

34104

GKN AUTOMOTIVE LIMITED**Directors' Report**

Directors: Dr P Johnson
Mr P Oberparleiter
Mr N M Stein



A26 19/12/2009 170
COMPANIES HOUSE

1

- 1 The Directors present their report together with the audited accounts of the Company for the year ended 31 December 2008.

2 **Statement of Directors' responsibilities**

At the end of each financial year the Directors are required by UK Company Law 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 31 December 2008, 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 required to prepare the accounts on a going concern basis, unless it is inappropriate to presume that the Company will continue in business.

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 UK Company Law. 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 and Business Review**

Principal Activities

GKN Automotive Limited is an intermediate holding company with subsidiaries that manufacture or distribute transmission equipment for the automotive industry, or provide management services to other GKN companies. The Company carries out various management functions for companies within the Automotive portfolio of GKN plc. We envisage GKN Automotive Limited to continue in its current trading.

Turnover consists of payments received from Licensees for Technical Know-how.

Business Review

During the year the Company increased its investment in GKN Driveline JTEKT Manufacturing Limited (formerly known as GKN Driveline TOYODA Manufacturing Limited) by £704,371.

The profit and loss account of the Company shows a loss for the year of £20,144,000 (2007: £26,291,000).

The Company continues to receive the ongoing support of GKN plc.

Principal Risks and Uncertainties

The Company's risk management process includes an assessment of the likelihood and potential impact of a range of events to determine the overall risk level and to identify actions necessary to mitigate their impact. The following risks have been identified as ones which could have a material impact on the future financial performance of the Company and cause results to differ materially from expected and historical results. Additional risks not currently known or which are regarded as immaterial could also affect future performance.

Report of the Directors – (continued)**3 Principal Activities and Business Review (continued)****Financial risk management**

The Company's operations expose it to a variety of financial risks including the effects of credit risk. As a subsidiary of GKN plc all the Company's funding is provided through a fellow subsidiary via a current account. The overarching Group policies in relation to external risks, including interest rate risk, foreign exchange risk and liquidity risk all of which are managed centrally by the GKN plc Group Treasury function, are set out in the annual report of GKN plc. The Company does not use derivative financial instruments to manage interest rate costs.

Where the Company enters into transactions with inherent external counter-party risk, exposures are assessed in line with GKN plc policies and guidance.

Market and customer related risk

The Company supplies primarily to the automotive industry which is affected by macro-economic conditions and consumer demand and preferences. At the present time the automotive market is heavily impacted by the effects of the global economic downturn.

The Company mitigates these risks by reacting to reduce its cost base when demand for its products deteriorates. The Company monitors its credit exposures and additional emphasis is placed on this in the current climate.

Manufacturing risk

The nature of our products means that the Company faces an inherent risk of product liability claims if failure results in any claim for injury or consequential loss. However, customers require high levels of quality assurance and the Company has manufacturing systems in place to ensure a world class quality record.

Financial key performance indicators

The Company's performance is monitored against a number of key performance indicators (KPIs)

The key KPIs relate to growth in sales and trading margins.

The aim is to achieve growth in sales in excess of that seen in our markets both in absolute terms and on a like-for-like basis, that is excluding the effects of currency translation, acquisitions or divestments. In 2008 sales declined by 35% to £1,013,000 due to reduced revenue from Japan.

4 Payments to Suppliers

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 and contracts, 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 31 December 2008, the amount owed to trade creditors by the Company was equivalent to 37 days' (2007: 37 days') purchases from suppliers during the year.

5 Directors

The Directors of the Company during the year were as follows:

Dr P Johnson
Mr A W Curral
Mr A Connelly
Mr A R Moss

Report of the Directors – (continued)**5 Directors (continued)**

Mr A R Moss and Mr A Connelly resigned as Directors of the Company, on 1 June 2009 and 7 July 2009 respectively. Mr A W Curral resigned as a Director of the Company on the 7 October. 2009. The Directors wish to record their appreciation of their services to the Company.

