

**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 1997.

2 **Directors' responsibilities for preparation of 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 1997, 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 4.

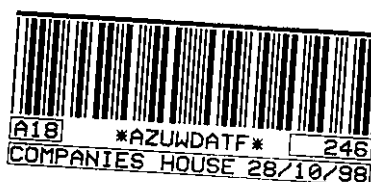
3 **Principal activities**

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.

4 **Dividends**

The Directors have declared an interim dividend of £9,121,853 for the year ended 31st December 1997, payable on 20th March 1998 and no further dividend is recommended for the period.



Report to the Directors - (continued)**5 Payment of suppliers**

The Company agrees the terms and conditions under which business transactions with its suppliers are conducted when it enters into binding contracts. It is Company policy to abide by the payment terms agreed with suppliers, provided that the supplier has performed its obligations under the contract. Given the nature and diversity of the Company's purchasing arrangements, it is not Company policy to follow any code or standard which deals with the payment of suppliers.

As an indication of the average number of days outstanding between receipt of invoices and payment of suppliers, at 31st December 1997 the amount owed to trade creditors by the Company was equivalent to 47 days' purchases from suppliers during the year.

**6 Interests in shares**

Interests in shares of GKN plc and its subsidiaries of persons who were Directors of the Company on 31st December 1997 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>1.1.97</u> <u>or date of</u> <u>appointment</u>	<u>31.12.97</u>	<u>Options granted</u> <u>in 1997</u>	<u>Options exercised</u> <u>in 1997</u>
P W H North	GKN plc £1 ordinary shares	6,528	8,554	-	2,878
R M Müller	GKN plc £1 ordinary shares	20,274	-	-	9,000
M D G Stokes	GKN plc £1 ordinary shares	9,400	7,112	-	-

The shareholdings, options and conditional rights to shares of Directors who are also directors of the parent company are disclosed in the accounts of the parent company.

Conditional rights to acquire the following number of GKN plc ordinary shares under the GKN long term incentive plans were awarded to the Directors of the Company during 1996 and 1997 and were held by them at 31st December 1997.

<u>Name</u>	<u>1997</u>	<u>1996</u>
P W H North	3,900	5,400
R M Müller	3,900	5,400
M D G Stokes	3,900	5,400

As potential beneficiaries, the Directors are deemed to have an interest in the ordinary shares of GKN plc held by the discretionary trust established to facilitate the operation of the GKN Long Term Incentive Plan. At 31st December 1997, the trust held 1,259,450 shares (1996 - 728,150).

As potential beneficiaries under GKN Qualifying Share Ownership Trust, the discretionary trust established to facilitate the operation of the GKN and Westland SAYE Share Option Schemes, the Directors are deemed to have an interest in the shares held by the trust from time to time when options are being exercised by scheme participants. No shares were held by the trust at the close of business on 31st December 1997.

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

**7 Charitable donations**

During the year the Company contributed £305 for charitable purposes.

**8 Reappointment of auditors**

It is proposed that a written resolution of the shareholders be passed to enable the Company to dispense with the appointment of auditors annually. Following the passing of such a resolution Coopers & Lybrand will continue in office as auditors of the Company.

By Order of the Board



J C Soar  
Secretary  
6th March 1998

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

We have audited the accounts on pages 5 to 16.

**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 1997 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  
6th March 1998

**Accounting policies 31st December 1997**

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, which have been consistently applied, 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 :

	<u>Straight</u> <u>line</u> %	<u>Reducing</u> <u>balance</u> %
Plant, machinery, fixtures, fittings and equipment	-	27
Computer hardware and major software	20 to 33⅓	-
Motor Vehicles:		
Cars	-	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.
- (c) Operating lease rentals are charged to the profit and loss account as incurred during the lease term.

**Accounting policies 31st December 1997 - (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 in subsidiary companies, joint venture companies and other investments are accounted for at cost less provision for any permanent diminution in value.

Joint venture companies, although not subsidiaries, are those:

- (a) in which the Company holds an interest on a long-term basis; and
- (b) which are jointly controlled by the Company and one or more other venturers under a contractual arrangement.

**9 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, joint ventures 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 1997

	<u>Notes</u>	<u>1996</u> <u>Continuing operations</u>	
		£	£
TURNOVER	1	3,633,039	2,674,470
OPERATING PROFIT	2	466,545	458,027
Income from investments and interest receivable	3	8,725,312	7,740,487
Interest payable	4	(6,060)	(5,466)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		9,185,797	8,193,048
Taxation	5	(63,944)	(153,000)
PROFIT FOR THE YEAR		9,121,853	8,040,048
Interim dividend - proposed		(9,121,853)	(8,040,048)
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 9 to 16 and the accounting policies on pages 5 and 6 form part of these accounts.

