

**Report of the Directors**

Directors: Mr P W H North (Chairman)  
Mr D W J Morris  
Mr P G Byrne  
Mr R J M Hone  
Mr S P Smith

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

2 **Principal activities**

The Company is engaged in the provision of freight forwarding, distribution and warehousing services.

3 **Directors' responsibility for the accounts**

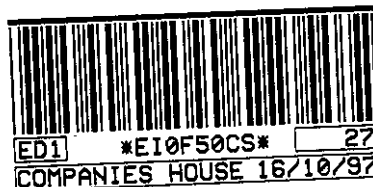
At the end of each financial year, the Directors are required by the Companies Act 1985 to prepare accounts which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing the accounts for the year ended 31st December 1996, appropriate accounting policies, supported by reasonable and prudent judgements and estimates, have been consistently used and UK applicable accounting standards have been followed.

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

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

4 **Dividends**

The profit and loss account shows a profit of £212,635. The Directors have therefore declared an interim dividend of £212,635 for the year ended 31 December 1996, payable on 21 March 1997. No further dividend is recommended for the period. The intermediate holding company, GKN (United Kingdom) plc, has waived its entitlement to any dividends due on the Company's Cumulative 6% Preference shares of £5 each arising in the year ended 31st December 1996.



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

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

**6 Directors**

On 1st July 1996 Mr R J M Hone and Mr S P Smith were appointed Directors of the Company. Mr P W H North, Mr D W J Morris and Mr P G Byrne remained directors throughout the year.

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

<u>Name</u>	<u>Type of security</u>	<u>Holdings including family interests at</u>		<u>Employees' Share Option Schemes</u>	
		<u>1.1.96</u> <u>or date of</u> <u>appointment</u>	<u>31.12.96</u>	<u>Options granted</u> <u>in 1996</u>	<u>Options exercised</u> <u>in 1996</u>
Mr P W H North	GKN plc £1 Ordinary Shares	2,000	6,528	237	18,852
Mr D W J Morris	GKN plc £1 Ordinary Shares	-	-	-	-
Mr P G Byrne	GKN plc £1 Ordinary Shares	16	16	420	856
Mr R J M Hone	GKN plc £1 Ordinary Shares	2,331	2,390	-	-
Mr S P Smith	GKN plc £1 Ordinary Shares	-	-	126	284


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

<u>Name</u>	<u>Number of Shares</u> <u>the subject of the award</u>
P W H North	5,400
D W J Morris	-
P G Byrne	-

**7 Reappointment of Auditors**

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

On behalf of the Board.



R J M Hone  
Secretary

**REPORT OF THE AUDITORS TO THE MEMBERS OF**  
**GKN FREIGHT SERVICES LIMITED**

We have audited the accounts on pages 4 to 14.

**Respective responsibilities of directors and auditors**

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

**Basis of opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

**Opinion**

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

*Coopers & Lybrand*

Coopers & Lybrand  
Chartered Accountants and Registered Auditors  
Birmingham  
5th February 1997

**Accounting policies 31st December 1996**

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

**1 Basis of accounting**

These accounts are prepared under the historical cost convention.

**2 Turnover**

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

**3 Depreciation**

- (a) Depreciation on computers is provided on original cost. For all other categories of asset, depreciation is provided on the written down value at the beginning of the financial year. Except in special cases, depreciation is not charged on fixed assets capitalised during the year and available for use, but a full year's depreciation is charged on fixed assets sold or scrapped during the year.
- (b) Depreciation is applied to specific classes of asset by reference to their useful lives. The rates of depreciation used are :

	<u>Straight line</u> %	<u>Reducing balance</u> %
Plant, machinery, fixtures, fittings and equipment	-	22 to 27
Computer hardware and major software	20 to 33.33	-
Non commercial motor vehicles	-	44

**4 Operating profit**

- (a) Profit is taken when turnover is recognised.
- (b) Operating lease rentals are charged to the profit and loss account as incurred during the lease term.

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

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

**6 Tangible fixed assets**

- (a) Capital work in progress is expenditure on fixed assets in the course of construction. Transfers are made to other fixed asset categories when assets are available for use.
- (b) Where fixed assets are financed by leasing agreements which give rights approximating to ownership, the assets are treated as if they had been purchased and the capital element of the leasing commitments is shown as obligations under finance leases. The rentals payable are apportioned between interest, which is charged in the profit and loss account, and capital, which reduces the outstanding obligation. All other leases are recognised as operating leases.