Mr N M Stein was appointed as a Director of the Company on 7 July 2009 and Mr P Oberparleiter was appointed as a Director of the Company on 7 October 2009.

6 Charitable Donations

During the year the Company contributed £103 (2007: £500) for charitable purposes.

7 Employees

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect 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 employees is promoted through a variety of means including in-house newsletters, briefing meetings and the GKN intranet which provides access to Group information, news, policies and procedures.

8 Disabled Persons

The Company's policy in relation to the employment of disabled persons is as follows:

- Full consideration is given to job applications received from disabled persons. Candidates are selected and appointed on the basis of their ability to perform the duties of the job. Where appropriate, special training is given to facilitate engagement of the disabled and modifications to the job will be considered.
- Where an employee becomes disabled whilst employed by the Company, arrangements will be made wherever possible for re-training in order to perform a different job. Consideration for modifying jobs will be given.

9 Auditors and Disclosure of Information to Auditors

A resolution of the shareholders has been passed to dispense with the appointment of auditors annually and PricewaterhouseCoopers LLP will continue in office as auditors of the Company.

In the case of each of the persons who are Directors of the Company at the date when this report was approved:

- so far as each of the Directors is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- each of the Directors has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

On behalf of the Board



Company Secretary
4th December 2009

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
GKN AUTOMOTIVE LIMITED

4

We have audited the financial statements of GKN Automotive Limited for the year ended 31 December 2008 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 judgments 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2008 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
Birmingham
11th December 2009

GKN AUTOMOTIVE LIMITED

5

Profit and loss account for the year ended 31 December 2008

| | Note | 2008 £'000s | 2007 £'000s |
|--|------|----------------|----------------|
| TURNOVER | 1 | 1,013 | 1,552 |
| OPERATING LOSS | 2 | (9,471) | (9,456) |
| Exceptional item – Net loss on group transfer of investments | 3 | - | (8,147) |
| Exceptional item – Amounts written off investments | 3 | (11,327) | (10,582) |
| Other finance losses | 4 | (1,391) | (2,468) |
| LOSS ON ORDINARY ACTIVITIES BEFORE INTEREST | | (22,189) | (30,653) |
| Net interest receivable and similar income | 5 | 137 | 1,550 |
| LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION | | (22,052) | (29,103) |
| Taxation | 6 | 1,908 | 2,812 |
| LOSS FOR THE FINANCIAL YEAR | 18 | (20,144) | (26,291) |

The above results have arisen from continuing activities in the year.

There is no material difference between the loss on ordinary activities before taxation and the loss for the years stated above and their historical cost equivalents.

Statement of total recognised gains and losses for the year ended 31 December 2008

| | 2008 £'000s | 2007 £'000s |
|--|----------------|----------------|
| Loss for the year | (20,144) | (26,291) |
| Currency translation differences on foreign currency investments | - | (1,194) |
| Currency translation differences on foreign currency borrowings | - | 1,194 |
| TOTAL RECOGNISED LOSSES FOR THE YEAR | (20,144) | (26,291) |

GKN AUTOMOTIVE LIMITED

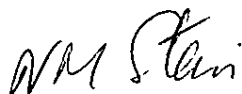
6

Balance sheet at 31 December 2008

| | Note | 2008 £'000s | 2007 £'000s |
|---|------|----------------------|----------------------|
| FIXED ASSETS | | | |
| Intangible assets | 10 | 1,803 | 2,091 |
| Tangible assets | 11 | 242 | 375 |
| Investments | 12 | 25,042 | 35,665 |
| | | <u>27,087</u> | <u>38,131</u> |
| CURRENT ASSETS | | | |
| Debtors: Amounts falling due within one year | 13 | 18,228 | 26,058 |
| Creditors: Amounts falling due within one year | 14 | (5,299) | (7,278) |
| NET CURRENT ASSETS | | <u>12,929</u> | <u>18,780</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>40,016</u> | <u>56,911</u> |
| Creditors: Amounts falling due after more than one year | 15 | (6,449) | (3,431) |
| NET ASSETS | | <u><u>33,567</u></u> | <u><u>53,480</u></u> |
| Called up share capital | 16 | 20,500 | 20,500 |
| Share premium account | 17 | 183,621 | 183,621 |
| Profit and loss account | 17 | (170,554) | (150,641) |
| TOTAL SHAREHOLDERS' FUNDS | 18 | <u><u>33,567</u></u> | <u><u>53,480</u></u> |

The notes on pages 7 to 22 form part of the financial statements.