Auditors' report page 4.


**GKN AUTOMOTIVE LIMITED**

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**Balance sheet at 31st December 1997**

	<u>Notes</u>	£	£	<u>1996</u>	£
<b>FIXED ASSETS</b>					
Tangible assets	8		1,162,416		1,459,023
Investments	9		4,869,908		3,007,185
			<u>6,032,324</u>		<u>4,466,208</u>
<b>CURRENT ASSETS</b>					
Debtors	10	27,093,551		24,947,563	
Cash at bank and in hand		16,214		17,794	
		<u>27,109,765</u>		<u>24,965,357</u>	
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>					
Bank loans and overdrafts		10,841		2,092	
Creditors	11	4,851,959		2,166,722	
Taxation payable	12	36,758		88,530	
Dividend payable		9,121,853		8,040,048	
		<u>14,021,411</u>		<u>10,297,392</u>	
<b>NET CURRENT ASSETS</b>			<u>13,088,354</u>		<u>14,667,965</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			<u>19,120,678</u>		<u>19,134,173</u>
<b>CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR</b>					
Obligations under finance leases	13		-		13,495
<b>CAPITAL AND RESERVES</b>					
Called up share capital	16	9,000,000		9,000,000	
Share premium account	17	10,120,678		10,120,678	
<b>Equity interest</b>			<u>19,120,678</u>		<u>19,120,678</u>
<b>CAPITAL EMPLOYED IN FINANCING TOTAL ASSETS LESS CURRENT LIABILITIES</b>			<u>19,120,678</u>		<u>19,134,173</u>

Signed on behalf of the Board


P W H North  
6th March 1998

Director

The notes on pages 9 to 16 and the accounting policies on pages 5 and 6 form part of these accounts.

Auditors' report page 4.



**Notes on the accounts 31st December 1997****1 Turnover**

	£	<u>1996</u> £
Geographical analysis by ultimate destination:		
United Kingdom	2,750,000	1,510,004
Continental Europe	153,824	183,174
America	-	50,000
Rest of the world	729,215	931,292
	<u>3,633,039</u>	<u>2,674,470</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>1996</u> £
Wages and salaries	3,209,196	1,511,936
Social security costs	150,354	106,321
Other pension costs	232,393	296,970
Depreciation on assets under finance leases	3,704	5,073
Depreciation on owned assets	578,972	329,513
Profit on sale of plant and machinery	(22,185)	(7,285)
Rental leased land and buildings	75,335	-
Rental hire of plant and vehicles	44,332	-
Auditors' remuneration:		
for audit	2,927	2,414
for non-audit services	-	10,025
Other operating income	(1,108,534)	(38,524)
	<u>3,166,494</u>	<u>2,216,443</u>

**3 Income from investments and interest receivable**

	£	<u>1996</u> £
Dividends:		
Group companies	8,723,335	7,737,614
Interest on short term loans and deposits	1,957	2,873
	<u>8,725,312</u>	<u>7,740,487</u>

Notes on the accounts 31st December 1997 - (continued)

## 4 Interest payable

	£	<u>1996</u> £
Finance leases	<u>6,060</u>	<u>5,466</u>

## 5 Taxation

	£	<u>1996</u> £
United Kingdom taxation:		
Corporation tax at 31.5% (1996 - 33%)	115,000	153,000
Double taxation relief	(78,242)	(81,724)
Adjustment to taxation of earlier years	<u>(51,056)</u>	<u>-</u>
	(14,298)	71,276
Overseas taxation	<u>78,242</u>	<u>81,724</u>
	<u>63,944</u>	<u>153,000</u>

The charge for deferred taxation on the full liability basis would have been £32,917 (1996 - £2,728).

