Copeland Corporation Limited

Directors' report and financial statements

Registered number 1741737

30 September 2003

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 30 September 2003.

Principal activities

Copeland Corporation Limited assembles condensing units for sale within the refrigeration and air conditioning industries.

Business review

The company has continued to operate successfully during the year ended 30 September 2003.

Proposed dividend and transfer to reserves

The directors do not recommend the payment of a dividend (*2002: £nil*).

The amount transferred to reserves is £2,138,000 *(2002: £2,098,000)*.

Directors and directors' interests

The directors who held office during the year were as follows:
Dr E Wiethoff (Chairman, Germany)
RR Hodey
D Brooks
J Janssen

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the company.

Auditors

A resolution for the reappointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

27 February 2004

D Brooks
Director

10 Upper Bank Street
London
EC14 5JJ

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

KPMG

KPMG LLP

Arlington Business Park
Theale
Reading
RG7 4SD
United Kingdom

Report of the independent auditors to the members of Copeland Corporation Limited

We have audited the financial statements on pages 4 to 16.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by 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 Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

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 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 September 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP.

KPMG LLP
Chartered Accountants
Registered Auditor

9 MARCH 2004.

Profit and loss account
for the year ended 30 September 2003

	Note	2003 £000	2002 £000
Turnover	*3*	**21,144**	20,378
Cost of sales		**(16,161)**	(15,555)
Gross profit		**4,983**	4,823
Distribution costs		**(471)**	(415)
Administrative expenses		**(2,330)**	(2,168)
Operating profit		**2,182**	2,240
Net interest receivable	*7*	**722**	691
Profit on ordinary activities before taxation	*4-6*	**2,904**	2,931
Tax on profit on ordinary activities	*8*	**(766)**	(833)
Retained profit for the financial year		**2,138**	2,098
Retained profit brought forward		**4,394**	2,296
Retained profit carried forward		**6,532**	4,394

The company's results have been derived solely from continuing operations.

Statement of total recognised gains and losses
for the year ended 30 September 2003

	2003 £000	2002 £000
Profit for the year	**2,138**	2,098
Prior year adjustment *(as explained in note 2)*	**-**	524
Total gains and losses recognised since last financial statements	**2,138**	2,622

Balance sheet
at 30 September 2003

	Note	2003 £000	2003 £000	2002 £000	2002 £000
Fixed assets					
Tangible assets	*9*		847		652
Current assets					
Stocks	*10*	615		895	
Debtors	*11*	26,550		30,659	
Cash at bank and in hand		17		13	
		27,182		31,567	
Creditors: amounts falling due within one year	*12*	(7,853)		(14,119)	
Net current assets			19,329		17,448
Total assets less current liabilities			20,176		18,100
Provisions for liabilities and charges	*13*		(144)		(206)
Net assets			20,032		17,894
Capital and reserves					
Called up share capital	*14*		13,500		13,500
Profit and loss account	*15*		6,532		4,394
Shareholders' funds - equity	*16*		20,032		17,894

These financial statements were approved by the board of directors on 27 FEBRUARY 2004 and were signed on its behalf by:

D Brooks
Director

Notes

(forming part of the financial statements)

1 Accounting policies

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

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

As the company is a wholly owned subsidiary of Copeland GmbH, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties). The consolidated financial statements of Copeland GmbH, within which this company is included, can be obtained from the address given in note 20.

Fixed assets and depreciation

Depreciation is provided by the company to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Plant, equipment and special tooling	-	4 to 10 years
Computer and office equipment	-	3 to 5 years
Motor vehicles	-	4 years

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Leases

Rentals paid under operating leases are charged to the profit and loss account on a straight line basis over the period of the lease.

Post retirement benefits

The company participates in a group wide pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company. The company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 'Retirement benefits', accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

Notes *(continued)*

1 Accounting policies *(continued)*

Stocks

Stocks are stated at the lower of cost and net realisable value. In determining the cost of raw materials, consumables and goods purchased for resale, the purchase price is based on standard costs which approximate to a weighted average cost basis. For work in progress and finished goods manufactured by the company, cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

Cash flow statement

The company is exempt from the requirements of FRS 1 (revised 1996) to prepare a cash-flow statement as it is a wholly owned subsidiary undertaking of Copeland GmbH and its cash-flows are incorporated within the consolidated cash-flow statement of that company.

Taxation

The charge for taxation is based upon the results for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS19.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers.