Signed on behalf of the Board



Director
4th December 2009

Notes on the accounts for the year ended 31 December 2008**Accounting policies for the year ended 31 December 2008**

As the Company is a wholly owned subsidiary of GKN plc, it is exempt under the terms of Financial Reporting Standard No 1 (Revised 1996) 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 on the going concern basis under the historical cost convention in accordance with the Companies Act 1985 and applicable accounting standards in the United Kingdom. The Directors have conducted a review of the Company's accounting policies and have confirmed that they are the most appropriate for the purposes of giving a true and fair view of the Company's results and that there have been no changes from last year. New accounting standards issued by Accounting Standards Boards and effective from 1 January 2007 are not applicable and have had no impact on the accounts of the Company.

The Company continues to receive the ongoing support of GKN plc.

2 Turnover

Turnover shown in the profit and loss account excludes value added taxes and represents royalty income charged to other group companies.

3 Reorganisation and redundancy costs

- (a) 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.
- (b) Operating lease rentals are charged to the profit and loss account as incurred over the lease term.

4 Tangible fixed assets**Cost**

Tangible fixed assets are valued at cost or valuation less accumulated depreciation. Cost comprises the purchase price plus costs directly incurred in bringing the asset into use but excludes interest.

Depreciation

Depreciation is provided on a straight line basis over the course of the financial year so as to reduce tangible fixed assets to their residual values over their estimated useful lives.

The range of main rates of depreciation used are:

| | <u>Years</u> |
|---------------------------------|--------------|
| Computer equipment and software | 3 |
| Fixtures and fittings | 3 |
| Motor vehicles | 4 |

5 Fixed asset investments

Investments in subsidiary companies, joint ventures, associated companies and other investments are accounted for at historic cost less provision for any impairment in value. Where investments are denominated in foreign currencies, their historical cost is translated at the rate ruling at the balance sheet date. Where foreign currency investments are funded by loans in the same currency, the impact of currency variations on both the investment and the loan are taken directly to reserves.

Notes on the accounts for the year ended 31 December 2008 – (continued)**Accounting policies for the year ended 31 December 2008 - (continued)**

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

- (a) holds an interest on a long term basis; and
- (b) exercises joint control with one or more other venturers under a contractual agreement.

6 Taxation

Provision is made for deferred tax in so far as a liability or asset arises as a result of transactions that have occurred by the balance sheet date and give rise to an obligation to pay more tax in the future, or a right to pay less tax in the future. A deferred tax asset is only recognised to the extent that it may be considered recoverable. Deferred tax assets and liabilities recognised are not discounted.

7 Research and development

Expenditure on research and development is charged to the profit and loss account in the year in which it is incurred with the exception on the development of certain major projects where the outcome of those projects is assessed as being reasonably certain as regards viability and technical feasibility. Such expenditure is capitalised and amortised over a period not longer than 7 years commencing in the year sales of the product are first made.

8 Pension costs

The company is a participant of the GKN Group Pension Scheme. This scheme provides defined pension benefits to employees of the company and other participating companies within the GKN Group. This scheme is accounted for as defined benefit pension arrangement in accordance with International Accounting Standard 19 "Employee Benefits" in the consolidated accounts of GKN plc, wherein, the balance sheet position and finance costs are not allocated in segmental disclosures. The company accounts for this pension arrangement as a defined contribution scheme in accordance with Financial Reporting Standard 17 "Retirement Benefits" as it is not possible for the company to identify its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis. The assets of the scheme are managed collectively, without reference to participating companies. The liabilities of the scheme include a significant element relating to employees of participating companies which are no longer part of the Group or relate to operations which have been discontinued for many years. Similarly, there is no contractual agreement or stated policy for charging any costs except for the cash based equivalent service cost which forms the defined contribution charge in these accounts.

