

**GKN SINTER METALS HOLDINGS LIMITED**  
**(formerly GKN Sinter Metals Limited, formerly Birfield Limited)**

1

347378

**Report of the Directors**

Directors: Mr C K Chow  
Mr T C Bonner  
Mr W Comfort  
Mr S Ghasemi  
Mr D J Turner

1 The Directors present their report together with the audited accounts of the Company for the year ended 31st December 1997.

2 **Directors' responsibilities 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 31st December 1997, 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.

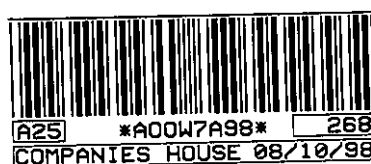
The auditors' responsibilities in relation to the accounts are set out in their report on page 3.

3 **Principal activity**

The Company is an investment holding company.

4 **Dividends**

The profit and loss account of the Company shows a profit of £87,475,916. The Directors have declared an interim dividend of £87,000,000 for the year ended 31st December 1997 which was paid on 6th August 1997. No further dividend is recommended for the period.



**Report of the Directors - (continued)**

**5 Directors**

On 9th July 1997 Mrs J M Felton, Mr R A Ogilvie Smals and Mr D L Rood resigned as Directors of the Company and Mr C K Chow, Mr T C Bonner, Mr J W Carreras, Mr W Comfort and Mr D J Turner were appointed Directors of the Company. On 15th January 1998, Mr S Ghasemi was appointed a Director of the Company. On the same date Mr J W Carreras ceased to hold executive office and became a non-executive Director. Mr Carreras resigned from the Board on 8th April 1998.

**6 Interests in shares**

The shareholdings, options and awards under GKN long term incentive plans of Mr C K Chow, Mr T C Bonner and Mr D J Turner are disclosed in the accounts of GKN plc.

Mr S Ghasemi, as a potential beneficiary, is deemed to have an interest in the ordinary shares of GKN plc held by the discretionary trust established to facilitate the operation of the GKN Long Term Incentive Plan. At 31st December 1997 the trust held 1,259,450 shares (1996 - 728,150).

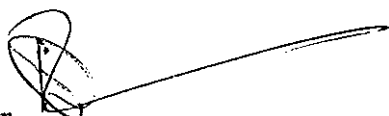
The other Directors of the Company have no notifiable interests in shares or debentures of GKN plc and its subsidiaries as required to be disclosed by the Companies Act 1985.

**7 Reappointment of Auditors**

The Company's auditors, Coopers & Lybrand merged with Price Waterhouse on 1 July and a resolution to appoint the new firm, PricewaterhouseCoopers, as auditors of the Company and to authorise the Directors to fix their remuneration will be proposed at the Annual General Meeting.

On behalf of the Board

Mr D J Turner  
Director



15th July 1998

**REPORT OF THE AUDITORS TO THE MEMBERS OF**  
**GKN SINTER METALS HOLDINGS LIMITED**  
**(formerly GKN Sinter Metals Limited, formerly Birfield Limited)**

We have audited the annual accounts on pages 4 to 9.

**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 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Coopers & Lybrand  
Chartered Accountants and Registered Auditors  
Birmingham

15 July 1998.

**Accounting policies 31st December 1997**

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, which have been consistently applied, is set out below.

**1 Basis of accounting**

These accounts are prepared under the historical cost convention.

**2 Fixed asset investments**

Investments in subsidiary companies and joint ventures are accounted for at cost less provision for any permanent diminution in value.

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 arrangement.

**3 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.

**GKN SINTER METALS HOLDINGS LIMITED**  
**(formerly GKN Sinter Metals Limited, formerly Birfield Limited)**

5

**Profit and loss account for the year ended 31st December 1997**

	<u>Notes</u>	<u>Continuing operations</u>	<u>1996</u>
		<u>£</u>	<u>£</u>
Profit on disposal of fixed assets		87,382,053	(100)
PROFIT/(LOSS) BEFORE INTEREST AND TAXATION		87,382,053	(100)
Income from investments and interest receivable	1	93,863	8,040,048
PROFIT FOR THE YEAR		87,475,916	8,039,948
Interim dividend - paid		(87,000,000)	(8,039,948)
TRANSFER TO RESERVES	8	475,916	-

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 materially different from those reported above.

The notes on pages 7 to 9 and the accounting policies on page 4 form part of these accounts.

Auditors' report page 3.

