GKN FREIGHT SERVICES LIMITED

Registered number: 56211

ANNUAL ACCOUNTS

31 DECEMBER 2005

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COMPANIES HOUSE 31/10/2006

Report of the Directors

Directors: Mr A J Connelly
Mr D W J Morris
Mr S P Smith
Mr M Shaddick

1 The Directors present their report together with the audited accounts of the Company for the year ended 31 December 2005.

2 **Directors' responsibility for the 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 31 December 2005, 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 5.

3 **Principal activities and Future Developments**

The Company is engaged in the provision of freight forwarding, distribution and warehousing services with offices in Spain and Italy as well as the UK. The Directors consider that the Company is trading within expectations and envisage that the Company will continue to be profitable in future years.

4 **Results and dividends**

The profit and loss account of the Company shows a profit for the year of £849,161 (2004: loss £1,089,596). The Directors do not recommend the payment of a dividend for the year ended 31 December 2005 (2004: nil).

The Company continues to enjoy the ongoing support of GKN Plc.

5 Directors

Following the amendment of the Companies Act 1985 by the Companies (Audit, Investigations and Community Enterprise) Act 2004, the directors' indemnity provision in the Company's Articles of Association was amended. Pursuant to the Articles (as amended), the Company has executed a deed poll of indemnity for the benefit of the directors of the Company and persons who were directors of the Company during the financial year under review in respect of costs of defending claims against them and third party liabilities. These provisions are currently in force. The indemnity provision in the Company's Articles of Association also extends to provide a limited indemnity in respect of liabilities incurred as a director, secretary or officer of an associated company of the Company.

A copy of the deed poll of indemnity and of the Company's Articles of Association are available for inspection at the Company's registered office during normal business hours.

6 Interests in shares

Interests in shares and debentures of GKN plc and its subsidiaries of persons who were Directors of the Company on 31 December 2005 (including investment shares held under the GKN bonus co-investment plan – see note below), as required to be disclosed by the Companies Act 1985, were as follows:

		Holdings including family interests at		Employees' Share Option Schemes	
Name	Type of security	1.1.05 or date of appointment	31.12.05	Options granted in 2005	Options exercised in 2005
A J Connelly	GKN plc 50p ordinary shares	8,789	18,678	38,793	Nil
D W J Morris	GKN plc 50p ordinary shares	Nil	Nil	1,616	Nil
S P Smith	GKN plc 50p ordinary shares	1,168	1,657	Nil	489
M Shaddick	GKN plc 50p ordinary shares	12,839	15,769	Nil	2,526

Conditional and deferred rights to acquire GKN plc 50p ordinary shares held by Directors under the GKN long term incentive plans were as follows:

Name	Awards held at 1.1.05 or date of appointment		Awards held at 31.12.05		Conditional Awards made in 2005	Converted to deferred awards in 2005	Deferred awards released in 2005
	Conditional	Deferred	Conditional	Deferred			
A J Connelly	110,900	Nil	110,900	Nil	Nil	Nil	Nil

6 Interests in shares – (continued)

Interests in GKN plc 50p ordinary shares held by Directors through Company-matched shares under the GKN bonus co-investment plan were as follows:

	Interests held at 1.1.05		Interests held at 31.12.05	
Name	Beneficial	Conditional	Beneficial	Conditional
A J Connelly	17,578	Nil	52,189	Nil
D W J Morris	Nil	Nil	Nil	Nil
S P Smith	Nil	Nil	Nil	Nil
M Shaddick	Nil	Nil	Nil	Nil

As potential beneficiaries, the Directors are deemed to have an interest in the 50p ordinary shares of GKN plc held from time to time by the discretionary trusts established to facilitate the operation of the GKN long term incentive plans and the GKN Executive Share Option Scheme 2001. At 31 December 2005 these trusts held 108,796 50p ordinary shares (2004 – 706,924 50p ordinary shares).

Note

Under the GKN bonus co-investment plan, participants can elect to invest up to 10% of their maximum gross bonus opportunity for the prior year in GKN plc 50p ordinary shares ('investment shares'). In 2004, GKN plc granted matching shares on a 2 for 1 basis (ie two matching shares for every one investment share purchased) which will be released to the participant after three years provided that the participant continues to hold the investment shares and remains an employee of the GKN Group during that period. In 2005, the matching element was increased to 3.5 for 1 subject to the same conditions, but with an additional condition applying to a 1 for 1 proportion of the match, which will only be released to the participant after three years provided a Group OPIC performance condition is achieved. Certain participants have a beneficial interest in their matching shares during the three-year forfeiture period. Other participants have a conditional right to matching shares.

