

**Report of the Directors**

Directors: Mr T C Bonner (Chairman)  
Mr P W H North  
Dr R M Müller  
Mr M D G Stokes

1 The Directors present their report together with the audited accounts of the Company for the year ended 31st December 1996.

2 **Principal activities**

GKN Automotive Limited is an intermediate holding company with subsidiaries that manufacture transmissions equipment for the automotive industry.

The Company carries out various management functions for certain companies within the Automotive Driveline Division of GKN plc.

3 **Directors' responsibility for the accounts**

At the end of each financial year the Directors are required by the Companies Act 1985 to prepare accounts which 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 year. In preparing the accounts for the year ended 31st December 1996, appropriate accounting policies, supported by reasonable and prudent judgements and estimates, have been consistently used and UK applicable accounting standards have been followed.

The Directors are responsible for ensuring that the Company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the accounts comply with the Companies Act 1985. In addition, the Directors are responsible for ensuring that an appropriate system of internal control is in operation to provide them with reasonable assurance that the assets of the Company are properly safeguarded and to ensure that reasonable steps are taken to prevent or detect fraud and other irregularities.

The auditors' responsibilities in relation to the accounts are set out in their report on page 3.

4 **Results**

The profit and loss account of the Company shows a profit of £8,040,048.

5 **Dividends**

The Directors have declared an interim dividend of £8,040,048 for the year ended 31st December 1996, payable on 21st March 1997. No further dividend is recommended for the period.



**Report to the Directors - (continued)****6 Directors**

Interests in shares of GKN plc and its subsidiaries of persons who were Directors of the Company on 31st December 1996 as required to be disclosed by the Companies Act 1985, were as follows:

<u>Name</u>	<u>Type of security</u>	<u>Holdings including family interests at</u>		<u>Employees' Share Option Schemes</u>	
		<u>1.1.96</u> <u>or date of</u> <u>appointment</u>	<u>31.12.96</u>	<u>Options</u> <u>granted</u> <u>in 1996</u>	<u>Options</u> <u>exercised</u> <u>in 1996</u>
P W H North	GKN plc £1 ordinary shares	2,000	6,528	237	18,852
R M Müller	GKN plc £1 ordinary shares	-	20,274	-	-
M D G Stokes	GKN plc £1 ordinary shares	-	9,400	1,426	10,250

The shareholdings and options of Directors who are also directors of the parent company are disclosed in the accounts of the parent company.

The following awards of conditional rights to acquire GKN plc ordinary shares under the GKN long term incentive plans were made to the Directors of the Company during 1996 and were held by them at 31st December 1996.

<u>Name</u>	<u>Number of Shares</u> <u>the subject of the award</u>
P W H North	5,400
R M Müller	5,400
M D G Stokes	5,400

**7 Auditors**

A resolution to reappoint Coopers & Lybrand as Auditors of the Company will be proposed at the Annual General Meeting.

By Order of the Board



J C Soar  
Secretary  
31st January 1997

**REPORT OF THE AUDITORS TO THE MEMBERS OF**  
**GKN AUTOMOTIVE LIMITED**

We have audited the accounts on pages 4 to 14.

**Respective responsibilities of directors and auditors**

As described on page 1 the Company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

**Basis of 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

**Opinion**

In our opinion the accounts give a true and fair view of the state of the Company's affairs at 31st December 1996 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Coopers & Lybrand*

Coopers & Lybrand  
Chartered Accountants and Registered Auditors  
Birmingham  
31st January 1997

Accounting policies 31st December 1996

The accounts have been prepared in accordance with applicable Accounting Standards in the United Kingdom. As the company is a wholly owned subsidiary of GKN plc, it is exempt under the terms of Financial Reporting Standard No 1 from publishing a cash flow statement. A summary of principal accounting policies is set out below.

**1 Basis of accounting**

These accounts are prepared under the historical cost convention.

**2 Turnover**

Sales shown in the profit and loss account exclude value added taxes and represent the invoiced value of goods and services charged to customers.

**3 Depreciation**

(a) In the case of computer hardware and major software, depreciation is provided on original cost. For all other categories of asset, depreciation is provided on the written down value at the beginning of the financial year. Except in special cases, depreciation is not charged on fixed assets capitalised during the year and available for use, but a full year's depreciation is charged on fixed assets sold or scrapped during the year.

