total
Equities	7.50% pa	1.0	51.4	52.4
Equities (overseas)	7.50% pa	-	51.4	51.4
Bonds	5.00% pa	0.1	21.5	21.6
Property	7.00% pa	0.1	4.9	5.0
Index linked gilts	4.00% pa	-	21.5	21.5
Other	3.50% pa	-	-	-
Total market value of assets		1.2	150.7	151.9
Present value of plan liabilities		(1.2)	(177.2)	(178.4)
Deficit in the plan		-	(26.5)	(26.5)
Less irrecoverable surplus		-	-	-
Recognised pension liability		-	(26.5)	(26.5)
Related deferred tax asset		-	-	-
Net pension liability		-	(26.5)	(26.5)

**Notes to the financial statements for the year ended 30 June 2007
(continued)**

24 Pensions (continued)

	2007 £'m	2006 £'m
Operating profit		
Current service cost	5.1	5.5
Past service cost	-	-
Total operating charge	5.1	5.5
Other finance income		
Expected return on pension scheme assets	12.4	10.2
Interest on pension scheme liabilities	(10.7)	(8.7)
Net return – Other finance income	1.7	1.5
Statement of total recognised gains and losses (STRGL)		
Actual return less expected return on pension scheme assets	4.3	10.4
Experience gain/(loss) arising on the scheme liabilities	2.6	(6.2)
Changes in assumptions underlying the present value of the scheme liabilities	10.8	(11.0)
Actuarial gain/(loss) recognised in STRGL	17.7	(6.8)

	2007 £'m	2006 £'m
Movements in deficit during the year		
Deficit in scheme at beginning of the year	(27.2)	(26.5)
Movement in period		
Current service cost	(5.1)	(5.5)
Contributions	9.9	10.1
Settlement cost	-	-
Other finance income	1.7	1.5
Actuarial gain/(loss)	17.7	(6.8)
Deficit in scheme at end of the period	(3.0)	(27.2)

The full actuarial valuation at 30 June 2007 showed a deficit of £3.0 million (2006 £27.1 million), this included a surplus of £0.3m in respect of the Kontak Staff Plan. Under FRS 17 this surplus has not been recognised in these accounts as the scheme is now closed. Contribution rate to the Parker plan during the year was 15% (2006 15.0%).

**Notes to the financial statements for the year ended 30 June 2007
(continued)**

24 Pensions (continued)

History of experience gains and losses

Difference between the expected and actual return on scheme assets	2007	2006	2005	2004	2003
Amount (£'000)	4.3	10.4	9.2	5.0	(11.7)
Percentage of scheme assets	2.2%	5.8%	6.1%	3.9%	10.6%

Experience gains and losses on scheme	2007	2006	2005	2004	2003
Amount (£'000)	2.6	(6.2)	(3.2)	0.7	2.4
Percentage of the present value of the scheme liabilities	1.3%	3.0%	1.9%	0.5%	1.9%

Total amount recognised in the statement of total recognised gains and losses:	2007	2006	2005	2004	2003
Amount (£'000)	17.7	(6.8)	(11.3)	4.0	(24.4)
Percentage of the present value of the scheme liabilities	8.7%	3.3%	6.4%	2.7%	17.9%

**Notes to the financial statements for the year ended 30 June 2007
(continued)**

25 Prior year adjustment

The prior year adjustment shown in the 2007 figures relates to the implementation of FRS 20. The prior year adjustment shown in the 2006 comparatives relates to the implementation of FRS 17 and FRS 20.

Analysis of prior year adjustment

	FRS 20	FRS 17
	£'000	£'000
Adjustment to opening shareholders' funds at 1 July 2005 (note a)	-	(29,095)
Adjustment to profit and loss for the year ended 30 June 2006	(284)	-
Adjustment to share option reserve	284	-
Adjustment to statement of total recognised gains and losses for the year ended 30 June 2006	-	-
	<u>-</u>	<u>(29,095)</u>

- a) The adjustment to opening shareholders' funds at 1 July 2005, shown above as £Nil, is net of a charge to the profit and loss reserve of £118,006 and an equivalent credit to the share option reserve. This relates to the implementation of FRS 20.

26 Financial commitments

At 30 June 2007 the Company had commitments under non-cancellable operating leases expiring as follows

	2007			2006		
	Land and buildings	Other	Total	Land and buildings	Other	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Due within 1 year	1,248	411	1,659	12	62	74
Due between 2 to 5 years	1,563	1,113	2,676	473	274	747
Due over 5 years	2,561	-	2,561	2,586	-	2,586
	<u>5,372</u>	<u>1,524</u>	<u>6,896</u>	<u>3,071</u>	<u>336</u>	<u>3,407</u>

Parker Hannifin Limited

Notes to the financial statements for the year ended 30 June 2007 (continued)

27 Acquisitions during the year

During the financial year, the Company acquired the entire trade and assets of certain subsidiaries companies with the exception of the pension scheme assets and liabilities of domnick hunter Limited and Kenmore UK Limited. The total consideration paid was £285,638,619. All acquisitions took place on 1 September 2006 with the exception of Parker Hannifin RAC Limited (formerly ACAL Controls Limited), Tecknit Europe Limited and SSD Holdings 3 Limited, which took place on 30 September 2006, 1 April 2007 and 31 March 2007 respectively.