Contributions payable under money-purchase schemes are charged to profit and loss account as they fall due.

9 Share-based payments

As a subsidiary of GKN plc, share-based incentive arrangements are provided to employees under the Group's share option incentive and other share award schemes. Share options granted to employees and share-based arrangements put in place since 7 November 2002 are valued at the date of grant or award using an appropriate option pricing model and are charged to operating profit over the performance or vesting of the scheme. The annual charge is modified to take account of shares forfeited by employees who leave during the performance or vesting period and, in the case of non-market related performance conditions, where it becomes unlikely the option will vest.

10 Foreign currencies

Where practicable, transactions involving foreign currencies are protected by forward contracts. Assets and liabilities in foreign currencies are translated 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.

Notes on the accounts for the year ended 31 December 2008 – (continued)**1 Turnover**

Geographical analysis by ultimate destination:

| | 2008 | 2007 |
|--------------|--------|--------|
| | £'000s | £'000s |
| Australia | 192 | 205 |
| Japan | - | 296 |
| South Africa | 149 | 147 |
| Taiwan | 66 | 69 |
| Thailand | 606 | 835 |
| | <hr/> | <hr/> |
| | 1,013 | 1,552 |

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

2 Operating loss

Operating loss is after (charging)/crediting:

| | 2008 | 2007 |
|--|----------|----------|
| | £'000s | £'000s |
| Wages and salaries | (10,463) | (10,350) |
| Social security costs | (1,178) | (1,137) |
| Other pension costs | (1,041) | (1,317) |
| Share based payments | (231) | (586) |
| Redundancy | 80 | (1,283) |
| Depreciation on owned assets | (237) | (1,006) |
| Amortisation charge on intangible assets | (288) | - |
| Auditors' remuneration: | | |
| for audit | (2) | (2) |
| for non-audit – other services | (68) | (10) |
| Other operating income | 2,944 | 4,683 |
| | <hr/> | <hr/> |
| | (10,484) | (11,008) |

GKN AUTOMOTIVE LIMITED

10

Notes on the accounts for the year ended 31 December 2008 - (continued)**3 Exceptional items**

| | 2008 | 2007 |
|---|---------------|---------------|
| | £'000s | £'000s |
| Loss on group transfer of investments (see note 12) | - | (9,446) |
| Gain on group transfer of investment (see note 12) | - | 1,299 |
| | <hr/> | <hr/> |
| Net loss on group transfer of investments | - | (8,147) |
| Amounts written off investments (see note 12) | (11,327) | (10,582) |
| | <hr/> | <hr/> |
| | (11,327) | (18,729) |
| | <hr/> | <hr/> |

4 Other finance losses

| | 2008 | 2007 |
|---|---------------|---------------|
| | £'000s | £'000s |
| Currency translation differences on foreign currency borrowings | (1,391) | (2,468) |
| | <hr/> | <hr/> |

5 Net interest receivable and similar income

| | 2008 | 2007 |
|-------------------------------------|---------------|---------------|
| | £'000s | £'000s |
| Interest receivable on group loans | 139 | 1,557 |
| Preference share appropriations | (2) | (2) |
| Preference share redemption premium | - | (5) |
| | <hr/> | <hr/> |
| | 137 | 1,550 |
| | <hr/> | <hr/> |

Notes on the accounts for the year ended 31 December 2008 - (continued)**6 Taxation**

Tax charge on loss on ordinary activities

| | 2008 £'000s | 2007 £'000s |
|---|----------------|----------------|
| United Kingdom taxation: | | |
| Corporation tax at 28.5% (2007: 30%) | (2,918) | (3,030) |
| Adjustment to taxation of earlier years | 1,010 | 218 |
| | <u>(1,908)</u> | <u>(2,812)</u> |
| Double taxation relief | (705) | (2,062) |
| Overseas taxation | 705 | 2,062 |
| | <u>(1,908)</u> | <u>(2,812)</u> |
| Tax credit on loss on ordinary activities | | |

