

**FAG (UK) Limited**

**Directors' report and financial  
statements**

**Registered number 491002**

**For the year ended 31 December 2002**





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## Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2002.

### Principal activity

The principal activity of the company in the year under review was that of property rental.

### Business review

The company has made a profit before taxation of £426,022 (2001: £313,142).

During the year, the advance corporation tax refund claim in the amount of £1,200,000 was agreed by the Inland Revenue and is now subject to signing the appropriate settlement agreement between the parties. An estimate of the compensation due in respect of the claim is £657,340. This is based on Inland Revenue indicative interest rates of between 5-8.25% from the date the dividends were paid to 31 December 2002. The board considers that, subject to agreeing the terms of the settlement agreement, it is virtually certain that these amounts will be recovered.

### Dividends

No dividend is recommended by the directors (2001: £Nil).

### Directors and directors' interests

The directors who held office during the year were:

D Fellermann  
Dr G Galli (resigned 30 September 2002)

None of the directors have any interests in the shares of the company or any other group company registered in the United Kingdom.

### Auditors

KPMG were re-appointed auditors of the company at the last annual general meeting. However, since that date, their business was transferred to a limited liability partnership, KPMG LLP. Accordingly, KPMG resigned as auditors on 30 May 2002 and the directors thereupon appointed KPMG LLP to fill the vacancy arising. A resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming annual general meeting.

By order of the board



PA Phipps  
Secretary

1 Hollinswood Court  
Stafford Park  
Telford  
Shropshire  
TF3 3DE

7 March 2003



## Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on a 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.







2 Cornwall Street  
Birmingham  
B3 2DL

## **Independent auditors' report to the members of FAG (UK) Limited**

We have audited the financial statements on pages 4 to 12.

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***

The directors are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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.

### ***Basis of audit 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 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.

### ***Opinion***

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

**KPMG LLP**  
Chartered Accountants  
Registered Auditor

7 March 2003



**Profit and loss account**  
*for the year ended 31 December 2002*

	<i>Note</i>	<b>2002</b> £	2001 £
<b>Turnover</b>			
Discontinued operations	2	-	17,905
Change in stocks of finished goods		-	(18,049)
Other operating income		<b>151,589</b>	90,443
Other operating charges		<b>(76,446)</b>	(152,251)
		<hr/>	<hr/>
<b>Operating profit/(loss)</b>			
Continued	2	<b>75,143</b>	(18,102)
Discontinued	2	-	(43,850)
		<hr/>	<hr/>
		<b>75,143</b>	(61,952)
Other interest receivable and similar income	4	<b>351,109</b>	375,115
Interest payable and similar charges	5	<b>(230)</b>	(21)
		<hr/>	<hr/>
<b>Profit on ordinary activities before taxation</b>	3	<b>426,022</b>	313,142
Tax (charge)/credit on profit on ordinary activities	6	<b>(92,561)</b>	1,355,053
		<hr/>	<hr/>
<b>Profit on ordinary activities after taxation</b>	12	<b>333,461</b>	1,668,195
		<hr/>	<hr/>

There were no recognised gains or losses in either the current or previous year other than those disclosed in the profit and loss account.

Movements in reserves are set out in note 12.



**Balance sheet**  
*at 31 December 2002*

	<i>Note</i>	2002	2001
		£	£
<b>Fixed assets</b>			
Investments	7	2	2
<b>Current assets</b>			
Debtors	8	3,290,752	2,923,333
Cash at bank and in hand		146,760	92,178
		<u>3,437,512</u>	<u>3,015,511</u>
<b>Creditors: amounts falling due within one year</b>	9	<u>(161,730)</u>	<u>(169,890)</u>
Due within one year		3,290,752	1,310,621
Debtors due after one year	8	-	1,535,000
<b>Net current assets</b>		<u>3,275,782</u>	<u>2,845,621</u>
<b>Total assets less current liabilities</b>		<u>3,275,784</u>	<u>2,845,623</u>
<b>Provisions for liabilities and charges</b>	10	<u>(197,200)</u>	<u>(100,500)</u>
<b>Net assets</b>		<u>3,078,584</u>	<u>2,745,123</u>
<b>Capital and reserves</b>			
Called up share capital	11	2,000,000	2,000,000
Share premium account	12	650,000	650,000
Profit and loss account	12	428,584	95,123
<b>Equity shareholders' funds</b>	13	<u>3,078,584</u>	<u>2,745,123</u>

These financial statements were approved by the board of directors on 7 March 2003 and were signed on its behalf by:



**D Fellermann**  
*Director*



## Notes

*(forming part of the financial statements)*

### 1 Principal accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements, except as noted below:

#### *Basis of preparation*

The financial statements have been prepared under the historical cost accounting rules and in accordance with applicable Accounting Standards.

