**GKN AUTOMOTIVE LIMITED**

**Registered Number: 34104**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**31 DECEMBER 2009**

# GKN AUTOMOTIVE LIMITED


**Company no. 34104**

## Directors' Report

Directors P Oberparleiter
N M Stein
A R Moss

1 The Directors present their report together with the audited accounts of the Company for the year ended 31 December 2009

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 2009, 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 for the foreseeable future

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

**Business Review**

During the year the Company increased its investment in GKN Driveshafts Korea by £4,543,134

A recapitalisation was approved on 4 December 2009, whereby GKN (United Kingdom) plc subscribed for an additional £25,000,000 of new shares in the Company

Also on 4 December 2009 the Company increased its investment in GKN Driveline Birmingham Limited ("Driveline") by subscribing for £15,000,000 of new shares

The profit and loss account of the Company shows a loss for the year of £20,840,000 (2008 £20,144,000)

The Company continues to receive the ongoing support of GKN plc, its ultimate parent

**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

Directors' Report – (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 provides services primarily to the automotive industry which is affected by macro-economic conditions and consumer demand and preferences At the present time the automotive market continues to be impacted by the effects of the global economic downturn

**Financial key performance indicators**

The principle KPIs relate to monitoring costs against budget and providing value management services to other GKN companies

In 2009 licence fee income received declined by 9% to £918,000

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 2009, the amount owed to trade creditors by the Company was equivalent to 37 days' (2008 37 days') purchases from suppliers during the year

5 **Directors**

A R Moss and A Connelly resigned as Directors of the Company, on 1 June 2009 and 7 July 2009 respectively
A W Curral resigned as a Director of the Company on 7 October 2009
P Johnson resigned as a Director of the Company on 22 January 2010
G Walford was appointed as a Director of the Company on 26 May 2009 and resigned on 7 July 2009
The Directors wish to record the Company's appreciation of their services

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

A R Moss was reappointed as a Director of the Company on 27 January 2010

6 **Charitable Donations**

During the year the Company contributed £nil (2008 £103) for charitable purposes

Directors' Report – (continued)

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 **Independent 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

M Foxsee[illegible]

Company Secretary
5 August 2010

Michael Kirbrother

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

We have audited the financial statements of GKN Automotive Limited for the year ended 31 December 2009 which comprise the Profit and Loss Account, the Balance Sheet and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

**Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 1 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, 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

**Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements

**Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

**Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Jonathan Gilpin (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
5 August 2010

**Profit and loss account for the year ended 31 December 2009**

| | Note | 2009 £'000s | 2008 £'000s |
|---|---|---|---|
| TURNOVER | 1 | 918 | 1,013 |
| OPERATING LOSS | 2 | (15,214) | (9,471) |
| Exceptional item – Amounts written off investments | 3 | (10,760) | (11,327) |
| Other finance gains/(losses) | 4 | 518 | (1,391) |
| LOSS ON ORDINARY ACTIVITIES BEFORE INTEREST | | (25,456) | (22,189) |
| Net interest (payable) / receivable | 5 | (242) | 137 |
| LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION | | (25,698) | (22,052) |
| Taxation | 6 | 4,858 | 1,908 |
| LOSS FOR THE FINANCIAL YEAR | 18 | (20,840) | (20,144) |

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

The Company has no recognised gains and losses other than those included in the results above, and therefore no separate statement of total recognised gains and losses has been presented