The tax assessed for the year is different from the standard rate of corporation tax in the UK (28.5%). The differences are explained below:

| | 2008 £'000s | 2007 £'000s |
|---|-----------------|-----------------|
| Loss on ordinary activities before taxation | <u>(22,052)</u> | <u>(29,103)</u> |
| Tax credit calculated at standard UK tax rate 28.5% (2007: 30%) | (6,285) | (8,731) |
| Non deductible and non taxable items | 3,296 | 5,804 |
| Fixed asset timing differences | 71 | 302 |
| Other timing differences | - | (405) |
| Items relating to non-UK source income | 705 | 2,062 |
| Double taxation relief | (705) | (2,062) |
| Adjustment to taxation of earlier years | 1,010 | 218 |
| | <u>(1,908)</u> | <u>(2,812)</u> |
| Current tax credit for year | | |

A reduction in the statutory rate of corporation taxation from 30% to 28% took place on 1 April 2008. The 28.5% rate used in the proof of tax above represents an average statutory rate for the year.

Taxation recoverable

| | 2008 £'000s | 2007 £'000s |
|--|----------------|----------------|
| UK Corporation tax recoverable by group relief | <u>3,623</u> | <u>5,092</u> |

Notes on the accounts for the year ended 31 December 2008 - (continued)**6 Taxation - (continued)**

Deferred taxation

The deferred tax balance comprises:

| | 2008 £'000s | 2007 £'000s |
|------------------------------------|----------------|----------------|
| Fixed asset timing differences | (2118) | (1,991) |
| Other temporary differences | (248) | (9) |
| Tax losses | - | (49) |
| Deferred tax assets not recognised | 2,366 | 2,049 |
| Deferred tax provision | - | - |

A deferred tax asset of £2,366,000 (2007: £2,049,000) has not been recognised on the basis that the future recovery of such amounts is uncertain.

7 Employee Information

The average monthly number of persons employed during the year was:

| | 2008 Number | 2007 Number |
|-------|----------------|----------------|
| Staff | 110 | 111 |

Notes on the accounts for the year ended 31 December 2008 - (continued)**8 Share-based payments**

The Group has granted options over shares to employees for a number of years under different schemes. Where grants were made after 7 November 2002 they have been accounted for as required by FRS 20 "Share Based Payments". As permitted by the transitional arrangements of that standard, awards made before that date have not been so accounted. All options have been valued at the date of grant by an independent third party using a Monte Carlo model which uses the same principle as a binomial model.

Details of awards made since 7 November 2002 for which a charge has been recognised in the year are:

a) Executive Share Option Scheme (ESOS)

Awards were made to certain senior employees in September 2004, April 2005 and April 2006. Options were granted with a fixed exercise price equal to the market price at the date of grant and subject to meeting performance conditions over a three year period. The condition is based on Total Shareholder Return (TSR) compared with that of comparator companies. Inputs to the valuation model were: option price 219p-334.05p, volatility 32%-38%, expected dividend yield 3.7%-6.2%, risk free interest rate 4.28%-4.92% and expected terms of 6.4 years to 6.7 years.

b) Long Term Incentive Plans (LTIP)

Awards were made to certain senior employees in September 2004 and April 2006 under the 2004 scheme. Under the scheme, options were granted subject to TSR performance over a three year period compared with a comparator group. There is no retest facility under the scheme. Inputs to the valuation model were: option price £nil, volatility 23%-35%, expected dividend yield 3.7%-5.35%, risk free interest rate 4.48%- 4.92% and a term of 3 years to 4 years 9.5 months.

c) Bonus Co-investment Plan

Under the Bonus Co-Investment Plan, certain senior employees were entitled to use up to 10% of their gross short-term annual bonus potential to purchase shares in GKN plc at market price. Provided they remained in employment for three years and the shares were retained for that period the company matched those shares. For shares purchased by employees in 2004 the match was on a two for one basis and in 2005 was two and a half for one. In addition, in 2005 there was a further one for one match if certain profit targets were achieved. All shares under the scheme were purchased in the open market. Inputs to the valuation model were: option price £nil, volatility where applicable, 37%, expected dividend yield 4.9%-5.4%, risk free interest rate where applicable 4.94% and a term of 3 years.