2 Prior year adjustment - 2002

Deferred taxation

The company adopted FRS 19 'Deferred tax' during the financial year ended 30 September 2002. This resulted in a prior year adjustment to recognise a deferred tax asset, which increased opening reserves at 1 October 2001 by £524,000. The effect of this change in policy was to decrease the profit for 2002 by £113,000.

3 Analysis of turnover

	2003	2002
	£000	£000
By geographical market		
United Kingdom	**9,910**	8,865
Rest of Europe	**9,577**	11,513
Rest of world	**1,657**	-
	21,144	20,378

Notes *(continued)*

4 Profit on ordinary activities before taxation

	2003 £000	2002 £000
Profit on ordinary activities before taxation is stated after charging:		
Foreign exchange losses	**577**	244
Auditors' remuneration – audit	**20**	16
Depreciation and other amounts written off tangible fixed assets	**165**	144
Rentals payable under operating leases – plant and machinery	**6**	14
Rentals payable under operating leases – other	**219**	223

5 Remuneration of directors

	2003 £000	2002 £000
Directors' remuneration comprises:		
Emoluments in respect of services as directors of the company	**117**	112
Company contributions to defined benefit pension scheme	**12**	11
	129	123

	2003	2002
Retirement benefits are accruing to the following number of directors under:		
Defined benefit schemes	**2**	2

Notes *(continued)*

6 Staff numbers and costs

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

	Number of employees	
	2003	2002
Production	**36**	39
Administration	**14**	14
Selling and distribution	**9**	9
	59	62

The aggregate payroll costs of these persons were as follows:

	2003	2002
	£000	£000
Wages and salaries	**1,540**	1,465
Social security costs	**139**	133
Other pension costs (*see note 17*)	**421**	115
	2,100	1,713

7 Net interest receivable

	2003	2002
	£000	£000
Receivable from group undertakings	**1,021**	1,167
Bank interest payable on loans and overdrafts	**(299)**	(476)
	722	691

Notes *(continued)*

8 Taxation

Analysis of charge in period

	2003 £000	2002 £000
UK corporation tax		
Current tax on income for the period	**740**	771
Adjustments in respect of prior periods	**(135)**	(51)
Total current tax	**605**	720
Deferred tax (*see note 11*):		
Reversal of timing differences	**161**	113
Tax on profit on ordinary activities	**766**	833

Factors affecting the tax charge for the current period

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

	2003 £000	2002 £000
Current tax reconciliation		
Profit on ordinary activities before tax	**2,904**	2,931
Current tax at 30% (*2002: 30%)*	**871**	879
Effects of:		
Expenses not deductible for tax purposes	**5**	5
Capital allowances for period in excess of depreciation and other timing differences	**(136)**	(113)
Adjustments to tax charge in respect of previous periods	**(135)**	(51)
Total current tax charge (see above)	**605**	720

Notes *(continued)*

9 Tangible fixed assets

	Plant, equipment and special tooling £000	Computer and office equipment £000	Total £000
Cost			
At beginning of year	1,028	378	1,406
Additions	235	125	360
Disposals	(21)	(31)	(52)
At end of year	1,242	472	1,714
Depreciation			
At beginning of year	457	297	754
Charge for year	125	40	165
Disposals	(21)	(31)	(52)
At end of year	561	306	867
Net book value			
At 30 September 2003	**681**	**166**	**847**
At 30 September 2002	571	81	652

10 Stocks

	2003 £000	2002 £000
Raw materials and consumables	**545**	754
Work in progress	**7**	48
Finished goods and goods for resale	**63**	93
	615	895

Notes *(continued)*

11 Debtors

	2003	2002
	£000	£000
Amounts due within one year:		
Trade debtors	**2,796**	2,549
Amounts owed by group undertakings	**23,420**	27,437
Other debtors	**49**	72
Prepayments and accrued income	**35**	190
Deferred tax asset (*see below*)	**30**	81
	26,330	30,329
Amounts due after more than one year:		
Deferred tax asset (*see below*)	**220**	330
	26,550	30,659

The deferred tax asset comprises:

	2003	2002
	£000	£000
Accelerated capital allowances	**220**	330
Other short term timing differences	**30**	81
	250	411

The movement in the deferred tax asset is as follows:		
Asset at beginning of year	**411**	524
Charge to the profit and loss account	**(161)**	(113)
Asset at end of year	**250**	411