# GKN AUTOMOTIVE LIMITED



**Company no. 34104**

**Balance sheet as at 31 December 2009**

| | Note | 2009 £'000s | 2008 £'000s |
|---|---|---|---|
| FIXED ASSETS | | | |
| Intangible assets | 10 | 1,515 | 1,803 |
| Tangible assets | 11 | 513 | 242 |
| Investments | 12 | 33,825 | 25,042 |
| | | 35,853 | 27,087 |
| CURRENT ASSETS | | | |
| Debtors Amounts falling due within one year | 13 | 15,062 | 18,228 |
| Creditors Amounts falling due within one year | 14 | (6,756) | (5,299) |
| NET CURRENT ASSETS | | 8,306 | 12,929 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 44,159 | 40,016 |
| Creditors Amounts falling due after more than one year | 15 | (6,332) | (6,449) |
| NET ASSETS | | 37,827 | 33,567 |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 16 | 45,500 | 20,500 |
| Share premium account | 17 | 183,621 | 183,621 |
| Profit and loss account | 17 | (191,294) | (170,554) |
| TOTAL SHAREHOLDERS' FUNDS | 18 | 37,827 | 33,567 |

The notes on pages 7 to 20 form part of the financial statements

Signed on behalf of the Board

P Oberparleitor
Director
5 August 2010

Notes to the financial statements for the year ended 31 December 2009

Accounting policies for the year ended 31 December 2009

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 2006 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 periods over which fixed assets are depreciated are | Years |
|---|---|
| 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 to the financial statements for the year ended 31 December 2009 – (continued)

Accounting policies for the year ended 31 December 2009 - (continued)

**Fixed asset investments (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 Monetary 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 to the financial statements for the year ended 31 December 2009 – (continued)**

## 1 Turnover

Geographical analysis by ultimate destination

| | 2009 | 2008 |
|---|---|---|
| | £'000s | £'000s |
| Australia | 125 | 192 |
| Japan | 298 | - |
| South Africa | - | 149 |
| Taiwan | 47 | 66 |
| Thailand | 448 | 606 |
| | 918 | 1,013 |

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

## 2 Operating loss

Operating loss is after charging/(crediting)

| | 2009 | 2008 |
|---|---|---|
| | £'000s | £'000s |
| Wages and salaries | 8,293 | 10,463 |
| Social security costs | 844 | 1,178 |
| Other pension costs | 612 | 1,041 |
| Share based payments | 100 | 231 |
| Redundancy costs | 2,119 | 0 |
| Depreciation on owned assets | 157 | 237 |
| Amortisation charge on intangible assets | 288 | 288 |
| Auditors' remuneration | | |
| for audit | 2 | 2 |
| for divisional reviews and CSA/GSA audit | 50 | 68 |
| Training and Personnel Development | 334 | 634 |
| Occupancy costs | 423 | 344 |
| Information Technology costs | 2,166 | 2,070 |
| Abortive Acquisition costs | 0 | 1,841 |
| Travel costs | 750 | 1,555 |
| Other operating costs | 230 | 2,306 |
| Other operating costs relating to Korea | 184 | 177 |
| Management recharges for expenses to other Group companies | (420) | (11,951) |
| | 16,132 | 10,484 |

<u>Notes to the financial statements for the year ended 31 December 2009 – (continued)</u>

## 3 Exceptional items

| | 2009 | 2008 |
|---|---|---|
| | £'000s | £'000s |
| Amounts written off investments (see note 12) | (10,760) | (11,327) |
| | (10,760) | (11,327) |

## 4 Other finance gains / (losses)

| | 2009 | 2008 |
|---|---|---|
| | £'000s | £'000s |
| Currency translation differences on foreign currency borrowings | 518 | (1,391) |

## 5 Net interest (payable)/ receivable

| | 2009 | 2008 |
|---|---|---|
| | £'000s | £'000s |
| Interest (payable)/ receivable on Group loans | (238) | 139 |
| Preference share appropriations | (1) | (2) |
| Preference share redemption premium | (3) | - |
| | (242) | 137 |

Notes to the financial statements for the year ended 31 December 2009 – (continued)

## 6 Taxation

**Tax charge/(credit) on loss on ordinary activities**

| | 2009 | 2008 |
|---|---|---|
| | £'000s | £'000s |
| United Kingdom taxation | | |
| Corporation tax at 28% (2008 28 5%) | (4,295) | (2,918) |
| Adjustment to taxation of earlier years | (563) | 1,010 |
| | (4,858) | (1,908) |
| Double taxation relief | (2,066) | (705) |
| Overseas taxation | 2,066 | 705 |
| Tax credit on loss on ordinary activities | (4,858) | (1,908) |