There were no fair value adjustments on acquisition. The operating assets and liabilities of the major acquisitions were as follows:

	domnick hunter Ltd	SSD Drives Ltd	Sterling Hydraulics Ltd	*Others	Total
	£'000	£'000	£'000	£'000	£'000
Patent	5,872	-	-	433	6,305
Trademark	16,407	-	-	11,387	27,794
Other intangibles	19,342	10,783	5,822	2,682	38,629
Fixed assets	17,608	2,025	5,111	11,096	35,840
Stock	5,949	3,808	2,340	4,793	16,890
Debtors	10,337	27,559	5,439	9,374	52,709
Cash in hand	2,507	222	1,261	1,786	5,776
Creditors	(12,954)	(20,894)	(5,775)	(16,973)	(56,596)
Deferred taxation	(1,525)	-	(95)	(4,064)	(5,684)
Net assets acquired	63,543	23,503	14,103	20,514	121,663
Goodwill (note 13)	81,316	57,924	14,172	10,563	163,975
Consideration	144,859	81,427	28,275	31,077	285,638

* Others comprise of Virginia KMP Limited, Parker Hannifin RAC Limited (formerly ACAL Controls Limited), Kenmore UK Limited, domnick hunter Fabrication Limited, domnick hunter Technologies Limited and SSD Holdings 3 Limited.

**Notes to the financial statements for the year ended 30 June 2007
(continued)**

27 Acquisitions during the year (continued)

The trading results and statement of recognised gains and losses of domnick hunter Ltd, SSD Drives Ltd and Sterling Hydraulics Ltd were as follows

	domnick hunter Ltd 8 months to 31 August 2006 £'000	SSD Drives Ltd 2 months to 31 August 2006 £'000	Sterling Hydraulics Ltd 2 months to 31 August 2006 £'000
Turnover	53,174	7,668	2,956
Operating profit	1,978	1,214	370
Profit before taxation	10,484	1,348	396
Taxation	(333)	(274)	(113)
Profit after tax	10,151	1,074	283
Actuarial gain on pension scheme	3,344	-	-
Movement on deferred tax relating to pension asset	(1,003)	-	-
Revaluation reserve	3,198	-	-
Other – capital contribution	-	13,077	-
Total recognised gain and losses for the period	15,690	14,151	283

The profit after tax for domnick hunter Ltd for the 12 months to 31 December 2005 was £6,708,000 The profit after tax for SSD Drives Ltd and Sterling Hydraulics Ltd for the 15 months to 30 June 2006 was £6,059,000 and £2,319,000 respectively

**Notes to the financial statements for the year ended 30 June 2007
(continued)**

28 Employee share schemes

Share based payments

The company's ultimate parent undertaking is Parker Hannifin Corporation. The stock incentive plans of Parker Hannifin Corporation provide for the granting of nonqualified options and stock appreciation rights (SARs) to officers, directors and key employees of the Group. The nonqualified stock options allow the recipient to purchase shares of common stock at a price not less than 100 percent of the fair market value of the stock on the date options are granted. Outstanding options and SARs are exercisable from one to three years after the date of grant and expire no more than ten years after grant.

The number and weighted average exercise prices of share options are as follows:

	2007 Number of options	2007 Weighted average exercise price USD
Outstanding at the beginning of the period	62,163	\$39.95
Granted during the period	49,860	\$49.75
Forfeited during the period	(2,208)	\$47.96
Exercised during the period	(3,267)	\$39.17
Outstanding at the end of the period	<u>106,548</u>	<u>\$44.39</u>
Exercisable at the end of the period	<u>62,808</u>	<u>\$41.66</u>

The options outstanding and exercisable at the year end have an aggregate intrinsic value of \$215.4 and \$179.8 respectively and have a weighted average contractual life of 6.7 years and 5.9 years respectively.

A summary of the status and changes of shares subject to share based payments and the related average price per share are as follows:

	Number of shares	Weighted average grant date fair value
Nonvested at 1 July 2006	32,667	\$18.07
Granted	49,860	\$22.56
Vested	(38,787)	\$19.50
Nonvested 30 June 2007	<u>43,740</u>	<u>\$21.98</u>

**Notes to the financial statements for the year ended 30 June 2007
(continued)**

28 Employee share schemes (continued)

Share based payments (continued)

The fair values for the significant stock-based awards granted in 2007 and 2006 were estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions

	2007	2006
Fair value at measurement date	\$22.56	\$19.92
Weighted average share price	\$104.06	\$85.83
Exercise price	\$47.74	\$37.33
Expected volatility	30.2%	33.1%
Expected option life	5.1 years	5.4 years
Expected dividends	1.5%	1.6%
Risk free interest rate	4.7%	4.2%

The total expenses recognised for the period arising from share based payments are as follows

	2007	Restated 2006
	£'000	£'000
Equity settled share based payments	<u>336</u>	<u>284</u>

**Notes to the financial statements for the year ended 30 June 2007
(continued)**

29 Subsequent events

Following the year end, the Company acquired 100% of the Ordinary share capital of the following companies

	Acquisition date
Rectus-Tema UK Limited	1 August 2007
Kay Pneumatics Limited	1 November 2007
KV Limited	1 November 2007
KV Process Controls Limited	1 November 2007
Ultraline Limited	1 November 2007

30 Related party disclosures

The Company has taken advantage of the exemption provided by Financial Reporting Standard 8, where subsidiary undertakings (of which 90% or more of the voting rights are controlled within the Group) are exempt from the requirement to disclose transactions with other group companies where the parent publishes its consolidated financial statements

31 Ultimate holding company

The ultimate holding company and controlling party is Parker Hannifin Corporation, a company 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

The immediate parent is Parker Hannifin (GB) Limited