Notes *(continued)*

12 Creditors: amounts falling due within one year

	2003		2002	
	£000	**£000**	£000	£000
Bank overdraft		**5,377**		12,109
Trade creditors		**661**		502
Amounts owed to group undertakings		**810**		931
Corporation tax		**698**		354
Other creditors including taxation and social security:				
Other taxes and social security	**87**		-	
Other creditors	**101**		63	
		188		63
Accruals and deferred income		**119**		160
		7,853		14,119

13 Provisions for liabilities and charges

	Warranty Provision £000
At beginning of year	206
Utilised during year	(112)
Charge for the year in the profit and loss account	50
At end of year	**144**

The warranty provision has been recognised to cover costs arising on warranties offered to customers. It is anticipated that the provision will be utilised within 18 months of the balance sheet date, which is the warranty period.

14 Called up share capital

	2003	2002
	£000	£000
Authorised , allotted, called up and fully paid		
Ordinary shares of £1 each	**13,500**	13,500

Notes *(continued)*

15 Reserves

	2003 £000
At beginning of year	4,394
Retained profit for the year	2,138
At end of year	**6,532**

16 Reconciliation of movements in Shareholders' funds

	2003 £000	2002 £000
Profit for the financial year	**2,138**	2,098
Net addition to Shareholders' funds	**2,138**	2,098
Opening Shareholders' funds (originally £15,272,000 for 2002 before a prior year adjustment of £524,000 – *see note 2*)	**17,894**	15,796
Closing Shareholders' funds	**20,032**	17,894

Notes *(continued)*

17 Pension scheme

The group has continued to account for pensions in accordance with SSAP 24 and the disclosures given in (a) are those required by the standard. FRS 17 Retirement Benefits was issued in November 2000 but will not be mandatory for the company until the year ended 30 September 2006. Prior to this, phased transitional disclosures are required and are set out in (b).

(a) SSAP 24 disclosures

The company (Copeland Corporation Limited) participates in a hybrid (ie part defined benefit and part defined contribution) pension scheme (The Emerson Electric UK Pension Plan). The Copeland Section is a defined benefit section with a defined contribution underpin providing benefits based on final pensionable pay.

The contributions to The Emerson Electric UK Pension Plan are determined on the advice of an independent, qualified actuary on the basis of triennial valuations using the projected unit method. The most recent valuation was conducted as at 1 April 2002. The key actuarial assumptions used for the valuation were as follows:

- Investment return 6.5% a year, compound
- Salary growth 4% a year, compound

The contribution for the year was £421,000 *(2002: £115,000)*. There was a provision of £53,000 at the year end *(2002: £nil)*.

The contributions of the scheme are based on the pension cost of the group as a whole. Further details of the group pension scheme can be obtained in the accounts of Emerson Holding Company Limited.

(b) FRS 17 Retirement benefits

The company is a member of a pension scheme providing benefits based on final pensionable pay. Because the company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 'Retirement benefits' the scheme will be accounted for by the company when the accounting standard is fully adopted as if the scheme were a defined contribution scheme. The deficit in the entire group scheme is £66,006,000. The latest full actuarial valuation was carried out at 1 April 2002 and was updated for FRS 17 purposes to 30 September 2003 by a qualified independent actuary. The company contribution for the year was £ 421,000 *(2002: £115,000)*.

18 Commitments

Payments to be made during the following year under non cancellable operating leases are as follows:

	2003		2002	
	Land and buildings	**Other**	Land and buildings	Other
	£000	**£000**	£000	£000
Operating leases which expire:				
Within one year	**-**	**9**	-	8
In the second to fifth years inclusive	**180**	**18**	180	11
	180	**27**	180	19

Notes *(continued)*

19 Contingent liabilities

The company participates in a cash pooling system with other Emerson Electric Group companies. Included in this agreement is a right of set-off against cash balances held by the Company.

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

The company is a subsidiary undertaking of Emerson Electric Co. which is the ultimate parent company incorporated in the state of Missouri in the United States of America.

The largest group in which the results of the company are consolidated is that headed by Emerson Electric Co. incorporated in the USA. The smallest group in which they are consolidated is that headed by Copeland GmbH. The consolidated accounts of these groups are available to the public and may be obtained from the addresses below:

Copeland GmbH
Holzhauser Strasse 180
D. 13509
Berlin
Germany

Emerson Electric Co.
800 W. Florissant Ave
St Louis
Missouri
USA