The tax assessed for the year is different from the standard rate of corporation tax in the UK (28%) The differences are explained below

| | 2009 | 2008 |
|---|---|---|
| | £'000s | £'000s |
| **Loss on ordinary activities before taxation** | (25,698) | (22,052) |
| Tax credit calculated at standard UK tax rate 28% (2008 – 28 5%) | (7,195) | (6,285) |
| Non deductible and non taxable items | 3,043 | 3,296 |
| Fixed asset timing differences | 37 | 71 |
| Items relating to non-UK source income | 2,066 | 705 |
| Other timing differences | (179) | - |
| Overseas taxation | (2,066) | (705) |
| Adjustment to taxation of earlier years | (563) | 1,010 |
| Current tax charge/(credit) for year | (4,858) | (1,908) |

A reduction in the statutory rate of corporation taxation from 30% to 28% took place on 1 April 2008

**Taxation recoverable**

| | 2009 | 2008 |
|---|---|---|
| | £'000s | £'000s |
| Taxation recoverable | 6,361 | 3,623 |

Notes to the financial statements for the year ended 31 December 2009 – (continued)

## 6 Taxation - (continued)

Deferred taxation

| | 2009 | 2008 |
|---|---|---|
| | £'000s | £'000s |
| **The deferred tax balance comprises:** | | |
| Fixed asset timing differences | (2,103) | (2,118) |
| Other temporary differences | (69) | (248) |
| De-recognition of deferred tax assets | 2,172 | 2,366 |
| | 0 | 0 |

A deferred tax asset of £2,172,000 (2008 £2,366,000) 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

| | 2009 | 2008 |
|---|---|---|
| | Number | Number |
| Staff | 89 | 110 |

Notes to the financial statements for the year ended 31 December 2009 – (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 in 2009 are set out below Details of awards made since 7 November 2002 that impact the 2009 accounting charge are

a) Executive Share Option Scheme (ESOS)

Awards were made to certain senior employees in September 2004, April 2005, April 2006 and August 2009 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 for prior period awards were option price 163p to 380 3p, volatility 31% to 38%, expected dividend yield 3 3% to 6 2%, risk free interest rate 4 28%-5 40% and expected terms of 6 4 years to 6 7 years

In respect of 2009 awards, which were made post the Group's rights issue, the inputs to the valuation model were option price 110 08p to 113 24p, volatility in the performance period 52 4% to 52 6%, expected dividend yield 4 5%, risk-free interest rates of 2 9% to 3 1% and terms of 6 to 6 5 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 for prior period awards were option price nil, volatility 23%-39%, expected dividend yield 3 3%-6 2%, risk free interest rate 4 05%- 5 40% and a term of 3 years to 4 years 9 5 months

A reconciliation of option movements over the year to 31 December 2009, in respect of options for which a charge has been recognised in current and prior years, is shown below

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | Number | Weighted average exercise price (p) | Number | Weighted average exercise price (p) |
| Outstanding at 1 January | 192,296 | 334 05 | 421,953 | 289 61 |
| Granted | 960,179 | 110 08 | - | - |
| Forfeited | (192,296) | 334 05 | (228,657) | 253 50 |
| Exercised | - | - | - | - |
| Expired | - | - | - | - |
| Outstanding at 31 December | 960,179 | 110 08 | 192,296 | 334 05 |
| Exercisable at 31 December | - | - | - | - |

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

| | 2009 | | 2008 | |
|---|---|---|---|---|
| Range of Exercise Price | Number | Contractual Weighted Average remaining life (Yrs) | Number | Contractual Weighted Average remaining life (Yrs) |
| 110p – 180p | 960,179 | 8 16 | - | - |
| 205p – 260p | - | - | - | - |
| 300p - 335p | - | - | 192,296 | 6 25 |

