

Switched Reluctance Drives Limited

**Directors' report and financial
statements**

Registered number 1517273

30 September 2003



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Company information

| | |
|-------------------|--|
| Directors | RJ Blake WJ Schnyder GBW Haines DO Gifford |
| Secretary | G Lidster |
| Registered Office | East Park House Otley Road Harrogate North Yorkshire HG3 1PR |
| Company Number | 1517273 |
| Auditors | KPMG LLP 1 The Embankment Neville Street Leeds LS1 4DW |

Directors' report

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

Principal activities

The principal activities of the company are consultancy, design, development and manufacture of electrical equipment, particularly in the field of electrical variable speed drives. To date, all engineering activities have been directed towards research and development of new technology and associated engineering for client organisations. No manufacturing has been undertaken on the company's own account.

Business review

A fall in revenues of almost £1million and a reduction in operating profit of £640,000 (7%) is evidence of a slowdown in new product development during the year ended 30 September 2003 and one that the Directors foresee continuing at least into the next financial year.

The Company continues to exploit the opportunities presently arising, predominantly in automotive applications, both independently and in collaboration with Group programmes.

In the longer term it is confidently expected that energy conservation, environmental pressures and improved economic conditions generally will enhance the prospects for new product developments across a wider field of application.

Dividends

Dividends of £2,000,000 have been paid, in respect of the ordinary £1 shares.

Directors

The directors who served during the year are set out on page 1.

No director has an interest in the share capital of the company.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board


G Lidster
Secretary

31 December 2003

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.



1 The Embankment
Neville Street
Leeds
LS1 4DW

Independent auditors' report to the members of Switched Reluctance Drives Limited

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

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 3, 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.

K/My Lef.

KPMG LLP
Chartered Accountants
Registered Auditor

31 December 2003

Profit and loss account
for the year ended 30 September 2003

| | <i>Note</i> | 2003 £ | 2002 £ |
|--|-------------|------------------|------------------|
| Turnover | 2 | 3,714,199 | 4,633,599 |
| Cost of sales | | (1,415,786) | (1,332,763) |
| Gross profit | | 2,298,413 | 3,300,836 |
| Administrative expenses | | (1,161,513) | (1,520,765) |
| Operating profit | 3 | 1,136,900 | 1,780,071 |
| Other interest receivable and similar income | 4 | 346,144 | 400,848 |
| Profit on ordinary activities before taxation | | 1,483,044 | 2,180,919 |
| Tax on profit on ordinary activities | 7 | 376,932 | (46,049) |
| Profit on ordinary activities after taxation | | 1,859,976 | 2,134,870 |
| Dividends | | (2,000,000) | - |
| Retained (loss)/profit for the financial year | | (140,024) | 2,134,870 |

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

In both the current and preceding year, the company made no acquisitions and had no discontinued activities.

In both the current and preceding year, there was no material difference between the profit reported in the profit and loss account and the profit on an unmodified historical cost basis.

Balance sheet
at 30 September 2003

| | <i>Note</i> | 2003 £ | 2002 £ |
|---|-------------|------------------|------------------|
| Fixed assets | | | |
| Tangible assets | 8 | 1,797,067 | 1,673,112 |
| Investments | 9 | 1 | 1 |
| | | <hr/> | <hr/> |
| | | 1,797,068 | 1,673,113 |
| | | <hr/> | <hr/> |
| Current assets | | | |
| Stocks | 10 | 42,592 | 28,860 |
| Debtors | 11 | 9,443,570 | 1,359,689 |
| Cash at bank and in hand | | 100,208 | 8,546,587 |
| | | <hr/> | <hr/> |
| | | 9,586,370 | 9,935,136 |
| | | <hr/> | <hr/> |
| Creditors: amounts falling due within one year | 12 | (1,236,625) | (1,321,412) |
| | | <hr/> | <hr/> |
| Net current assets | | 8,349,745 | 8,613,724 |
| | | <hr/> | <hr/> |
| Total assets less current liabilities | | 10,146,813 | 10,261,941 |
| | | <hr/> | <hr/> |
| Net assets | | 10,146,813 | 10,286,837 |
| | | <hr/> | <hr/> |
| Capital and reserves | | | |
| Called up share capital | 14 | 134,146 | 134,146 |
| Share premium account | 15 | 547,118 | 547,118 |
| Profit and loss account | 15 | 9,465,549 | 9,605,573 |
| | | <hr/> | <hr/> |
| Shareholders' funds - equity | 16 | 10,146,813 | 10,286,837 |
| | | <hr/> | <hr/> |

These financial statements were approved by the board of directors on 31 December 2003 and were signed on its behalf by:



RJ Blake
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.

The company is exempt from the requirement of Financial Reporting Standard No 1 (Revised 1996) to prepare a cash flow statement as it is a wholly owned subsidiary of Emerson Holding Company Limited, and cash flows are included within the consolidated cash flow statement of that company.

As the company is a wholly owned subsidiary of Emerson Holding Company Limited, 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. The consolidated financial statements of the ultimate parent company, within which this company is included, can be obtained from the address given in note 19. There were no other related party transactions.

