

Lanoth Limited (In Administration)

Company Number 142335

Directors' Report for the Year Ended 31st December 2005

Administration

On 1 October 2001, the Company's ultimate parent undertaking, Federal-Mogul Corporation and its subsidiaries in the United States voluntarily filed for financial restructuring under Chapter 11 of the US Bankruptcy Code. In addition, the majority of Federal-Mogul subsidiaries in the United Kingdom, including the Company, filed jointly for Chapter 11 and Administration under the UK Insolvency Act 1986. The affairs, business and property of the Company are being managed by Kroll Limited, the Administrators.

On 26 September 2005, the Administrators entered into a Global Settlement Agreement with Federal-Mogul Corporation, the Plan Proponents and the Pension Protection Fund. The Agreement should allow Federal-Mogul to retain the businesses and other assets of the UK Filing Group in exchange for funding specific creditor payments and reserves that will be used by the Administrators to provide distributions to creditors.

This agreement is subject to various approvals and determinations by the UK and US Courts before it can be implemented.

On 10 July 2006 the Administrators issued to the creditors their proposals for company voluntary arrangements for the Company and 50 other UK filing subsidiaries. These proposals were approved at the shareholders and creditors meeting held on 7 September 2006. Any creditors who are dissatisfied with the Arrangements have 28 days from that date to file their objections. In the absence of any objections being lodged the proposals will be implemented.

Activities

The Company has not traded during the year. Its result for the year is £nil (2004: profit of £630). The directors do not recommend a dividend (2004: £nil).

Directors

The following served as Directors during (and, unless otherwise indicated, throughout) the year:

J H Devonald

Directors' Interests

There are no directors' interests requiring disclosure under the Companies Act 1985.

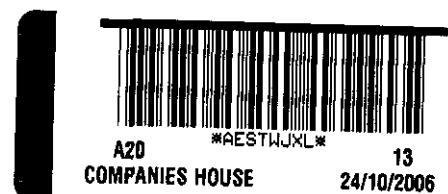
On behalf of the Board

Director

JH Devonald

Date:

29 September 2006



LANOTH LIMITED (IN ADMINISTRATION)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom Law and General Accepted Accounting Practice. Company law requires the directors to prepare financial statements which give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss for the financial year. In preparing those financial statements the directors are required to:

- * select suitable accounting policies and then apply them consistently;
- * state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- * make judgements and estimates that are reasonable and prudent;
- * prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LANOTH LIMITED
(IN ADMINISTRATION)

We have audited the Company's financial statements for the year ended 31 December 2005 which comprise Profit and Loss Account, Balance Sheet and the related notes 1 to 9. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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 United Kingdom law and 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).

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 transactions with the Company 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 judgements 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LANOTH LIMITED (IN
ADMINISTRATION) (CONTINUED)

Adverse opinion

Recoverability on Group Balances

Included in the balance sheet within fixed asset investments is an amount of £18,634 (2004: £18,634) representing the Company's investment in Federal-Mogul group companies which are the subject of an Administration Order under the Insolvency Act 1986 and/or a filing under Chapter 11 of the Bankruptcy Code. In our opinion the Company is unlikely to realise full value from these investments and a provision of up to £18,634 (2004: £18,634) should have been made, increasing net liabilities by up to that amount.

Omission of certain disclosures required by Schedule 5 to the Companies Act 1985

Schedule 5 to the Companies Act 1985 requires, in respect of interests in subsidiaries, and other significant holdings in undertakings held by the Company details of the capital and reserves at the end of the year, and profit or loss for the year. As explained in Note 1, these details have not been given.

In view of the effect of the absence of this provision, in our opinion the financial statements do not give a true and fair view of the state of the Company's affairs as at 31 December 2005 and of its results for the year then ended. Except for the omission of the details of financial information required by Schedule 5 to the Companies Act 1985 in respect of interests in subsidiaries and other significant holdings, in all other respects, in our opinion the financial statements have been properly prepared in accordance with the Companies Act 1985.

Emphasis of matter – going concern

In forming our opinion we have considered the adequacy of the disclosures made in note 1 to the financial statements regarding the filing by the Company for financial restructuring under Chapter 11 of the US Bankruptcy Code and for Administration under the UK Insolvency Act of 1986, and the proposals issued by the Administrators for Company Voluntary Arrangements. The financial statements are prepared on the going concern basis, the validity of which depends on the outcome of these proceedings. In view of the significance of this uncertainty we consider that it should be drawn to your attention but our opinion is not qualified in this respect.