**7 Deferred taxation**

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

**8 Related party transactions**

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

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

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

	Notes	<u>1995</u> <u>Continuing operations</u>	
		£	£
TURNOVER	1	15,630,348	14,928,907
OPERATING PROFIT	2	327,402	249,181
Interest receivable	3	19,104	31,818
Interest payable	4	(421)	-
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		346,085	280,999
Taxation	5	(133,450)	(96,830)
PROFIT FOR THE YEAR		212,635	184,169
Interim dividend - proposed		(212,635)	(184,169)
TRANSFER TO RESERVES	15	-	-

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

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

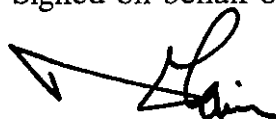
The notes on pages 8 to 14 and the accounting policies on pages 4 and 5 form part of these accounts.

Auditors' report page 3.

Balance sheet at 31st December 1996

	<u>Notes</u>	£	£	<u>1995</u> £	£
FIXED ASSETS					
Tangible assets	8		146,817		151,191
CURRENT ASSETS					
Debtors	9	3,158,371		2,633,765	
Cash at bank and in hand		275,818		613,419	
		<u>3,434,189</u>		<u>3,247,184</u>	
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR					
Creditors	10	2,683,309		2,832,719	
Taxation payable	11	137,000		82,000	
Dividend payable		212,635		184,169	
		<u>3,032,944</u>		<u>3,098,888</u>	
NET CURRENT ASSETS			<u>401,245</u>		<u>148,296</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>548,062</u>		<u>299,487</u>
CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR:					
ACCOUNT WITH GKN (UNITED KINGDOM) PLC	12		456,256		204,788
PROVISIONS FOR LIABILITIES AND CHARGES	13		12,831		15,724
CAPITAL AND RESERVES					
Equity interest:					
Called up share capital	14	50,000		50,000	
Non-equity interest:					
Called up share capital	14	28,975		28,975	
Total shareholders' funds			<u>78,975</u>		<u>78,975</u>
CAPITAL EMPLOYED IN FINANCING TOTAL ASSETS LESS CURRENT LIABILITIES			<u>548,062</u>		<u>299,487</u>

Signed on behalf of the Board


D W J Morris  
31st January 1997

Director

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

Auditors' report page 3.

Notes on the accounts 31st December 1996**1 Turnover**

		<u>1995</u>
Geographical analysis by ultimate destination:	£	£
United Kingdom	8,286,046	9,265,992
Continental Europe	2,995,490	1,775,880
America	4,272,916	3,816,185
Rest of the World	75,896	70,850
	<u>15,630,348</u>	<u>14,928,907</u>

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

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

		<u>1995</u>
	£	£
Wages and salaries	711,200	641,977
Social security costs	61,376	53,429
Other pension costs	94,684	68,675
Redundancy costs	6,233	-
Other reorganisation costs	-	8,840
Exceptional income on surrendering of a lease	-	(4,238)
Depreciation on owned assets	50,735	48,021
Rental for leased land and buildings	65,561	65,500
Rental for hire of plant and vehicles	22,458	30,257
Auditors' remuneration:		
for audit	4,567	2,419
Other external charges	14,286,132	13,764,846
	<u>15,302,946</u>	<u>14,679,726</u>

**3 Interest receivable**

		<u>1995</u>
	£	£
Interest on short term loans and deposits	361	802
Loan interest:		
Group companies	18,743	31,016
	<u>19,104</u>	<u>31,818</u>

**4 Interest payable**

		<u>1995</u>
	£	£
Bank interest	421	-



Notes on the accounts 31st December 1996 - (continued)**5 Taxation**

	£	<u>1995</u> £
United Kingdom taxation :		
Corporation tax at 33% (1995 - 33%) payable by way of group relief	137,000	82,000
Adjustment to taxation of earlier years	(657)	(894)
	<u>136,343</u>	<u>81,106</u>
Deferred taxation (see note 13)	(2,893)	15,724
	<u>133,450</u>	<u>96,830</u>

The credit for deferred taxation on the full liability basis would have been £7,344 (1995 - £3,693).