The GKN long term incentive plans are described in the accounts of GKN plc, the Company's ultimate parent company.

7 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 Group Treasury, are set out in the Annual Report and Accounts of GKN plc. The Company does not use derivative financial instruments to manage interest rate costs.

The Company has implemented policies that require appropriate credit checks on potential customers before sales are made. The amount of exposure to any individual counterparty is subject to a limit, which is reassessed annually by the Board. The Board receives regular reports on amounts due and amounts significantly overdue and the relevant action taken.

8 **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.

On behalf of the Board

M Shaddick
Secretary
30 October 2006

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GKN FREIGHT SERVICES LIMITED

We have audited the financial statements of GKN Freight Services Limited for the year ended 31 December 2005 which comprise the Profit and loss account, the Balance sheet, the Statement of total recognised gains and losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the Company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and 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 2005 and of its profit for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Birmingham
30 October 2006

Profit and loss account for the year ended 31 December 2005

	Note	2005 £	Re-stated 2004 £
TURNOVER	1	20,627,395	19,274,681
OPERATING PROFIT/(LOSS)	2	939,054	(1,230,809)
Income from investments and interest receivable	3	37,539	42,510
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		976,593	(1,188,299)
Taxation	4	(127,432)	98,703
PROFIT/(LOSS) FOR THE YEAR		849,161	(1,089,596)

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

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

Statement of total recognised gains and losses for the year ended 31 December 2005

	Note	2005 £	Re-stated 2004 £
Profit /(Loss) for the year		849,161	(1,089,596)
Prior year adjustment	13	(1,461,159)	-
TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR		(611,998)	(1,089,596)

Balance sheet at 31 December 2005

	Note	2005	Re-stated 2004
		£	£
FIXED ASSETS			
Tangible assets	7	424,155	254,354
CURRENT ASSETS			
Debtors			
Due within one year	8	9,665,700	4,324,978
Group loans		818,672	310,413
Cash at bank and in hand		126,322	100,252
		10,610,694	4,735,643
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
Creditors	9	(6,707,235)	(6,691,426)
Taxation payable	10	(179,882)	-
		(6,887,117)	(6,691,426)
NET CURRENT ASSETS/(LIABILITIES)		3,723,577	(1,955,783)
TOTAL ASSETS LESS CURRENT ASSETS/ LIABILITIES		4,147,732	(1,701,429)
NET ASSETS/(LIABILITIES)		4,147,732	(1,701,429)
CAPITAL AND RESERVES			
Equity interest:			
Called up share capital	12	100,000	50,000
Profit and loss account	13	(931,243)	(1,780,404)
Share premium	13	4,950,000	-
Non-equity interest:			
Called up share capital	12	28,975	28,975
SHAREHOLDERS' FUNDS	14	4,147,732	(1,701,429)

Signed on behalf of the Board

DWJ Morris
Director
30 October 2006

Mark Shaddick
Director

Accounting policies 31 December 2005

The accounts have been prepared on the going concern basis, under the historical cost convention, as modified by the revaluation of certain tangible fixed assets and in accordance with the Companies Act 1985 and applicable accounting standards. As the Company is a wholly owned subsidiary of GKN plc, it is exempt under the terms of Financial Reporting Standard No 1 (Revised) 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, as modified by the revaluation of land and buildings, in accordance with the Companies Act 1985 and applicable accounting standards. The Directors have conducted a review of the Group'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.

2 Changes in accounting policies

The Company has considered new accounting standards introduced for this year end and has fully adopted FRS 17, 'Retirement benefits'. The adoption of this standard represents a change in accounting policy and the comparative figures have been restated accordingly where appropriate.

The effect of the change in accounting policy to adopt FRS 17 is that the reserves for the year ended 31 December 2005 have been reduced by £1,461,159.

3 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 upon shipment.

4 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.

5 Tangible fixed assets

Cost

(a) 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 excluding interest.

(b) Where freehold and long leasehold properties were carried at a valuation at 23 March 2000, the date of implementation of FRS15, these values have been retained as book values in accordance with the transitional arrangements of that standard.

(c) Where assets are in the course of construction at the balance sheet date they are classified as capital work in progress. Transfers are made to other asset categories when they are available for use.