**GKN SINTER METALS HOLDINGS LIMITED**  
**(formerly GKN Sinter Metals Limited, formerly Birfield Limited)**

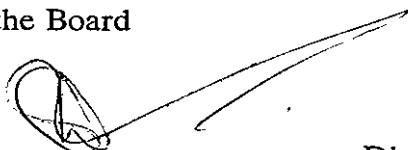
6

**Balance sheet at 31st December 1997**

	<u>Notes</u>	£	£	<u>1996</u>	£
<b>FIXED ASSETS</b>					
Investments	3		94,721,100		19,539,592
<b>CURRENT ASSETS</b>					
Debtors	4	-	16,505,162		
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>					
Creditors	5	(66,240,478)	-		
Dividend payable		-	(8,039,948)		
<b>NET CURRENT ASSETS/(LIABILITIES)</b>			(66,240,478)		8,465,214
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			28,480,622		28,004,806
<b>CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR</b>					
<b>ACCOUNT WITH GKN (UNITED KINGDOM) PLC</b>	6		18,233,227		18,233,327
<b>CAPITAL AND RESERVES</b>					
Called up share capital	7	7,593,453	7,593,453		
Share premium account	8	848,317	848,317		
Other reserves	8	847,703	847,703		
Profit and loss account	8	957,922	482,006		
<b>Equity interest</b>			10,247,395		9,771,479
<b>CAPITAL EMPLOYED IN FINANCING TOTAL ASSETS LESS CURRENT LIABILITIES</b>			28,480,622		28,004,806

Signed on behalf of the Board

D J Turner



Director

15th July 1998

The notes on pages 7 to 9 and the accounting policies on page 4 form part of these accounts.

Auditors' report page 3.

**GKN SINTER METALS HOLDINGS LIMITED**  
**(formerly GKN Sinter Metals Limited, formerly Birfield Limited)**

7

**Notes on the accounts 31st December 1997**

**1 Income from investments and interest receivable**

	£	1996 £
Dividends:		
Group companies	-	8,040,048
Joint venture companies	93,863	-
	<u>93,863</u>	<u>8,040,048</u>

**2 Employee information and directors' emoluments**

The emoluments of directors of the Company amounted to £Nil (1996 - £Nil). The Company has no other employees.

**3 Investments**

	Shares in group companies £	Shares in joint venture companies £	Total £
<b>Cost</b>			
At 1st January 1997	20,605,569	-	20,605,569
Additions	73,586,000	21,135,100	94,721,100
Disposals	(20,605,569)	-	(20,605,569)
At 31st December 1997	<u>73,586,000</u>	<u>21,135,100</u>	<u>94,721,100</u>
<b>Amounts written off</b>			
At 1st January 1997	(1,065,977)	-	(1,065,977)
Disposals	1,065,977	-	1,065,977
At 31st December 1997	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net book value</b>			
At 31st December 1997	<u>73,586,000</u>	<u>21,135,100</u>	<u>94,721,100</u>

During the year the Company disposed of its interests in GKN Automotive Limited and Birfield Properties Limited for an aggregate consideration of £106,921,645.

**GKN SINTER METALS HOLDINGS LIMITED**  
**(formerly GKN Sinter Metals Limited, formerly Birfield Limited)**

8

**Notes on the accounts 31st December 1997 - (continued)**

**3 Investments (continued)**

Interests are as follows:

<u>Name of company</u>	<u>Country of registration or incorporation</u>	<u>Principal activity</u>	<u>Description of shares held</u>	<u>Proportion of nominal value of shares held by the Company</u>
GKN Sheepbridge Limited	England	Dormant	Ordinary £1	100%
GKN Sinter Metals Limited (formerly GKN Bound Brook Limited)	England	Manufacturer	Ordinary £1	100%
GKN Bound Brook SpA	Italy	Manufacturer	Registered Lit 10,000	100%
Mahindra Sintered Products Limited	India	Manufacturer	Ordinary 10 rupee	49%

As the Company is a wholly owned subsidiary of GKN plc, consolidated accounts are not required (and joint venture companies have not been accounted for on an equity basis). In the opinion of the directors, the aggregate value of the Company's investments in subsidiary and joint venture 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.

**4 Debtors**

	<u>£</u>	<u>1996</u> <u>£</u>
Receivable within one year:		
Amounts owed by group companies	-	8,040,048
Current account with parent	-	8,465,114
	<hr/>	<hr/>
	-	16,505,162
	<hr/>	<hr/>

**5 Creditors**

	<u>£</u>	<u>1996</u> <u>£</u>
Current account with parent	66,240,478	-
	<hr/>	<hr/>

**GKN SINTER METALS HOLDINGS LIMITED**  
**(formerly GKN Sinter Metals Limited, formerly Birfield Limited)**

9

**Notes on the accounts 31st December 1997 - (continued)**

**6 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.

**7 Share capital**

	<u>1997 and 1996</u>	
	<u>Authorised</u>	Issued, called up and fully paid
	£	£
Ordinary shares of £1 each	9,000,000	7,593,453

**8 Reserves**

	<u>Share premium</u>	<u>Other non - distributable reserves</u>	<u>Profit and loss account</u>	<u>Total</u>
	£	£	£	£
At 1st January 1997	848,317	847,703	482,006	2,178,026
Transfer to profit and loss account	-	-	475,916	475,916
At 31st December 1997	848,317	847,703	957,922	2,653,942

**9 Reconciliation of movements on shareholders' equity**

	£	<u>1996</u> £
At 1st January 1997	9,771,479	9,771,479
Total recognised gains and losses for the year	87,475,916	8,039,948
Dividends	(87,000,000)	(8,039,948)
At 31st December 1997	10,247,395	9,771,479

**10 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 Ipsley House, PO Box 55, Redditch, Worcestershire, B98 0TL.