The expected volatility is based on historical volatility over a period commensurate with the term of the awards. The risk free interest rate is the rate obtainable from government securities over the expected life of the equity incentive.

Notes on the accounts for the year ended 31 December 2008 - (continued)**8 Share-based payments - (continued)**

Shares granted under each award were:

| Scheme | Date of grant | Number of instruments | Contractual life of option (years) |
|--------------------------|---------------|-----------------------|------------------------------------|
| Executive Options | 16/09/2004 | 321,949 | 10 |
| | 05/04/2005 | 228,657 | 10 |
| | 11/04/2006 | 192,296 | 10 |
| Long Term Incentive Plan | 16/09/2004 | 201,761 | 10 |
| | 11/04/2006 | 230,343 | 10 |
| Bonus Co-Investment Plan | 10/08/2004 | 84,728 | 3 |
| | 21/04/2005 | 113,117 | 3 |

A reconciliation of option movements over the year to 31 December 2008, in respect of options for which a charge has been recognised in current and prior years, is shown below.

| | 2008 | | 2007 | |
|----------------------------|-----------|-------------------------------------|-----------|-------------------------------------|
| | Number | Weighted average exercise price (p) | Number | Weighted average exercise price (p) |
| Outstanding at 1 January | 420,953 | 289.61 | 755,788 | 258.88 |
| Granted | - | - | - | - |
| Forfeited | (228,657) | 253.50 | (324,525) | 219.05 |
| Exercised | - | - | (10,310) | 229.00 |
| Expired | - | - | - | - |
| Outstanding at 31 December | 192,296 | 334.05 | 420,953 | 289.61 |
| Exercisable at 31 December | - | - | - | - |

Notes on the accounts for the year ended 31 December 2008 - (continued)**8 Share-based payments - (continued)**

For options outstanding at 31 December the range of exercise prices and weighted average contractual life is shown in the following table:

| | 2008 | | 2007 | |
|-------------------------|---------|---|---------|---|
| | Number | Contractual Weighted Average remaining life (Yrs) | Number | Contractual Weighted Average remaining life (Yrs) |
| Range of Exercise Price | | | | |
| 215p - 230p | - | - | - | - |
| 240p - 260p | - | - | 228,657 | 7.25 |
| 300p - 335p | 192,296 | 7.25 | 192,296 | 8.25 |

No options were exercised during the year. The weighted average share price for options exercised in 2007 was 356.2p. The total charge for the year relating to employee share-based payment plans was £231,000 (2007: £586,000), all of which related to equity-settled share based payment transactions. After deferred tax the total charge was £231,000 (2007: £586,000).

Liabilities in respect of share-based payments were not material at either 31 December 2008 or 31 December 2007. There were no vested rights to cash or other assets at either 31 December 2008 or 31 December 2007.

9 Directors' emoluments

The emoluments of Directors wholly in respect of executive services amounted to £Nil (2007: £Nil).

Notes on the accounts for the year ended 31 December 2008 - (continued)
10 Intangible Assets

| | Development expenditure £'000s |
|---|--------------------------------------|
| Cost | |
| At 1 January 2008 | 2,091 |
| At 31 December 2008 | 2,091 |
| Accumulated Amortisation | |
| At 1 January 2008 | - |
| Charge for the year | 288 |
| At 31 December 2008 | 288 |
| Net book value at 31 December 2008 | 1,803 |
| Net book value at 31 December 2007 | 2,091 |

Development expenditure relates to Electronic Torque Vectoring ("ETV") development costs, a major new Torque Technology product. These costs are being amortised over 7 years, being the estimated useful economic life of the product.