Consolidated financial statements incorporating the financial statements of the company and its subsidiaries have not been prepared on the grounds that a parent undertaking includes the company in its own publicly available consolidated financial statements.

In preparing these financial statements, the company has adopted Financial Reporting Standard 19 "Deferred tax" for the first time.

#### *Cash flow statement*

Under the provisions of Financial Reporting Standard No 1 (cash flow statements) the company is exempt from preparing a cash flow statement as it is a wholly owned subsidiary of FAG Kugelfischer Georg Schäfer AG, a company registered in Germany, which is preparing a group cash flow statement.

#### *Turnover*

Turnover represents the invoiced value of sales, but excluding value added tax.

#### *Taxation*

The charge for taxation is based on the result for the year 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, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

#### *Foreign currencies*

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the year end rates of exchange. Translation differences arising at the balance sheet date are dealt with in the profit and loss account.

#### *Operating leases*

Operating lease payments are charged to the profit and loss account in equal annual amounts over the period of the leases.

#### *Investments*

Shares in group companies are stated at cost less any provision for permanent diminution in value.

## Notes (continued)

### 1 Principal accounting policies (continued)

#### *Related party transactions*

The company has taken advantage of the exemption in Financial Reporting Standard No 8 (related party disclosures) to not disclose related party transactions with INA-Holding Schaeffler KG and its subsidiary undertakings, on the grounds of being a 90% owned subsidiary undertaking of INA-Vermögensverwaltungs GmbH, who is in turn wholly owned by INA-Holding Schaeffler KG and its results are included in the consolidated financial statements of the ultimate parent undertaking and those financial statements are publicly available.

### 2 Analysis of continuing and discontinued operations

	2002		2001	
	Continuing operations	Discontinued operations	Continuing operations	Discontinued operations
	£	£	£	£
Turnover	-	-	-	17,905
Changes in stocks of finished goods	-	-	-	(18,049)
Other operating income	151,589	-	18,098	72,345
Other operating charges	(76,446)	-	(36,200)	(116,051)
<b>Operating profit/(loss)</b>	<b>75,143</b>	<b>-</b>	<b>(18,102)</b>	<b>(43,850)</b>

### 3 Profit on ordinary activities before taxation

	2002 £	2001 £
<i>Profit on ordinary activities before taxation is stated</i>		
<i>after charging/(crediting)</i>		
Property rental	24,563	36,200
Auditors' remuneration in respect of:		
Audit work	5,250	6,000
Other services	17,300	4,500
Rental income	(29,527)	(18,098)
Exchange (gain)/loss	(65,501)	897

### 4 Other interest receivable and similar income

	2002 £	2001 £
Bank interest	2,208	4,335
Receivable from group undertakings	26,561	35,780
Other interest	322,340	335,000
	<b>351,109</b>	<b>375,115</b>





**Notes** *(continued)*

**4 Interest receivable** *(continued)*

Other interest receivable comprises an estimate of the compensation due with respect to the advance corporation tax refund claim. The estimate of the receivable is based on interest rates of between 5-8.25%, from the date the dividends were paid to 31 December 2002. See debtors (note 8).

**5 Interest payable and similar charges**

	2002 £	2001 £
Other interest	230	21
	<u>          </u>	<u>          </u>

**6 Tax on profit on ordinary activities**

*Analysis of charge in year*

	£	2002 £	£	2001 £	£
UK corporation tax:					
Group relief – prior years	(35,639)		(255,553)		
Advanced corporation tax recoverable (see note 8)	-		(1,200,000)		
Current tax on income for the year	31,500		-		
	<u>          </u>		<u>          </u>		
Total current tax credit		(4,139)		(1,455,553)	
Deferred tax					
Deferred tax charge in respect of current period (see note 10)		96,700		100,500	
		<u>          </u>		<u>          </u>	
Tax charge/(credit) on profit on ordinary activities		92,561		(1,355,053)	
		<u>          </u>		<u>          </u>	



## Notes (continued)

### 6 Tax on profit on ordinary activities (continued)

#### Factors affecting the tax charge for the current year

The current tax charge for the year is lower (2001: lower) than the standard rate of corporation tax in the UK 30% (2001: 30%). The differences are explained below:

	2002 £	2001 £
Current tax reconciliation:		
Profit on ordinary activities before tax	426,022	313,142
	<hr/>	<hr/>
Current tax at 30% (2001: 30%)	127,807	93,943
Effects of:		
Capital allowances in excess of depreciation	-	(6,573)
Losses not utilised	-	6,877
Other expenses not qualifying for tax purposes	393	10,132
Decrease in general provisions	-	(3,879)
Losses surrendered to other group companies	(35,639)	(255,553)
Other timing differences	(96,700)	(100,500)
Advanced corporation tax recoverable	-	(1,200,000)
	<hr/>	<hr/>
Tax credit per the accounts for the current year	(4,139)	(1,455,553)
	<hr/>	<hr/>

### 7 Investments held as fixed assets

	2002 £	2001 £
Shares in group companies at cost:		
Subsidiaries	2	2
	<hr/>	<hr/>

The company owned the entire issued share capital of the following non trading subsidiary:

Subsidiary	Country of incorporation
FAG Bearing Company Limited	England and Wales

FAG Bearing Company Limited is a dormant company.



## Notes (continued)

### 8 Debtors

	2002		2001	
	Amounts due within one year £	Amounts due after one year £	Amounts due within one year £	Amounts due after one year £
Trade debtors	-	-	9,602	-
Amounts recoverable on contracts	-	-	9,994	-
Amounts owed by group undertakings	1,429,342	-	1,353,896	-
Advance corporation tax refund claim	1,857,340	-	-	1,535,000
Other debtors	4,070	-	14,841	-
	<u>3,290,752</u>	<u>-</u>	<u>1,388,333</u>	<u>1,535,000</u>

During the year, the advance corporation tax refund claim in the amount of £1,200,000 was agreed by the Inland Revenue and is now subject to signing the appropriate settlement agreement between the parties. An estimate of the compensation due in respect of the claim is £657,340. This is based on Inland Revenue indicative interest rates of between 5-8.25% from the date the dividends were paid to 31 December 2002. The board considers that, subject to agreeing the terms of the settlement agreement, it is virtually certain that these amounts will be recovered. On this basis, the receivables have been recognised as amounts due within one year (2001: amounts due after one year).

### 9 Creditors: amounts falling due within one year

	2002 £	2001 £
Amounts owed to group undertakings	-	30
Corporation tax	31,500	-
Accruals and deferred income	130,230	161,400
Other creditors	-	8,460
	<u>161,730</u>	<u>169,890</u>

### 10 Provisions for liabilities and charges

	Deferred tax £
At beginning of year	100,500
Profit and loss account: Provided in the year (see note 6)	96,700
At end of year	<u>197,200</u>



## Notes (continued)

### 10 Provisions for liabilities and charges (continued)

The elements of provided and unprovided deferred taxation liabilities/(assets) are as follows:

	2002 £	2001 £
Accelerated capital allowances	-	(19,724)
Short term timing differences	(6,225)	(6,225)
Timing differences	197,200	100,500
	<u>190,975</u>	<u>74,551</u>

The deferred tax assets have not been provided for in the current or prior years as the recoverability of these assets is uncertain.

Timing differences comprise amounts relating to the compensation receivable (see note 8).

### 11 Called up share capital

	2002 £	2001 £
<i>Authorised, allotted, called up and fully paid:</i>		
Equity: Ordinary shares of £1 each	2,000,000	2,000,000
	<u>2,000,000</u>	<u>2,000,000</u>

### 12 Reserves

	Share premium account £	Profit and loss account £
Balance at 1 January 2002	650,000	95,123
Profit for the year	-	333,461
	<u>650,000</u>	<u>428,584</u>
<b>Balance at 31 December 2002</b>	<b>650,000</b>	<b>428,584</b>

### 13 Reconciliation of movements in shareholders' funds

	2002 £	2001 £
Retained profit for the year	333,461	1,668,195
Opening shareholders' funds	2,745,123	1,076,928
	<u>3,078,584</u>	<u>2,745,123</u>
<b>Closing shareholders' funds</b>	<b>3,078,584</b>	<b>2,745,123</b>



## Notes (continued)

### 14 Commitments

- (a) There were no capital commitments contracted for but for which no provision has been made at 31 December 2002 (2001: £Nil).
- (b) At 31 December 2002, the company was committed to making the following annual payments in respect of operating leases:

	Land and buildings	
	2002	2001
	£	£
Leases which expire:		
After five years	32,750	32,750

### 15 Ultimate parent company

On 10 June 2002, 90% of the authorised share capital of FAG Kugelfischer Georg Schäfer AG was acquired by INA Vermögensverwaltungs GmbH, a company registered in Germany. On 12 February 2003, the remaining 10% of the authorised share capital was acquired by INA Vermögensverwaltungs GmbH.

The ultimate parent company and controlling party is INA-Holding Schaeffler KG, a company registered in Germany. Copies of the group financial statements may be obtained from:

Industriestraße 1-3  
 91074 Herzogenaurach  
 Germany