Sarnatech BNL Limited

Directors' report and financial statements

Registered number 2668025

31 December 2004

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2004.

Results and dividends

The loss for the year amounted to £259,809 *(2003: £124,769)*. The directors do not recommend the payment of a dividend *(2003: £nil)*.

Principal activity and review of the business

The principal activity of the company ("BNL") is the design, moulding and manufacture of plastic bearings and associated assemblies. Operating in a global marketplace, BNL supplies a variety of blue-chip OEMs worldwide, both direct and via its subsidiary companies.

Further strategic measures taken to revitalise BNL and its subsidiaries have seen continuing positive results. A more focussed approach to account management and the generation of new business leads has again resulted in the addition of a number of new high value accounts.

For 2004 the BNL Group saw a further increase in turnover, particularly in the USA and Far East. This trend has continued into 2005 with the first quarter resulting in a significant upturn in sales worldwide.

Directors and their interests

The directors who held office during the year were as follows:

Dr NK Partlett
M Paasila
D Chapple (resigned 19 January 2005)

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the company.

Political and charitable contributions

The company made no political or charitable contributions in the year *(2003: £nil)*.

By order of the board

ME Daly

ME Daly
Secretary

Manse Lane
Knaresborough
North Yorkshire
HG5 8LF

12 April 2005

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 period. 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; and
- prepare the accounts 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.

KPMG LLP
1 The Embankment
Neville Street
Leeds
LS1 4DW
United Kingdom

Report of the independent auditors to the members of Sarnatech BNL Limited

We have audited the financial statements on pages 4 to 15.

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 the information specified by law regarding the 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 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

19/4/5

Profit and loss account
for the year ended 31 December 2004

	Note	2004	2003
		£	£
Turnover	2	**6,395,383**	6,480,707
Cost of sales		**(4,647,754)**	(4,803,730)
Gross profit		**1,747,629**	1676,977
Distribution costs		**(1,051,147)**	(864,544)
Administrative expenses		**(808,292)**	(760,400)
Operating (loss)/profit		**(111,810)**	52,033
Bank interest receivable		**12,626**	-
Interest payable and similar charges	6	**(270,230)**	(221,338)
Loss on ordinary activities before taxation	3	**(369,414)**	(169,305)
Tax on loss on ordinary activities	7	**109,605**	44,536
Retained loss for the financial year	14	**(259,809)**	(124,769)

There are no recognised gains or losses other than the retained loss for the year.

The historical cost losses are the same as the losses shown above.

Balance sheet
at 31 December 2004

	Note	2004	2003
		£	£
Fixed assets			
Tangible assets	8	**2,391,380**	2,474,244
Investments	9	**62,158**	62,158
		2,453,538	2,536,402
Current assets			
Stocks	10	**725,332**	754,525
Debtors	11	**2,050,538**	1,842,190
Cash at bank and in hand		**1,037,815**	308,181
		3,813,685	2,904,896
Creditors: amounts falling due within one year	12	**(6,004,440)**	(4,918,706)
Net current liabilities		**(2,190,775)**	(2,013,810)
Net assets		**262,783**	522,592
Capital and reserves			
Called up share capital	13	**1,621,000**	1,621,000
Share premium account	14	**39,000**	39,000
Capital redemption reserve	14	**1,000**	1,000
Profit and loss account	14	**(1,398,217)**	(1,138,408)
Shareholders' funds		**262,783**	522,592
Analysis of shareholders' funds			
Equity		**(1,260,217)**	(1,000,408)
Non-equity	13	**1,523,000**	1,523,000
		262,783	522,592

These financial statements were approved by the board of directors on 12 April 2005 and were signed on its behalf by:

N K Partlett

Dr NK Partlett
Director

Notes

(forming part of the financial statements)

1 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.

Basis of preparation

The financial statements have been prepared in accordance with appropriate accounting standards and under the historical cost accounting rules.

The financial statements have been prepared on the going concern basis, notwithstanding net current liabilities of £2,190,775 *(2003: £2,013,810)*, a loss for the year of £259,809 *(2003: £124,769)* and accumulated losses of £1,398,217 *(2003: £1,138,408)*, which the directors believe to be appropriate for the following reasons. The company meets its day to day working capital requirements through both a bank loan and overdraft facility as well as inter company funding from its immediate parent undertaking Sarna Kunststoff Holding AG. The company is therefore reliant on its immediate parent undertaking, which has indicated that it will continue to make available such funds as are needed by the company and in particular it will not seek repayment of the amounts currently made available.

On this basis the directors have no reason to believe that Sarna Kunstsoff Holding AG will not continue to make funds available to the company, which would allow it to meet its liabilities as they fall due for payment.

As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

Cash flow statement

The company has taken advantage of the exemption in Financial Reporting Standard 1 (Revised 1996) Cash Flow Statements, not to prepare a cash flow statement as the consolidated accounts of the parent undertaking, Sarna Kunststoff Holding AG, are publicly available.