**6 Employee information**

The average number of persons employed during the year was:

		<u>1995</u>
Staff	<u>40</u>	<u>36</u>

**7 Directors' emoluments**

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

- (a) The emoluments of directors wholly in respect of executive services amounted to £157,320 (1995 - £109,169).
- (b) The following table shows the number of directors whose emoluments (excluding pension contributions) were within the scales stated:

	<u>Scale</u>	<u>1996</u>	<u>1995</u>
Directors:			
	£55,001 to £60,000	-	1
	£50,001 to £55,000	1	-
	£40,001 to £45,000	1	-
	£35,001 to £40,000	-	1
	£20,001 to £25,000	2	-
	£0 to £5,000	1	1

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

## 7 Directors' emoluments (continued)

- (c) The emoluments of the Chairman of the Company (excluding pension contributions) amounted to £Nil (1995 - £Nil).
- (d) The emoluments of the highest paid director (excluding pension contributions) amounted to £53,913 (1995 - £58,940).
- (e) Certain directors are employed by, and receive their emoluments from, GKN plc. The amounts shown above represent remuneration applicable to their executive services to the Company.

## 8 Tangible assets

	Other fixed assets £
<b>Cost</b>	
At 1st January 1996	246,673
Capital expenditure	49,882
Disposals	(38,869)
At 31st December 1996	<u>257,686</u>
<b>Accumulated depreciation</b>	
At 1st January 1996	95,482
Disposals	(35,348)
Charge for the year	50,735
At 31st December 1996	<u>110,869</u>
<b>Net book values at 31st December 1996</b>	
Owned assets	<u>146,817</u>

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

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

## 9 Debtors

	£	<u>1995</u> £
Receivable within one year:		
Trade debtors	1,026,986	1,439,992
Amounts owed by group companies	916,305	843,711
Current account with parent	887,299	86,883
Amounts owed by associated companies	79,410	-
Other debtors	93,341	118,370
Prepayments and accrued income	155,030	144,809
	<u>3,158,371</u>	<u>2,633,765</u>

Prepayments and accrued income include £114,307 (1995: £114,307) in respect of the Group pension scheme.

## 10 Creditors

	£	<u>1995</u> £
Trade creditors	2,395,509	2,528,661
Amounts owed to group companies	184,127	172,176
Other creditors	45,266	3,805
Accruals	58,407	128,077
	<u>2,683,309</u>	<u>2,832,719</u>

## 11 Taxation payable

	£	<u>1995</u> £
UK corporation tax - current year	<u>137,000</u>	<u>82,000</u>

## 12 Account with GKN (United Kingdom) plc

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

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

## 13 Provisions for liabilities and charges

Provision is made for deferred taxation to the extent that there is a reasonable probability that such tax will become payable in the foreseeable future.

Deferred Taxation:-	£
At 1st January 1996	15,724
Credit for the year	(2,893)
At 31st December 1996	<u>12,831</u>

The provision and the full potential liability are calculated at 33% (1995 - 33%)

			<u>1995</u>	
	Amount provided £	Full potential £	Amount provided £	Full potential £
Fixed asset and other timing differences	32,571	32,571	39,915	39,915
Less: Advanced corporation tax	(19,740)	(19,740)	(24,191)	(24,191)
	<u>12,831</u>	<u>12,831</u>	<u>15,724</u>	<u>15,724</u>

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

## 14 Share capital

	<u>Authorised</u> £	<u>1996 and 1995</u> Issued, called up and fully paid £
Ordinary shares of £5 each	50,000	50,000
Preference shares of £5 each	50,000	28,975
	<u>100,000</u>	<u>78,975</u>

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.

## 15 Reserves

	<u>Profit and loss account</u> £
At 1st January 1996 and 31st December 1996	-

## 16 Reconciliation of movements on shareholders' funds

	<u>£</u>	<u>1995</u> £
At 1st January 1996	78,975	78,975
Total recognised gains and losses for the year	212,635	184,169
Dividends	(212,635)	(184,169)
At 31st December 1996	<u>78,975</u>	<u>78,975</u>

## 17 Capital expenditure

Capital expenditure sanctioned by the Board at 31st December 1996 so far is not provided in these accounts amounted to £21,100 (1995 - £Nil).

Notes on the accounts 31st December 1996 - (continued)18 **Contingent liabilities**

	£	<u>1995</u> £
Bank guarantees to third parties	221,500	278,958

19 **Operating leases**

The minimum payments to which the Company is committed in 1997 under operating leases are as follows:-

	Land and <u>buildings</u> £	Other £	<u>1995</u>	
			Land and <u>buildings</u> £	Other £
Commitment expiring within one year	-	-	-	-
Commitment expiring within two to five years	-	-	65,500	12,696
Commitment expiring after five years	-	-	-	-
	<u>-</u>	<u>-</u>	<u>65,500</u>	<u>12,696</u>

20 **Pensions**

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

21 **Ultimate and immediate parent companies**

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