Fixed assets and depreciation

Depreciation is provided 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:

| | | |
|--------------------------------|---|---------------|
| Freehold buildings | - | 2½% per annum |
| Development and test equipment | - | 20% per annum |
| Furniture and equipment | - | 20% per annum |

Research and development expenditure

All expenditure relating to fixed assets used in the company's research and development work is capitalised and written off over its useful life. All other expenditure relating to research and development is written off in the year in which it is incurred.

Stocks

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

Taxation

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 FRS 19.

Pensions

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

Turnover

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

Notes (continued)

1 Accounting policies (continued)

Foreign Currency

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.

2 Turnover

Turnover derived from the one class of business is attributable to each of the company's geographical markets as follows:

| | 2003 £ | 2002 £ |
|-------------------------------|------------------|------------------|
| <i>By geographical market</i> | | |
| United Kingdom | 644,891 | 424,064 |
| Europe | 593,493 | 1,208,404 |
| The Americas | 2,475,815 | 3,001,131 |
| | <u>3,714,199</u> | <u>4,633,599</u> |

3 Operating profit

| | 2003 £ | 2002 £ |
|--|-------------------|-------------------|
| Operating profit is arrived at after charging: | | |
| Depreciation of tangible fixed assets | 151,419 | 148,749 |
| Auditors' remuneration | | |
| for audit services | 8,990 | 8,550 |
| for non - audit services (Taxation) | 5,500 | 6,000 |
| Exceptional bad debt charge | - | 175,918 |
| | <u> </u> | <u> </u> |

4 Other interest receivable and similar income

| | 2003 £ | 2002 £ |
|-----------------------|----------------|----------------|
| Bank deposit interest | 344,089 | 357,739 |
| Other | 2,055 | 43,109 |
| | <u>346,144</u> | <u>400,848</u> |

Notes (continued)

5 Employees

| | 2003 | 2002 |
|-----------------------|------------------|------------------|
| | £ | £ |
| Wages and salaries | 1,174,924 | 1,085,151 |
| Social security costs | 126,545 | 110,680 |
| Pension contributions | 34,542 | 31,363 |
| | <u>1,336,011</u> | <u>1,227,194</u> |

| | 2003 | 2002 |
|--|-----------|-----------|
| <i>Average number of people (including directors) employed by the company during the year:</i> | | |
| Directors | 5 | 6 |
| Technical support | 21 | 20 |
| Administration | 7 | 7 |
| | <u>33</u> | <u>33</u> |

6 Directors

| | 2003 | 2002 |
|---|-----------|-----------|
| | £ | £ |
| <i>Directors' emoluments:</i> | | |
| Remuneration | 131,465 | 134,883 |
| Company contributions to money purchase pension scheme | 2,374 | 2,273 |
| | <u>No</u> | <u>No</u> |
| Number of directors accruing benefits through a money purchase pension scheme | 1 | 1 |

Notes (continued)

7 Tax on profit on ordinary activities

Analysis of charge in period

| | 2003 £ | 2002 £ |
|--|-----------|-----------|
| <i>UK corporation tax</i> | | |
| Current tax on income for the period | 408,704 | 737,068 |
| Adjustments in respect of prior periods | (772,320) | (648,187) |
| Total current tax | (363,616) | 88,881 |
| <i>Deferred tax (see note 13)</i> | | |
| Origination / reversal of timing differences | (13,316) | (29,593) |
| Adjustment in respect of previous years | - | (13,239) |
| Tax on profit on ordinary activities | (376,932) | 46,049 |

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 (30%, 2002: 30%). The differences are explained below.

| | 2003 £ | 2002 £ |
|---|-----------|-----------|
| <i>Current tax reconciliation</i> | | |
| Profit on ordinary activities before tax | 1,483,044 | 2,180,919 |
| Current tax at 30% (2002: 30%) | 444,913 | 654,276 |
| <i>Effects of:</i> | | |
| Expenses/income not deductible/chargeable for tax purposes | (24,120) | 53,199 |
| Capital allowances for period in (deficit) / excess of depreciation | (12,089) | 1,177 |
| Other timing differences | - | 28,416 |
| Adjustments to tax charge in respect of previous periods | (772,320) | (648,187) |
| Total current tax (credit) / charge (see above) | (363,616) | 88,881 |

Notes (continued)

8 Tangible fixed assets

| | Freehold land & buildings £ | Development & test equipment £ | Furniture & equipment £ | Total £ |
|-----------------------|-----------------------------------|--------------------------------------|-------------------------------|------------|
| Cost | | | | |
| At 1 October 2002 | 1,544,904 | 1,384,477 | 331,554 | 3,260,935 |
| Additions | 39,430 | 204,178 | 31,766 | 275,374 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 30 September 2003 | 1,584,334 | 1,588,655 | 363,320 | 3,536,309 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Depreciation | | | | |
| At 1 October 2002 | 161,288 | 1,129,188 | 297,347 | 1,587,823 |
| Charge for the year | 30,616 | 101,688 | 19,115 | 151,419 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 30 September 2003 | 191,904 | 1,230,876 | 316,462 | 1,739,242 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Net book value | | | | |
| At 30 September 2003 | 1,392,430 | 357,779 | 46,858 | 1,797,067 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 30 September 2002 | 1,383,616 | 255,289 | 34,207 | 1,673,112 |
| | <hr/> | <hr/> | <hr/> | <hr/> |

Freehold land and buildings includes £340,000 (2002: £340,000) of non depreciable assets.