## 6 Employee information

The average number of persons employed during the year was:

	number	<u>1996</u> number
Staff	<u>41</u>	<u>36</u>

**Notes on the accounts 31st December 1997 - (continued)****7 Directors' emoluments**

The emoluments of directors wholly in respect of executive services amounted to £Nil (1996 - £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 1997	2,149,896
Capital expenditure	301,013
Disposals	(142,056)
	<hr/>
At 31st December 1997	2,308,853
	<hr/>
<b>Accumulated depreciation</b>	
At 1st January 1997	690,873
Charge for the year	582,676
Disposals	(127,112)
	<hr/>
At 31st December 1997	1,146,437
	<hr/>
<b>Net book values at 31st December 1997</b>	
Owned assets	1,152,402
Leased assets	10,014
	<hr/>
	1,162,416
	<hr/>

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

Notes on the accounts 31st December 1997 - (continued)

## 9 Investments

	Shares in group companies £	Shares in joint venture companies £	Total £
<b>Cost and Net Book Value</b>			
At 1st January 1997	2,617,116	390,069	3,007,185
Additions	-	1,862,723	1,862,723
At 31st December 1997	2,617,116	2,252,792	4,869,908

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	50%	-

As the Company is a wholly owned subsidiary of GKN plc, consolidated accounts are not required (and joint venture companies have not been accounted for on a gross equity basis). In the opinion of the directors, the aggregate value of the Company's investments in subsidiary and joint venture 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 1997 - (continued)

## 10 Debtors

	£	<u>1996</u> £
Receivable within one year:		
Trade debtors	185	409,286
Amounts owed by group companies	11,616,149	8,887,350
Account with GKN (United Kingdom) plc (see note 14)	14,585,789	15,067,047
Amounts owed by joint venture companies	-	49,851
Other debtors	18,065	86,630
Prepayments and accrued income	203,259	84,684
	<hr/> 26,423,447	<hr/> 24,584,848
Receivable after one year:		
Other debtors	46,733	52,675
Prepayments and accrued income	623,371	310,040
	<hr/> 27,093,551	<hr/> 24,947,563

Prepayments and accrued income receivable after one year includes £623,371 (1996 - £310,040) in respect of the Group pension scheme.

## 11 Creditors

	£	<u>1996</u> £
Trade creditors	140,153	370,081
Amounts owed to group companies	858,704	1,203,986
Current account with parent	2,756,909	-
Indirect and payroll taxes	51,283	43,276
Accruals	1,031,415	535,883
Short term obligations under finance leases (see note 13)	13,495	13,496
	<hr/> 4,851,959	<hr/> 2,166,722

## 12 Taxation payable

	£	<u>1996</u> £
Corporation tax payable	<hr/> 36,758	<hr/> 88,530

Notes on the accounts 31st December 1997 - (continued)**13 Obligations under finance leases**

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

	£	<u>1996</u> £
Amounts falling due:		
Within one year	13,495	13,496
Within two to five years	-	13,495
	<u>13,495</u>	<u>26,991</u>
<u>Less:</u> Short term obligations included in creditors (see note 11)	(13,495)	(13,496)
	<u>-</u>	<u>13,495</u>

**14 Account with GKN (United Kingdom) plc**

The account with GKN (United Kingdom) plc represents, together with the equity interest, the GKN Group interest in the Company excluding normal intra-group trading balances with fellow subsidiaries. This account represents funding of a permanent nature and is interest free and without any repayment terms. The interest bearing element of the balance with the parent company is shown within creditors: "Current account with parent".

**15 Provisions for liabilities and charges**

No provision has been made for deferred taxation as at 31st December 1997 (1996 - £nil). The full potential liability is calculated at 31% (1996 - 33%) and is set out below:

	£	<u>1996</u> £
Fixed asset and other timing differences	<u>185,168</u>	<u>152,251</u>

**16 Share capital**

	<u>Authorised</u> £	<u>1997 and 1996</u> Issued, called up and fully paid £
Ordinary shares of £1 each	<u>9,000,000</u>	<u>9,000,000</u>

Notes on the accounts 31st December 1997 - (continued)

## 17 Reserves

Share  
premium  
£

At 1st January 1997 and 31st December 1997

10,120,678

## 18 Reconciliation of movements on shareholders' funds

£ 1996  
£

At 1st January 1997

19,120,678

19,120,678

Total recognised gains and losses for the year  
Dividend9,121,853  
(9,121,853)8,040,048  
(8,040,048)

At 31st December 1997

19,120,678

19,120,678

## 19 Capital expenditure

There was no capital expenditure contracted but not provided for at 31st December 1997 (1996: £Nil).

## 20 Operating leases

The minimum payments to which the Company is committed in 1998 under operating leases are as follows:

	Land and buildings £	Other £	1996 Land and buildings £	Other £
Commitment expiring within one year	-	-	-	-
Commitment expiring within two to five years	-	31,181	-	-
Commitment expiring after five years	-	-	-	-
	-	31,181	-	-

**Notes on the accounts 31st December 1997 - (continued)**

**21 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.

**22 Ultimate and immediate parent companies**

GKN plc and GKN (United Kingdom) plc, 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.