(b) Depreciation is applied to specific classes of asset by reference to their useful lives. The rates of depreciation used are :

	Straight <u>line</u> %	Reducing <u>balance</u> %
Plant, machinery, fixtures, fittings and equipment	-	27
Computer hardware and major software	20 to 33.33	-
Motor Vehicles:		
Commercial	-	40
Other	-	44

**4 Operating profit**

(a) Profit is taken when turnover is recognised.

(b) Costs of reorganisation and redundancy which are not part of a fundamental restructuring are charged against operating profit in the period when the announcement is made.

**Accounting policies 31st December 1996 - (continued)****5 Foreign currencies**

Where practicable, transactions involving foreign currencies are protected by forward contracts. Assets and liabilities in foreign currencies are translated to sterling at the appropriate forward contract rate or, if not covered, at the exchange rate ruling at the balance sheet date. Differences on revenue transactions are dealt with through the profit and loss account.

**6 Tangible fixed assets**

Where fixed assets are financed by leasing agreements which give rights approximating to ownership, the assets are treated as if they had been purchased and the capital element of the leasing commitments is shown as obligations under finance leases. The rentals payable are apportioned between interest, which is charged in the profit and loss account, and capital, which reduces the outstanding obligation. All other leases are recognised as operating leases.

**7 Deferred taxation**

Provision is made for deferred taxation to the extent that there is a reasonable probability that such tax will become payable in the foreseeable future, calculated at the rate of corporation tax expected to apply for the period when the tax is forecast to become payable. The liability is reduced by any tax losses available for set off against future profits. The intention of the parent company to surrender advance corporation tax, without consideration, so long as the Company remains a subsidiary, is also taken into account in arriving at the amount provided.

**8 Fixed asset investments**

Investments are carried at cost less provision for permanent diminution in value.

**9 Associated Companies**

Associated companies, although not subsidiaries, are those in which the Company:

- (a) has a long term interest; and
- (b) is able to exercise a significant influence through its representation on the board of directors.

**10 Related party transactions**

As in excess of 90% of the Company's voting rights are controlled within the GKN Group, the Company is not required to disclose transactions with other Group subsidiaries or associated companies.

The Company has not transacted with any other related parties during the year.

Profit and loss account for the year ended 31st December 1996

	<u>Notes</u>	<u>Continuing operations</u> 1995 £	£
TURNOVER	1	2,674,470	2,783,476
OPERATING PROFIT	2	458,027	445,539
Income from investments and interest receivable	3	7,740,487	9,290,806
Interest payable	4	(5,466)	(3,286)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		8,193,048	9,733,059
Taxation	5	(153,000)	(95,016)
PROFIT FOR THE YEAR		8,040,048	9,683,043
Interim dividend - proposed		(8,040,048)	(9,638,043)
TRANSFER TO RESERVES		-	-

The Company has no recognised gains and losses other than the profits for the year shown above.

Profits for the year on an historical cost basis are not different from those reported above.

The notes on pages 8 to 14 and the accounting policies on pages 4 and 5 form part of these accounts.

Auditors' report page 3.

Balance sheet at 31st December 1996

	Notes	£	£	1995 £	£
<b>FIXED ASSETS</b>					
Tangible assets	8		1,459,023		956,040
Investments	9		3,007,185		2,426,103
			<u>4,466,208</u>		<u>3,382,143</u>
<b>CURRENT ASSETS</b>					
Debtors	10	24,947,563		27,624,452	
Cash at bank and in hand		17,794		14,965	
		<u>24,965,357</u>		<u>27,639,417</u>	
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>					
Bank loans and overdrafts		2,092		115,463	
Creditors	11	2,166,722		2,103,132	
Taxation payable	12	88,530		17,254	
Dividend payable		8,040,048		9,638,043	
		<u>10,297,392</u>		<u>11,873,892</u>	
<b>NET CURRENT ASSETS</b>			<u>14,667,965</u>		<u>15,765,525</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			<u>19,134,173</u>		<u>19,147,668</u>
<b>CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR</b>					
Obligations under finance leases	13		13,495		26,990
<b>CAPITAL AND RESERVES</b>					
Called up share capital	15	9,000,000		9,000,000	
Share premium account	16	10,120,678		10,120,678	
		<u></u>		<u></u>	
Equity interest			19,120,678		19,120,678
<b>CAPITAL EMPLOYED IN FINANCING TOTAL ASSETS LESS CURRENT LIABILITIES</b>			<u>19,134,173</u>		<u>19,147,668</u>

Signed on behalf of the Board


P W H North  
31st January 1997

Director

The notes on pages 8 to 14 and the accounting policies  
on pages 4 and 5 form part of these accounts.