Ernst & Young LLP
Registered Auditor
Manchester

29 SEP 2006

LANOTH LIMITED (IN ADMINISTRATION)

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31ST DECEMBER 2005

	Notes	2005 £	2004 £
Bank credits		-	630
Profit on ordinary activities before taxation		-	630
Tax on profit on ordinary activities	3	-	-
Profit on ordinary activities after taxation		-	630
Profit attributable to shareholders	8	-	630

There is no difference between the result as disclosed above and the result given by an unmodified historical cost basis.

A reconciliation of movements in shareholders' funds is given in note 8 of the financial statements.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

The Company has no recognised gains or losses for the year.

All results have been derived from continuing operations.

LANOTH LIMITED (IN ADMINISTRATION)

BALANCE SHEET

AS AT 31ST DECEMBER 2005

	Notes	2005 £	2004 £
<u>Fixed Assets</u>			
Investments	4	<u>18,634</u>	<u>18,634</u>
<u>Current Assets</u>			
Cash at bank		290	260
<u>Current Liabilities</u>			
<u>Creditors: due within one year</u>	5	<u>(10,570)</u>	<u>(10,540)</u>
Net current liabilities		<u>(10,280)</u>	<u>(10,280)</u>
Total assets less current liabilities		8,354	8,354
<u>Creditors: due after more than one year</u>	6	<u>(10,962,000)</u>	<u>(10,962,000)</u>
Net liabilities		<u>(10,953,646)</u>	<u>(10,953,646)</u>
<u>Capital and Reserves</u>			
Called up share capital	7	18,714	18,714
Profit & loss account	8	<u>(10,972,360)</u>	<u>(10,972,360)</u>
Shareholders' funds – deficit	8	<u>(10,953,646)</u>	<u>(10,953,646)</u>

The Company did not trade during the year.

The financial statements on pages 5 to 10 were approved by the Board on 29 September 2006 and were signed on its behalf by:

JH Devonaldy
Director

LANOTH LIMITED (IN ADMINISTRATION)

NOTES FORMING PART OF THE ACCOUNTS

1. ACCOUNTING POLICIES

(a) Basis of Accounting

The financial statements have been prepared in accordance with applicable United Kingdom Accounting Standards and under the historical cost convention.

(b) Fundamental Uncertainty

On 1 October 2001, the Company's ultimate parent undertaking, Federal-Mogul Corporation and its subsidiaries in the United States voluntarily filed for financial restructuring under Chapter 11 of the US Bankruptcy Code. In addition, the majority of Federal-Mogul subsidiaries in the United Kingdom, including the Company, filed jointly for Chapter 11 and Administration under the UK Insolvency Act 1986.

On 26 September 2005, the Administrators entered into a Global Settlement Agreement with Federal-Mogul Corporation, the Plan Proponents and the Pension Protection Fund. The Agreement should allow Federal-Mogul to retain the businesses and other assets of the UK Filing Group in exchange for funding specific creditor payments and reserves that will be used by the Administrators to provide distributions to creditors.

This agreement is subject to various approvals and determinations by the UK and US Courts before it can be implemented.

On 10 July 2006 the Administrators issued to the creditors their proposals for company voluntary arrangements for the Company and 50 other UK filing subsidiaries. These proposals were approved at the shareholders and creditors meeting held on 7 September 2006. Any creditors who are dissatisfied with the Arrangements have 28 days from that date to file their objections. In the absence of any objections being lodged the proposals will be implemented.

The financial statements have been prepared on the going concern basis, which assumes that the Company will continue in operational existence for the foreseeable future. The validity of this assumption depends on the outcome of the above proceedings. The directors of Federal-Mogul Corporation have stated that the actions are intended to preserve the companies' businesses and allow a reorganisation of their assets while protecting them from actions by creditors and asbestos claimants. On this basis, the directors consider it appropriate to prepare the financial statements on the going concern basis.

The financial statements do not include any adjustments that would result if the outcome of the proceedings was that the Company was unable to continue as a going concern. The directors do not consider it possible to determine the effects on the financial statements with reasonable accuracy, but adjustments would have to be made to reduce the value of assets to their realisable amount and to provide for any further liabilities which might arise.

(c) Investments

These have been included in the financial statements at cost, as modified by provisions for permanent diminution in value. The valuation was determined by the directors as an amount equal to the net tangible asset value of the subsidiary undertakings.

LANOTH LIMITED (IN ADMINISTRATION)

NOTES FORMING PART OF THE ACCOUNTS (CONTINUED)

1. ACCOUNTING POLICIES (CONTINUED)

(d) Cash Flow Statement

Under Financial Reporting Standard 1, the Company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary undertaking of Federal-Mogul Corporation, a company which prepares a consolidated cash flow statement.