11 Tangible assets

| | Computer equipment and software £'000s | Fixtures and fittings £'000s | Motor vehicles £'000s | Total £'000s |
|---|--|---------------------------------------|-----------------------------|-----------------|
| Cost | | | | |
| At 1 January 2008 | 8,982 | 1,270 | 147 | 10,399 |
| Additions | 292 | - | 16 | 308 |
| Disposals | - | - | (33) | (33) |
| Transfers to Group Companies | (200) | - | - | (200) |
| At 31 December 2008 | 9,074 | 1,270 | 130 | 10,474 |
| Accumulated depreciation | | | | |
| At 1 January 2008 | 8,662 | 1,270 | 92 | 10,024 |
| Charge for the year | 216 | - | 21 | 237 |
| Disposals | - | - | (29) | (29) |
| At 31 December 2008 | 8,878 | 1,270 | 84 | 10,232 |
| Net book value at 31 December 2008 | | | | |
| Owned assets | 196 | - | 46 | 242 |
| Net book value at 31 December 2007 | | | | |
| Owned assets | 320 | - | 55 | 375 |

Notes on the accounts for the year ended 31 December 2008 - (continued)**12 Investments**

| | Shares in group companies £'000s | Shares in joint ventures £'000s | Total £'000s |
|---|---|--|-----------------|
| Cost or valuation | | | |
| At 1 January 2008 | 101,455 | 190 | 101,645 |
| Additions | 704 | - | 704 |
| At 31 December 2008 | 102,159 | 190 | 102,349 |
| Amounts written off investments | | | |
| At 1 January 2008 | 65,980 | - | 65,980 |
| Impairment | 11,327 | - | 11,327 |
| At 31 December 2008 | 77,307 | - | 77,307 |
| Net book value at 31 December 2008 | 24,852 | 190 | 25,042 |
| Net book value at 31 December 2007 | 35,475 | 190 | 35,665 |

The directors have reviewed the carrying value of the fixed asset investments of the Company and impaired them down to their net realisable value. In the opinion of the Directors, the aggregate value of the Company's investments in subsidiary, joint ventures and associated 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 for the year ended 31 December 2008 - (continued)**12 Investments - (continued)**

Interests are as follows:

| Name of company | Country of registration or incorporation | Principal activity | Description of shares held | Proportion of nominal value of shares held by: |
|---|--|---|----------------------------|--|
| | | | | The Company |
| GKN Driveline Birmingham Limited | England | <i>Automotive components manufacturer</i> | £1 ordinary shares | 100% |
| GKN Driveline Service Limited | England | <i>Automotive components manufacturer</i> | £1 ordinary shares | 100% |
| GKN Birfield Extrusions Limited | England | <i>Dormant company</i> | £1 ordinary shares | 100% |
| GKN Driveline Korea Limited | South Korea | <i>Automotive components manufacturer</i> | Ordinary shares | 100% |
| GKN Driveline JTEKT Manufacturing Limited (Formerly known as GKN Driveline TOYODA Manufacturing Limited) | Thailand | <i>Automotive components manufacturer</i> | Ordinary shares | 42.083% |
| GKN JTEKT (Thailand) Limited (Formerly known as GKN TOYODA (Thailand) Limited) | Thailand | <i>Automotive trading company</i> | Ordinary shares | 49% |
| GKN Driveline Singapore Pte Limited | Singapore | <i>Automotive regional headquarters</i> | Ordinary shares | 100% |
| GKN Driveline (Thailand) Limited | Thailand | <i>Automotive components manufacturer</i> | Ordinary shares | 0.0003% |
| GKN Francaise d'Achats SA | France | <i>Purchasing Company</i> | Ordinary shares | 0.01% |

Consolidated accounts are not required as the company is a wholly owned subsidiary of GKN plc.