Group accounts

The accounts present information about the company as an individual entity and not about its group. The company is exempt from preparing group accounts under Section 248 of the Companies Act 1985 because it is a parent undertaking of a medium sized group.

Related party transactions

The company has taken advantage of the exemption in Financial Reporting Standard 8 from disclosing transactions with related parties that are part of the Sarna Kunststoff Holding AG Group. The consolidated financial statements of Sarna Kunststoff Holding AG, within which this company is included, can be obtained from Industriestrasse, CH 6060 Sarnen, Switzerland.

Notes *(continued)*

1 Accounting policies (continued)

Depreciation

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Freehold buildings	3%
Fixtures & fittings	10-20%
Plant and machinery	
- moulding tools	20%
- general	20%
Motor Vehicles	25%

Expenditure on moulding tools is capitalised net of contributions received from customers. Where the cost is less than £1,000 the expenditure is written off directly to the profit and loss account.

Stock

Stock is stated at the lower of cost incurred in bringing each product to its present location and condition and net realisable value as follows:

- Raw materials and goods for resale - Purchase cost on a first-in, first-out basis
- Work in progress and finished goods - Cost of direct materials and labour plus attributable overheads based on a normal level of activity

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Research and development

Expenditure on research and development is written off to the profit and loss account in the year in which it is incurred.

Deferred taxation

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 in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

Leases

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals paid under operating leases are charged to income on a straight line basis over the lease term.

Notes *(continued)*

1 Accounting policies (continued)

Pensions

The company operates a defined contribution pension scheme. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

Turnover

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties.

2 Analysis of turnover

An analysis of turnover by geographical market is given below:

	2004	2003
	£	£
United Kingdom	**1,975,818**	1,967,592
Overseas	**4,419,565**	4,513,115
	6,395,383	6,480,707

3 Loss on ordinary activities before taxation

This is stated after charging:

	2004	2003
	£	£
Auditors' remuneration - audit services	**18,000**	18,250
- other services	**6,200**	8,500
Depreciation of owned fixed assets	**548,917**	642,182
Hire of plant and machinery - rentals payable under operating leases	**48,438**	82,909
Exceptional costs - closure of Sarnatech BNL (Iberica) SL	-	76,379
- settlement of legal claim	-	11,568

Notes *(continued)*

4 Remuneration of directors

	2004	2003
	£	£
Directors' emoluments	**122,614**	116,044
Company contributions to money purchase pension schemes	**13,392**	11,780
	136,006	127,824

	Number of directors	
	2004	2003
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	**1**	1

5 Staff costs

	2004	2003
	£	£
Wages and salaries	**2,559,566**	2,369,784
Social security costs	**252,928**	240,046
Other pension costs	**105,402**	103,739
	2,917,896	2,713,569

The average weekly number of employees during the year was as follows:

	2004	2003
	No	No
Production	**70**	74
Administration	**9**	10
Sales and distribution	**25**	23
	104	107

Notes *(continued)*

6 Interest payable and similar charges

	2004 £	2003 £
Bank loans and overdrafts	**270,230**	219,783
Finance charges payable under finance leases and hire purchase contracts	**-**	1,555
	270,230	221,338

7 Tax credit on loss on ordinary activities

Analysis of tax credit in period

	2004 £	2003 £
UK corporation tax		
Current tax on income for the period	**(106,629)**	(43,904)
Adjustments in respect of prior periods	**(24,146)**	(2,345)
	(130,775)	(46,249)
Deferred tax		
Origination/reversal of timing differences	**6,468**	2,018
Adjustment in respect of previous years	**14,702**	(305)
	21,170	1,713
Tax credit on loss on ordinary activities	**(109,605)**	(44,536)

Factors affecting the tax credit for the current period

The current tax credit for the period is higher *(2003: lower)* than the standard rate of corporation tax in the UK 30%, *(2003: 30%)*. The differences are explained below.

	2004 £	2003 £
Current tax reconciliation		
Loss on ordinary activities before tax	**(369,414)**	(169,305)
Current tax at 30% *(2003: 30%)*	**(110,824)**	(50,792)
Effects of:		
Expenses not deductible for tax purposes	**10,663**	8,906
Capital allowances for period in excess of depreciation	**(2,764)**	7,132
Short term timing differences	**84**	(9,150)
Utilisation of tax losses	**(3,788)**	-
Adjustments to tax charge in respect of previous periods	**(24,146)**	(2,345)
Total current tax credit	**(130,775)**	(46,249)

Notes *(continued)*

7 Tax credit on loss on ordinary activities *(continued)*

The elements of deferred taxation are as follows:

	2004	2003
	£	£
Difference between accumulated depreciation and amortisation and capital allowances	**5,264**	16,416
Other timing differences	**(82)**	-
Tax losses	**(428)**	
Deferred tax (liability)/asset	**(4,754)**	16,416

8 Tangible fixed assets

	Freehold land and buildings	Plant and machinery	Total
	£	£	£
Cost			
At beginning of year	1,595,394	4,856,122	6,451,516
Additions	-	466,053	466,053
At end of year	1,595,394	5,322,175	6,917,569
Depreciation			
At beginning of year	416,001	3,561,271	3,977,272
Charge for the year	42,364	506,553	548,917
At end of year	458,365	4,067,824	4,526,189
Net book value			
At 31 December 2004	**1,137,029**	**1,254,351**	**2,391,380**
At 31 December 2003	1,179,393	1,294,851	2,474,244

The net book value of plant and machinery above includes an amount of £nil *(2003: £nil)* in respect of assets held under finance leases and hire purchase contracts.