(e) Group Accounts

The Company is exempt under s.248 of the Companies Act 1985 from preparing group accounts as it qualifies as a medium sized group. These financial statements present information about Lanoth Limited as an individual undertaking and not about its group.

Omission of certain disclosures required by Schedule 5 to the Companies Act 1985

Companies are required under Schedule 5 to the Companies Act 1985 to provide details of the capital and reserves at the end of the financial year, and profit or loss for the financial year in respect of interests in subsidiaries, and other significant holdings in undertakings held by the Company. In previous years prior to the Administration of the Company on 1 October 2001 this has not been required because Federal-Mogul Global Growth Limited prepared group accounts and this Company and other intermediate holding companies were exempt under s.228 of the Companies Act 1985 from preparing group accounts and providing this information. It has not been practicable to provide this information. The list of subsidiaries and significant holdings is in Note 4 and the information is available in respect of the UK companies from their latest published accounts.

(e) Fundamental Accounting Concept

The directors believe it to be appropriate to prepare the accounts on the going concern basis due to the continued financial support provided by the ultimate parent undertaking.

2. DIRECTORS

The directors have not received any remuneration for services to the Company during the year (2004: £nil).

3. TAXATION

There is no tax charge/(credit) for either the current or prior year.

As there are no profit and loss results for the year, no tax was assessed.

	2005 £	2004 £
Profit on ordinary activities before tax	-	630
Profit on ordinary activities multiplied by the standard rate of corporation tax of 30% (2004: 30%)	-	189
Income not deductible for tax purposes	-	(189)
Total current tax	-	-

LANOTH LIMITED (IN ADMINISTRATION)

NOTES FORMING PART OF THE ACCOUNTS (CONTINUED)

3. TAXATION (CONTINUED)

The taxation charge is based on the result for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more, tax with the following exceptions:

- Provision is made for gains on disposals of fixed assets that have been rolled over into replacement assets only where, at the balance sheet date, there is a commitment to dispose of the replacement assets.
- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which the timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

4. INVESTMENTS

<u>Shares in subsidiaries</u>	£
<u>Cost</u>	
At 31 December 2004 and 2005	<u>50,667</u>
<u>Provisions</u>	
At 31 December 2004 and 2005	<u>(32,033)</u>
<u>Net book value</u>	
At 31 December 2004 and 2005	<u>18,634</u>

<u>Subsidiary</u>	<u>Shareholding</u>	<u>Class of Share</u>
Lanoth Precision Equipment Limited	100%	£1 ordinary shares

All companies are registered in England and Wales.

LANOTH LIMITED (IN ADMINISTRATION)

NOTES FORMING PART OF THE ACCOUNTS (CONTINUED)

5.	<u>CREDITORS</u> : amounts due within one year	2005 £	2004 £
	Amounts owed to fellow subsidiary undertakings	<u>10,570</u>	<u>10,540</u>
6.	<u>CREDITORS</u> : amounts due after more than one year	2005 £	2004 £
	Loan from parent undertaking	10,778,527	10,778,527
	Loan from fellow subsidiary undertaking	163,667	163,667
	Loan from subsidiary undertaking	<u>19,806</u>	<u>19,806</u>
		<u>10,962,000</u>	<u>10,962,000</u>
7.	<u>CALLED UP SHARE CAPITAL</u>	2005 £	2004 £
	Authorised 40,000 shares of £1 each	<u>40,000</u>	<u>40,000</u>
	Issued and fully paid 18,714 shares of £1 each	<u>18,714</u>	<u>18,714</u>

8. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	Share Capital £	Profit & loss account £	Total £
At 1 January 2004	18,714	(10,972,990)	(10,954,276)
Profit for the year	-	630	630
At 31 December 2004	<u>18,714</u>	<u>(10,972,360)</u>	<u>(10,953,646)</u>
Results for the year	-	-	-
At 31 December 2005	<u>18,714</u>	<u>(10,972,360)</u>	<u>(10,953,646)</u>

9. ULTIMATE PARENT COMPANY

The Company's parent company is AE Limited which is registered in England and Wales. The ultimate parent company and controlling party is Federal-Mogul Corporation which is registered in the United States of America. Copies of the Federal-Mogul Corporation Annual Report and Accounts can be obtained from Federal-Mogul Investor Relations, 26555 Northwestern Highway, Southfield, MI 48034, USA.