Notes on the accounts for the year ended 31 December 2008 - (continued)**13 Debtors: Amounts falling due within one year**

| | 2008 | 2007 |
|--|---------------|---------------|
| | £'000s | £'000s |
| Due within one year: | | |
| Trade debtors | 519 | 478 |
| Amounts owed by group companies | 8,031 | 1,809 |
| Current account with parent | 5,744 | 18,588 |
| Other debtors | 17 | 91 |
| Prepayments and accrued income | 294 | - |
| UK Corporation tax recoverable by group relief | 3,623 | 5,092 |
| | 18,228 | 26,058 |

14 Creditors: Amounts falling due within one year

| | 2008 | 2007 |
|---------------------------------|---------------|---------------|
| | £'000s | £'000s |
| Due within one year: | | |
| Trade creditors | 165 | 72 |
| Amounts owed to group companies | 2,179 | 2,133 |
| Accruals | 2,955 | 5,073 |
| | 5,299 | 7,278 |

Notes on the accounts for the year ended 31 December 2008 - (continued)**15 Creditors: Amounts falling due after more than one year**

| | <u>2008</u> £'000s | <u>2007</u> £'000s |
|--|-----------------------|-----------------------|
| Due after one year: | | |
| Amounts owed to group companies | 6,360 | 3,344 |
| Preference shares – capital redemption | 75 | 73 |
| Preference shares - appropriations | 14 | 14 |
| | <hr/> 6,449 | <hr/> 3,431 |

| | <u>2008</u> £'000s | <u>2007</u> £'000s |
|---|-----------------------|-----------------------|
| Authorised: Cumulative redeemable preference shares of £1 | 62,000 | 62,000 |
| Issued, called up and fully paid: Cumulative redeemable preference shares of £1 | <hr/> 50 | <hr/> 50 |

Amounts owed to group companies are non-interest bearing and mature in more than 5 years. No security has been pledged.

The cumulative, redeemable preference shares, which do not carry any voting rights, were issued at par for cash consideration. Shareholders are entitled to receive dividends, based upon the redemption yield on the 2.5% Indexed Linked Gilt 2016 and increased each year in line with the movement in the Retail Price Index. The dividends are currently accrued from the period 31 December 2001 and have not been paid due to the lack of distributable reserves.

The preference shareholders have priority over other shareholders on winding up. The Company shall redeem the preference shares on 29 November 2015 at par together with a premium of £0.50 increased by the percentage increase in the Retail Price Index between the date of issue and the date of redemption.

Notes on the accounts for the year ended 31 December 2008 - (continued)**16 Share capital**

| | 2008 | 2007 |
|--|---------------|---------------|
| | £'000s | £'000s |
| Authorised: Ordinary shares of £1 each | 20,500 | 20,500 |
| Issued, called up and fully paid: Ordinary shares of £1 each | 20,500 | 20,500 |

17 Reserves

| | Share premium | Profit and loss account | Total |
|--|--------------------------|--|---------------|
| | £'000s | £'000s | £'000s |
| At 1 January 2008 | 183,621 | (150,641) | 32,980 |
| Transfer from profit and loss account | - | (20,144) | (20,144) |
| Share-based payments | - | 231 | 231 |
| At 31 December 2008 | 183,621 | (170,554) | 13,067 |

Notes on the accounts for the year ended 31 December 2008 - (continued)**18 Reconciliation of movements on shareholders' funds**

| | 2008 £'000s | 2007 £'000s |
|--------------------------------------|----------------|----------------|
| Equity Interest | | |
| At 1 January | 53,480 | 79,185 |
| Total recognised losses for the year | (20,144) | (26,291) |
| Share-based payment | 231 | 586 |
| At 31 December | 33,567 | 53,480 |

19 Capital expenditure

There was no capital expenditure contracted but not provided for at 31 December 2008(2007:Nil).

20 Pensions

The Company participates in the externally funded defined benefit group pension arrangements of GKN plc. It has not been possible to separately identify the Company's share of the underlying assets and liabilities within the group pension schemes, therefore 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 disclosure of the liability arising under the group pension schemes is contained in the group accounts of GKN plc which is calculated in accordance with the International Accounting Standard 19 "Employee Benefits".

21 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 other related parties during the year.

22 Ultimate and immediate parent companies

GKN plc and GKN (United Kingdom) plc, are the ultimate and immediate parent companies respectively. Copies of their accounts may be obtained from PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL.

GKN AUTOMOTIVE LIMITED

Registered Number: 34104

ANNUAL ACCOUNTS

31 DECEMBER 2008