No options were exercised during the year (2008 nil) The total charge for the year relating to employee share-based payment plans was £100,343 (2008 £231,000), all of which related to equity-settled share based payment transactions After deferred tax the total charge was £100,343 (2008 £231,000)
Liabilities in respect of share-based payments were not material at either 31 December 2009 or 31 December 2008
There were no vested rights to cash or other assets at either 31 December 2009 or 31 December 2008

9 **Directors' emoluments**

The emoluments of Directors wholly in respect of executive services to the Company amounted to £Nil (2008 £Nil)

Notes to the financial statements for the year ended 31 December 2009 – (continued)

## 10 Intangible Assets

| | Development expenditure |
|---|---|
| | £'000s |
| **Cost** | |
| At 1 January 2009 | 2,091 |
| At 31 December 2009 | 2,091 |
| **Accumulated Amortisation** | |
| At 1 January 2009 | 288 |
| Charge for the year | 288 |
| At 31 December 2009 | 576 |
| **Net book value at 31 December 2009** | 1,515 |
| **Net book value at 31 December 2008** | 1,803 |

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 | Fixtures and fittings | Motor vehicles | Total |
|---|---|---|---|---|
| | £'000s | £'000s | £'000s | £'000s |
| **Cost** | | | | |
| At 1 January 2009 | 9,074 | 1,270 | 130 | 10,474 |
| Additions | 405 | - | - | 405 |
| Disposals | - | - | (27) | (27) |
| Transfers from Group Companies | - | - | 60 | 60 |
| At 31 December 2009 | 9,479 | 1,270 | 163 | 10,912 |
| **Accumulated depreciation** | | | | |
| At 1 January 2009 | 8,878 | 1,270 | 84 | 10,232 |
| Charge for the year | 133 | - | 24 | 157 |
| Disposals | - | - | (27) | (27) |
| Transfers from Group Companies | - | - | 37 | 37 |
| At 31 December 2009 | 9,011 | 1,270 | 118 | 10,399 |
| **Net book value at 31 December 2009** | | | | |
| Owned assets | 468 | - | 45 | 513 |
| **Net book value at 31 December 2008** | | | | |
| Owned assets | 196 | - | 46 | 242 |

Notes to the financial statements for the year ended 31 December 2009 – (continued)

12 **Investments**

| | Shares in group companies | Shares in joint ventures | Total |
|---|---|---|---|
| | £'000s | £'000s | £'000s |
| **Cost or valuation** | | | |
| At 1 January 2009 | 102,159 | 190 | 102,349 |
| Increase in investments | 19,543 | - | 19,543 |
| At 31 December 2009 | 121,702 | 190 | 121,892 |
| **Amounts written off investments** | | | |
| At 1 January 2009 | 77,307 | - | 77,307 |
| Impairment | 10,760 | - | 10,760 |
| At 31 December 2009 | 88,067 | - | 88,067 |
| **Net book value at 31 December 2009** | 33,635 | 190 | 33,825 |
| **Net book value at 31 December 2008** | 24,852 | 190 | 25,042 |

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

On 4 December 2009 the Company increased its investment in GKN Driveline Birmingham Limited by £15,000,000

On 23 October 2009 the Company increased its investment in GKN Driveline Korea Limited by £4,543,000

Notes to the financial statements for the year ended 31 December 2009 – (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 | *Automotive components manufacturer* | Ordinary shares | 100% |
| GKN Driveline Service Limited | England | *Automotive components manufacturer* | Ordinary shares | 100% |
| GKN Driveline Korea Limited | South Korea | *Automotive components manufacturer* | Ordinary shares | 100% |
| GKN Driveline JTEKT Manufacturing Limited | Thailand | *Automotive components manufacturer* | Ordinary shares | 42 083% |
| GKN JTEKT (Thailand) Limited | Thailand | *Automotive trading company* | Ordinary shares | 49% |
| GKN Driveline Singapore Pte Limited | Singapore | *Automotive regional headquarters* | Ordinary shares | 100% |
| GKN Driveline (Thailand) Limited | Thailand | *Automotive components manufacturer* | Ordinary shares | 0 0003% |
| GKN Francaise d'Achats SA | France | *Purchasing Company* | Ordinary shares | 0 01% |