Auditors' report page 3.

Notes on the accounts 31st December 1996

## 1 Turnover

	£	<u>1995</u> £
Geographical analysis by ultimate destination:		
United Kingdom	1,510,004	1,706,000
Continental Europe	183,174	210,376
America	50,000	50,000
Rest of the world	931,292	816,400
	<u>2,674,470</u>	<u>2,783,476</u>

All turnover and operating profit were attributable to the principal activity of the business as shown in the Directors' report.

## 2 Operating profit is after charging/(crediting)

	£	<u>1995</u> £
Wages and salaries	1,511,936	1,196,685
Social security costs	106,321	88,698
Other pension costs	296,970	224,246
Redundancy costs in on-going activities	-	43,125
Depreciation on assets under finance leases	5,073	6,950
Depreciation on owned assets	329,513	86,038
Auditors' remuneration:		
for audit	2,414	1,326
for non-audit services	10,025	106,541
Other external (income)/charges	(45,809)	584,328
	<u>2,216,443</u>	<u>2,337,937</u>

## 3 Income from investments and interest receivable

	£	<u>1995</u> £
Dividends:		
Group companies	7,737,614	9,287,939
Interest on short term loans and deposits	2,873	2,867
	<u>7,740,487</u>	<u>9,290,806</u>



**Notes on the accounts 31st December 1996 - (continued)****4 Interest payable**

	£	<u>1995</u> £
Finance leases	<u>5,466</u>	<u>3,286</u>

**5 Taxation**

	£	<u>1995</u> £
United Kingdom taxation:		
Corporation tax at 33% (1995 - 33%)	153,000	96,000
Double taxation relief	(81,724)	(78,746)
Adjustment to taxation of earlier years	-	(984)
	<u>71,276</u>	<u>16,270</u>
Overseas taxation	<u>81,724</u>	<u>78,746</u>
	<u>153,000</u>	<u>95,016</u>

The charge for deferred taxation on the full liability basis would have been £2,728 (1995 - £116,308).

**6 Employee information**

The average number of persons employed during the year was:

	number	<u>1995</u> number
Staff	<u>36</u>	<u>36</u>

**Notes on the accounts 31st December 1996 - (continued)****7 Directors' emoluments**

The emoluments of directors wholly in respect of executive services amounted to £Nil (1995 - £Nil). Certain directors are employed by, and receive their emoluments from, GKN plc.

**8 Tangible assets**

	<u>Other fixed assets</u> £
<b>Cost</b>	
At 1st January 1996	1,325,330
Capital expenditure	829,591
Group transfers	37,551
Disposals	(42,576)
	<hr/>
At 31st December 1996	2,149,896
	<hr/>
<b>Accumulated depreciation</b>	
At 1st January 1996	369,290
Charge for the year	334,586
Group transfers	24,433
Disposals	(37,436)
	<hr/>
At 31st December 1996	690,873
	<hr/>
<b>Net book values at 31st December 1996</b>	
Owned assets	1,445,305
Leased assets	13,718
	<hr/>
	1,459,023
	<hr/>

Other fixed assets include plant, machinery, fixtures, fittings, equipment and motor vehicles.

Notes on the accounts 31st December 1996 - (continued)

## 9 Investments

	Shares in group companies £	Shares in associated companies £	Total £
<b>Cost and Net Book Value</b>			
At 1st January 1996	2,426,103	-	2,426,103
Additions	191,013	390,069	581,082
	<u>2,617,116</u>	<u>390,069</u>	<u>3,007,185</u>

Interests are as follows:

<u>Name of company</u>	<u>Country of registration or incorporation</u>	<u>Principal activity</u>	<u>Description of shares held</u>	<u>Proportion of nominal value of shares held</u>	
				<u>By the Company</u>	<u>By subsidiary companies</u>
GKN Driveshafts Limited	England	Automotive components manufacturer	£1 ordinary shares	100%	-
GKN Hardy Spicer Limited	England	Automotive components manufacturer	£1 ordinary shares	100%	-
GKN Driveline Limited	England	Automotive components manufacturer	£1 ordinary shares	100%	-
GKN Birfield Extrusions Limited	England	Dormant	£1 ordinary shares	100%	-
GKN Universal Transmissions Limited	England	Transmission equipment seller	£1 ordinary shares	100%	-
Ball Components Limited	England	Dormant	£1 ordinary shares	-	100%
GKN Française d'Achats SA	France	Management services	Ordinary shares	0.01%	99.99%
Hanwha GKN Driveshafts Limited	South Korea	Automotive components manufacturer	Ordinary shares	49%	-