Notes *(continued)*

9 Investments

	£
Cost	
At beginning and end of year	62,158

Sarnatech BNL Limited's subsidiary undertakings at 31 December 2004 were as follows:

	Percentage ownership	**Country of incorporation**	**Principal activity**
Sarnatech BNL (USA) Inc	100%	USA	Marketing thermoplastic bearing assemblies
Sarnatech Japan Inc.	100%	Japan	Marketing thermoplastic bearing assemblies
Sarnatech BNL (France) SARL	100%	France	Non Trading

Sarnatech BNL's investment in Sarnatech Japan Inc. is carried at a cost of £56,655, also included within debtors is an intercompany receivable of £817,760. The subsidiary was incorporated in 2001. The subsidiary made a loss of £56,512 in the year ended 31 December 2004 *(2003: £257,648)* and had net current liabilities of £630,901 *(2003: £553,910)* and net liabilities of £626,119 *(2003: £535,076)* at that date.

No provision for diminution in value of these balances has been raised at 31 December 2004 because in the directors opinion the results to date only reflect the start up phase of the subsidiary. In the directors opinion the carrying values of these assets are supported by the future economic benefits the company expects to receive from the subsidiary as it moves out of its start up phase.

10 Stocks

	2004	2003
	£	£
Raw materials and consumables	**197,210**	229,601
Work in progress	**183,196**	163,810
Finished goods and goods for resale	**344,926**	361,114
	725,332	754,525

Notes *(continued)*

11 Debtors

	2004	2003
	£	£
Trade debtors	**999,042**	846,955
Amounts owed by group undertakings	**961,119**	832,434
Other debtors	**45,508**	114,525
Prepayments and accrued income	**44,869**	48,276
	2,050,538	1,842,190

12 Creditors: amounts falling due within one year

	2004	2003
	£	£
Bank loans and overdrafts	**1,279,404**	2,147,327
Trade creditors	**352,892**	315,979
Amounts owed to group undertakings	**4,101,623**	2,260,896
Other taxes and social security costs	**85,144**	74,049
Accruals and deferred income	**185,377**	120,455
	6,004,440	4,918,706

Notes *(continued)*

13 Share capital

	Authorised		Allotted, called up and fully paid	
	2004	2003	**2004**	2003
	No	No	**£**	£
Redeemable preference shares of £1 each	**1,523,000**	1,523,000	**1,523,000**	1,523,000
Ordinary shares of £1 each	**100,000**	100,000	**98,000**	98,000
	1,623,000	1,623,000	**1,621,000**	1,621,000

The redeemable preference shares can be redeemed at par by the company on giving notice to the holders of the shares in accordance with the company's articles of association. On a winding up the holders of the redeemable preference shares have priority over the other shareholders to receive an amount equal to the subscription price paid per share. The holders have no voting rights. The profits of the company which are available for distribution shall be applied firstly in paying dividends to the holders of the redeemable preference shares unless they agree to pay dividends to the ordinary shareholders.

14 Reconciliation of shareholders' funds and movements on reserves

	Share capital	Share premium account	Capital redemption reserve	Profit and loss account	Total
	£	£	£	£	£
At beginning of year	1,621,000	39,000	1,000	(1,138,408)	522,592
Loss for the year	-	-	-	(259,809)	(259,809)
At end of year	**1,621,000**	**39,000**	**1,000**	**(1,398,217)**	**262,783**

15 Pension commitments

The company operates defined contribution pension schemes. The assets of these schemes are held separately from those of the company in independently administered funds. The pension charge represents contributions payable by the company to the funds and amounted to £105,402 *(2003: £103,739)*.

Notes *(continued)*

16 Commitments

At 31 December 2004 the company has annual commitments under non-cancellable operating leases as set out below:

	2004	2003
	£	£
Operating leases which expire:		
within one year	**37,761**	34,871
within two to five years	**51,793**	23,236
	89,554	58,107

17 Ultimate parent company

The ultimate parent company of the group of undertakings for which group accounts are drawn up and of which the company is a member is Sarna Kunststoff Holding AG. Copies of Sarna Kunststoff Holding AG's accounts can be obtained from Industriestrasse, CH 6060 Sarnen, Switzerland.