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

Notes to the financial statements for the year ended 31 December 2009 – (continued)

13 **Debtors: Amounts falling due within one year**

| | 2009 | 2008 |
|---|---|---|
| | £'000s | £'000s |
| Trade debtors | 588 | 519 |
| Amounts owed by Group Companies | 894 | 8,031 |
| Current account with parent | 6,825 | 5,744 |
| Other debtors | 41 | 17 |
| Prepayments and accrued income | 353 | 294 |
| UK Corporation tax recoverable by group relief | 6,361 | 3,623 |
| | 15,062 | 18,228 |

14 **Creditors: Amounts falling due within one year**

| | 2009 | 2008 |
|---|---|---|
| | £'000s | £'000s |
| Trade creditors | 328 | 165 |
| Amounts owed to Group Companies | 2,937 | 2,179 |
| Accruals | 3,491 | 2,955 |
| | 6,756 | 5,299 |

15 **Creditors: Amounts falling due after more than one year**

| | 2009 | 2008 |
|---|---|---|
| | £'000s | £'000s |
| Due after one year | | |
| Amounts owed to Group Companies | 6,239 | 6,360 |
| Preference shares – capital redemption | 78 | 75 |
| Preference shares - appropriations | 15 | 14 |
| | 6,332 | 6,449 |

| | 2009 | 2008 |
|---|---|---|
| | £'000s | £'000s |
| Authorised Cumulative redeemable preference shares of £1 | 62,000 | 62,000 |
| Issued, called up and fully paid Cumulative redeemable preference shares of £1 | 50 | 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% Index 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 to the financial statements for the year ended 31 December 2009 – (continued)**

## 16 Share capital

| | 2009 £'000s | 2008 £'000s |
|---|---|---|
| Authorised Ordinary shares of £1 each | 45,500 | 20,500 |
| Issued, called up and fully paid Ordinary shares of £1 each | 45,500 | 20,500 |

A recapitalisation was approved on 4 December 2009, whereby GKN (United Kingdom) plc subscribed for an additional 25,000,000 of £1 ordinary shares These were issued at par with no associated transaction costs

## 17 Reserves

| | Share premium £'000s | Profit and loss account £'000s | Total £'000s |
|---|---|---|---|
| At 1 January 2009 | 183,621 | (170,554) | 13,067 |
| Transfer from profit and loss account | - | (20,840) | (20,840) |
| Share-based payments | - | 100 | 100 |
| At 31 December 2009 | 183,621 | (191,294) | (7,673) |

## 18 Reconciliation of movements on shareholders' funds

| | 2009 £'000s | 2008 £'000s |
|---|---|---|
| Equity Interest | | |
| At 1 January | 33,567 | 53,480 |
| New share capital subscribed | 25,000 | - |
| Losses for the year | (20,840) | (20,144) |
| Share-based payment | 100 | 231 |
| At 31 December | 37,827 | 33,567 |

## 19 Capital expenditure

There was no capital expenditure contracted but not provided for at 31 December 2009 (2008 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"

Notes to the financial statements for the year ended 31 December 2009 – (continued)

21 **Related party transactions**

The Company is part of the GKN Group and is therefore not required to disclose transactions with other wholly owned GKN Group subsidiaries 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 The largest group in which the results of the Company are consolidated is that of which GKN plc is the parent company The smallest such group is that of which GKN Holdings plc is the parent company Copies of the consolidated financial statements of GKN plc and GKN Holdings plc may be obtained from PO Box 55, Ipsley House, Ipsley Church Lane, Redditch, Worcestershire, B98 0TL