9 Investments

| | 2003 £ | 2002 £ |
|--|-----------|-----------|
| Shares in subsidiary undertaking at cost | 564 | 564 |
| Amount written off | (563) | (563) |
| | <hr/> | <hr/> |
| | 1 | 1 |
| | <hr/> | <hr/> |

At 30 September 2003 the company owned the entire share capital of the following subsidiary undertaking:

| | Country of incorporation | Capital & reserves £ | Principal activity |
|---------------------------|--------------------------|-------------------------|--------------------|
| Reluctance Motors Limited | United Kingdom | (221) | Non-trading |

Consolidated accounts have not been presented as permitted by section 249 of the Companies Act 1985 because the group qualifies as medium sized.

Notes *(continued)*

10 Stocks

| | 2003 £ | 2002 £ |
|----------------------------|-----------|-----------|
| Components and consumables | 42,592 | 28,860 |

11 Debtors

| | 2003 £ | 2002 £ |
|------------------------------------|-----------|-----------|
| Trade debtors | 231,696 | 504,399 |
| Amounts owed by group undertakings | 8,402,891 | 639,637 |
| Other debtors | 54,275 | 39,286 |
| Prepayments and accrued income | 49,102 | 108,471 |
| Corporation tax | 667,394 | 43,000 |
| Deferred tax asset (see note 13) | 38,212 | 24,896 |
| | 9,443,570 | 1,359,689 |

12 Creditors: amounts falling due within one year

| | 2003 £ | 2002 £ |
|------------------------------------|-----------|-----------|
| Trade creditors | 225,792 | 132,422 |
| Amounts owed to group undertakings | 117,080 | 166,047 |
| Corporation tax | 485,254 | 499,158 |
| Other taxes and social security | 35,797 | 33,865 |
| Accruals and deferred income | 372,702 | 489,920 |
| | 1,236,625 | 1,321,412 |

Notes (continued)

13 Deferred tax

| | 2003 £ | 2002 £ |
|--|-----------|-----------|
| Deferred taxation | (38,212) | (24,896) |
| Movement in year: | | |
| At beginning of year | (24,896) | 17,936 |
| Charge/(credit) to profit and loss account | (13,316) | (42,832) |
| At end of year | (38,212) | (24,896) |
| The provision comprises: | | |
| Accelerated capital allowances | (23,212) | (39,923) |
| Short term timing differences | (15,000) | 15,027 |
| | (38,212) | (24,896) |

There were no amounts unprovided in either year.

14 Share capital

| | 2003 £ | 2002 £ |
|---|-----------|-----------|
| <i>Authorised</i> | | |
| Ordinary shares of £1 each | 1,000,000 | 1,000,000 |
| <i>Allotted, called up and fully paid</i> | | |
| Ordinary shares of £1 each | 134,146 | 134,146 |

15 Reserves

| | Share premium £ | Profit & Loss £ | Total £ |
|----------------------------|--------------------|--------------------|------------|
| At beginning of year | 547,118 | 9,605,573 | 10,152,691 |
| Retained loss for the year | - | (140,024) | (140,024) |
| At end of year | 547,118 | 9,465,549 | 10,012,667 |

Notes (continued)

16 Reconciliation of movement in shareholders' funds

| | 2003 £ | 2002 £ |
|--|-------------|------------|
| Profit for the financial year | 1,859,976 | 2,134,870 |
| Dividends | (2,000,000) | - |
| | <hr/> | <hr/> |
| Net (decrease) / increase in shareholders' funds | (140,024) | 2,134,870 |
| Opening shareholders' funds | 10,286,837 | 8,151,967 |
| | <hr/> | <hr/> |
| Closing shareholders' funds | 10,146,813 | 10,286,837 |
| | <hr/> | <hr/> |

17 Commitments

Capital commitments at 30 September 2003 are £nil (2002: £40,000).

18 Contingent liabilities

The company is party to a cross guarantee in relation to the bank facilities of Emerson Holding Company Limited and its subsidiary undertakings.

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

The ultimate parent company and largest group in which the results of the company are consolidated is that headed by Emerson Electric Co., which is incorporated in the United States of America. The smallest group in which they are consolidated is that headed by Emerson Holding Company Limited, which is incorporated in Great Britain and registered in England and Wales. The consolidated accounts of the ultimate parent company are available to the public and may be obtained from:

Boatsmen's Trust Company
 Corporate Trust Division
 510 Locust Street
 St Louis
 Missouri 63101