As the Company is a wholly owned subsidiary of GKN plc, group accounts are not required. In the opinion of the directors, the aggregate value of the Company's investments in subsidiary companies consisting of shares in or amounts owing (whether on account of a loan or otherwise), is not less than the aggregate of the amounts at which these investments are stated in the balance sheet.

Notes on the accounts 31st December 1996 - (continued)

## 10 Debtors

	£	<u>1995</u> £
Receivable within one year:		
Trade debtors	409,286	53,242
Amounts owed by group companies	8,887,350	10,731,804
Current account with parent	15,067,047	16,240,977
Amounts owed by associated companies	49,851	1,080
Other debtors	86,630	172,692
Prepayments and accrued income	394,724	344,836
	<hr/> 24,894,888	<hr/> 27,544,631
Receivable after one year:		
Other debtors	52,675	79,821
	<hr/> 24,947,563	<hr/> 27,624,452

Prepayments and accrued income include £310,040 (1995 - £310,040) in respect of the Group pension scheme.

## 11 Creditors

	£	<u>1995</u> £
Trade creditors	370,081	122,892
Amounts owed to group companies	1,203,986	1,617,976
Amounts owed to associated companies	-	394
Indirect and payroll taxes	43,276	39,256
Accruals	535,883	309,117
Short term obligations under finance leases (see note 13)	13,496	13,497
	<hr/> 2,166,722	<hr/> 2,103,132

## 12 Taxation payable

	£	<u>1995</u> £
UK corporation tax - current year	88,530	17,254

Notes on the accounts 31st December 1996 - (continued)**13 Obligations under finance leases**

The future minimum lease payments to which the Company is committed under finance leases are as follows:

	£	<u>1995</u> £
Amounts falling due:		
Within one year	13,496	13,497
Within two to five years	13,495	26,990
	<u>26,991</u>	<u>40,487</u>
<u>Less:</u> Short term obligations included in creditors (see note 11)	<u>(13,496)</u>	<u>(13,497)</u>
	<u>13,495</u>	<u>26,990</u>

**14 Provisions for liabilities and charges**

No provision has been made for deferred taxation as at 31st December 1996 (1995 - £nil). The full potential liability is calculated at 33% (1995 - 33%) and is set out below:

	£	<u>1995</u> £
Fixed asset and other timing differences	<u>152,251</u>	<u>149,523</u>

**15 Share capital**

	<u>Authorised</u> £	<u>1996 and 1995</u> Issued, called up and fully <u>paid</u> £
Ordinary shares of £1 each	<u>9,000,000</u>	<u>9,000,000</u>

**Notes on the accounts 31st December 1996 - (continued)****16 Reserves**

Share  
premium  
£

At 1st January 1996 and 31st December 1996		10,120,678
		<hr/>

**17 Reconciliation of movements on shareholders' funds**

1995  
£

	£	
At 1st January 1996	19,120,678	19,120,678
Total recognised gains and losses for the year	8,040,048	9,638,043
Dividend	(8,040,048)	(9,638,043)
	<hr/>	<hr/>
At 31st December 1996	19,120,678	19,120,678
	<hr/>	<hr/>

**18 Capital expenditure**

There was no capital expenditure contracted but not provided for at 31st December 1996 (1995: £Nil).

**19 Pensions**

The Company participates in the externally funded defined benefit Group pension arrangements of GKN plc. The Company's pension cost is based on pension contributions payable as assessed across the UK Group as a whole in accordance with the advice of professionally qualified actuaries. The latest actuarial assessment was carried out at April 1996 and particulars of the valuation are contained in the accounts of GKN plc.

**20 Ultimate and immediate parent companies**

GKN plc and Birfield Limited, which are registered in England and Wales, are the ultimate and immediate parent companies respectively. Copies of their accounts may be obtained from Ipsley House, PO Box 55, Redditch, Worcestershire, B98 0TL.