Depreciation

Depreciation is not provided on freehold land or assets in the course of construction. In the case of all other categories of asset, depreciation is provided on a straight line basis over the course of the financial year.

Depreciation is applied to specific classes of asset so as to reduce them to their residual values over their estimated useful lives.
The range of main rates of depreciation used is:

	Straight line
Freehold Buildings	up to 50 years
General plant, machinery, fixtures, fittings and equipment	6 to 15
Computers and major software	3
Commercial vehicles and cars	4 to 5

Leasehold properties are amortised by equal annual instalments over the period of the lease or 50 years whichever is the shorter.

Leased 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 commitment is shown as obligations under finance leases. The rentals payable are apportioned between interest, which is charged to the profit and loss account, and capital which reduces the outstanding obligation.

Where assets are financed by leasing agreements which do not give rights approximating to ownership, operating lease rentals are charged to the profit and loss account as incurred over the lease term

Accounting policies 31 December 2005 - (continued)

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 future. A deferred tax asset is only recognised to the extent that it may be considered recoverable. Deferred tax assets and liabilities are not discounted.

7 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.

Notes on the accounts 31 December 2005

1 Turnover

	2005	2004
	£	£
Geographical analysis by ultimate destination:		
United Kingdom	4,142,954	4,149,702
Continental Europe	10,157,239	9,892,865
Americas	5,219,096	4,614,702
Rest of the world	1,108,106	617,412
	20,627,395	19,274,681

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

2 Operating profit is after charging

	2005	2004
	£	£
Wages and salaries	1,476,164	1,479,602
Social security costs	200,100	214,429
Other pension costs	90,038	1,117,168
Redundancy costs	-	3,659
Depreciation on owned assets	74,269	78,339
Rental for leased land and buildings	232,347	202,523
Auditors' remuneration:		
for audit	8,992	8,454
Other external charges	17,606,431	17,401,316
	19,688,341	20,505,490

3 Income from investments and interest receivable

	2005	2004
	£	£
Loan interest:		
Group companies	37,539	42,510
	37,539	42,510

Notes on the accounts 31 December 2005 - (continued)

4 Taxation

	2005 £	Re-stated 2004 £
United Kingdom taxation:		
Corporation tax at 30% (2004 – 30%)	187,000	(110,000)
Double tax relief	(22,673)	-
Adjustment to taxation of earlier years	(78,895)	9,209
	85,432	(100,791)
Overseas taxation:		
Current tax on income for the period	42,000	21,000
Adjustment to taxation of earlier years	-	(18,912)
Current tax charge for the period	127,432	(98,703)

The tax assessed for the period is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2005 £	Re-stated 2004 £
Reconciliation of actual tax charge to expected tax charge		
Profit /(loss) on ordinary activities before tax	976,593	(1,188,299)
Expected tax charge/ (credit) charge at 30% (2004- 30%)	292,978	(356,490)
Income / (expenses) not chargeable / deductible for tax purposes	(5,376)	3,038
Depreciation in excess of /lower than capital allowances	(38,697)	23,783
Other timing differences	(61,905)	240,669
Overseas tax not at 30%	19,327	-
Adjustment in respect of prior years	(78,895)	(9,703)
Current tax charge/ (credit) for period	127,432	(98,703)

The future tax rate is expected to be in line with the current year, but may be impacted by the effect of tax losses generated in the UK Group.

Notes on the accounts 31 December 2005 - (continued)

5 Employee information

The average number of persons employed during the year was:

	2005 Number	2004 Number
Staff	53	57

6 Directors' emoluments

Directors' emoluments are disclosed in accordance with the Companies Act 1985.

	2005 £	2004 £
Aggregate emoluments	213,944	212,476

During the year, no director exercised options over GKN plc shares, and one director received or became entitled to receive shares under the GKN long term incentive plans. Retirement benefits are accruing to 4 directors under the GKN Group's defined benefit pension schemes.

Emoluments payable to the highest paid director are as follows:

	2005 £	2004 £
Aggregate emoluments	83,467	78,979
Defined benefit pension scheme:		
Accrued pension at year end	42,432	36,623

The highest paid director exercised options over nil GKN plc shares during the year and became entitled during the year to receive nil GKN plc shares under the GKN long term incentive plans.

7 Tangible assets

	Total
	£
Cost or valuation	
At 1 January 2005	737,960
Additions	244,070
At 31 December 2005	982,030
Accumulated depreciation	
At 1 January 2005	483,606
Charge for the year	74,269
At 31 December 2005	557,875
Net book value at 31 December 2005	
Owned assets	424,155
Net book values at 31 December 2004	
Owned assets	254,354

Fixed assets include plant, machinery, fixtures, fittings and equipment.

Notes on the accounts 31 December 2005 - (continued)

8 Debtors

	2005	2004
	£	£
Due within one year:		
Trade debtors	558,330	680,726
Amounts owed by group companies	2,045,268	1,668,509
Current account with parent	6,775,743	1,204,974
Amounts owed by associated companies	29,556	16,003
Other debtors	154,389	491,227
Prepayments and accrued income	102,414	104,420
Taxation recoverable by way of group relief	-	159,119
	9,665,700	4,324,978

9 Creditors

	2005	2004
	£	£
Trade creditors	5,055,703	5,051,740
Amounts owed to group companies	379,518	281,384
Indirect and payroll taxes	27,847	28,163
Accruals and deferred income	1,244,167	1,330,139
	6,707,235	6,691,426

Notes on the accounts 31 December 2005 - (continued)

10 Taxation payable

	2005	2004
	£	£
UK Corporation tax - current year	164,327	-
Overseas Corporation tax – current year	15,555	-
	179,882	-

11 Provisions for liabilities and charges

	Re-stated Deferred Taxation
	£
At 1 January 2005 as previously reported	214,270
Prior Year Adjustment	(214,270)
Profit and loss account	-
At 31 December 2005 restated	-

	2005	Restated 2004
	£	£
Provision for deferred tax comprises		
Accelerated capital allowances	(55,687)	(69,402)
Short term timing differences	(145,971)	(218,957)
De-recognition of deferred tax asset	201,658	288,387
Deferred tax provision	-	28

A deferred tax asset has not been recognized on the basis that the future recovery of such amounts is uncertain. The amount unrecognized is £201,658 (2004: £288,387).

Notes on the accounts 31 December 2005 - (continued)

12 Share capital

	2005	
	Authorised	Issued, called up and fully Paid
	£	£
Ordinary shares of £5 each	100,000	100,000
Preference shares of £5 each	50,000	28,975
	150,000	128,975

During the year 10,000 ordinary shares were issued for cash. The nominal value of these shares was £50,000 and the total consideration received was £5,000,000.

The preference shares have been disclosed as non-equity interest in accordance with FRS4. The shares are 6% Cumulative Preference shares and have restricted voting rights with a priority on winding up to capital and arrears of dividends. The holder of the 6% Cumulative Preference shares waived its entitlement to dividends in respect of the year ended 31 December 2005.

13 Reserves

	Share Premium	Profit and Loss	Total
	£	£	£
At 1 January 2005 as previously reported	-	(319,245)	(319,245)
Prior year adjustment	-	(1,461,159)	(1,461,159)
At 1 January 2005 as restated	-	(1,780,404)	(1,780,404)
Transfer to profit and loss account	-	849,161	849,161
Premium arising on share issue	4,950,000	-	4,950,000
At 31 December 2005	4,950,000	(931,243)	4,018,757

14 Reconciliation of movements on shareholders' equity

	2005	2004
	£	£
At 1 January as previously reported		(43,570)
Prior year adjustment		(568,263)
At 1 January as restated	(1,701,429)	(611,833)
Profit/(Loss) for the year	849,161	(1,089,596)
Share issue at a premium	5,000,000	-
At 31 December	4,147,732	(1,701,429)

Notes on the accounts 31 December 2005 - (continued)

15 Capital expenditure

Contracts placed against capital expenditure sanctioned by the Board at 31 December 2005 so far as not provided for in these accounts amounted to £65,975 (2004 - £150,386).

16 Contingent liabilities

	2005	2004
	£	£
Bank guarantees to third parties	344,925	846,906

The amount represents guarantees given by bank during the normal course of business with certain suppliers who trade on the condition that payments are guaranteed by banks in the event of default.

17 Operating leases

The minimum payments to which the Company is committed in 2005 under operating leases are as follows:-

	2005		2004	
	Land and buildings	Other	Land and Buildings	Other
	£	£	£	£
Commitment expiring within one year			-	-
Commitment expiring within two to five years	49,000	13,157	49,000	4,776
Commitment expiring after five years	158,960		158,960	-
	207,960	13,157	207,960	4,776

18 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 International Accounting Standard 19 'Employee Benefits'.

19 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.