



ARTHUR ANDERSEN

**NSK-RHP Europe Limited
and subsidiary undertakings**

Accounts for the year ended 31 December 1999
together with directors' and auditors' reports

Registered number: 2223191



Directors' report

For the year ended 31 December 1999

The directors present their annual report on the affairs of the group, together with the accounts and auditors' report, for the year ended 31 December 1999.

Principal activity and business review

The principal activity of the group is to manufacture and sell standard, special and precision bearings and components to the automotive and engineering industries in the United Kingdom and overseas and to provide related management and financial services to NSK Ltd group companies in Europe and South Africa.

Group trading during 1999 reflected the economic trends in Europe. Group turnover for the year was £248 million (1998 - £263 million). Prospects for the business in 2000 are closely allied to any general improvements in the major economies of Europe and the value of the pound sterling against the euro.

Research and development continues to play a vital role in the group's success. The group is engaged in research and development activities designed to develop new products, improve quality and performance and to maintain and improve product competitiveness and profitability.

The group has a well-established Environmental Policy, setting out its Environmental Objectives and Commitment to progress towards Environmental Excellence. The emphasis is on continuous improvement of Environmental Performance, utilising Total Quality Management as the key methodological tool. The philosophy underpinning this approach is one of "Cradle-to-Grave" focus. This entails influencing suppliers and sub-contractors to adopt sound Environmental Management practices; working on an Environmental Partnership basis with our customers and taking account of Environmental Impacts throughout the total life-cycle of our product range.

During the year the group set up a new subsidiary undertaking, NSK Steering Systems Europe Limited, which was incorporated on 9 June 1999.

Results and dividends

The group loss for the year was £42,439,000 (1998 - £14,215,000). No dividend is recommended.

Directors and their interests

The directors who served during the year and subsequently are as follows:

T Sekiya*

S Asaka

S Kosaka*

N Otsuka (resigned 1 December 1999)

H Takada*

Y Saito (appointed 1 December 1999)

* resident in Japan

The directors do not have any interests in the shares of the company required to be disclosed under the Companies Act 1985. No director had directly or indirectly an interest in any contract with the company.

Directors' report (continued)

Directors and their interests (continued)

The company's non-executive directors are:

T Sekiya	(President of NSK Ltd)
S Kosaka	(Director of NSK Ltd)
H Takada	(Director of NSK Ltd)

Charitable donations

During the year the group made charitable donations of £10,000.

Disabled persons

During the year the group has given full and fair consideration to applications for employment made by disabled persons having regard to their particular aptitudes and abilities.

Where people become disabled during the course of their employment, every effort is made to retain their services and to provide retraining if necessary. All employees are eligible for consideration for appropriate training, career development and promotional opportunities and disabled people are not treated any differently in this respect.

Employee involvement

The group is actively committed to employee involvement and during the year has kept employees as fully informed as possible with regard to the group's performance and prospects and has sought their views and suggestions, wherever practical, on matters which particularly affect them as employees.

Year 2000 and the Euro

The Group began considering the implications of ensuring all its systems are year 2000 compliant in 1996. The resulting programme of work was completed during 1999. Any costs associated with this work have been charged to the profit and loss account as incurred. The Century date change passed without incident.

The Group has also considered the likely impact of the euro on the business and has taken appropriate steps to enable euro trading in all its businesses.

Directors' responsibilities

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;

Directors' report (continued)

Directors' responsibilities (continued)

- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the group 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 group and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

The directors will place a resolution before the annual general meeting to reappoint Arthur Andersen as auditors for the ensuing year.

Mere Way
Ruddington
Nottingham
NG11 6JZ

By order of the Board,



R J Knowler

Secretary

23 March 2000

To the Shareholders of NSK-RHP Europe Limited:

We have audited the accounts on pages 5 to 29 which have been prepared under the historical cost convention, as modified by the revaluation of certain land and buildings, and the accounting policies set out on pages 9 to 12.

Respective responsibilities of directors and auditors

As described on pages 2 and 3 the company's directors are responsible for the preparation of the accounts 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.

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 circumstances of the company and of the group, 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 affairs of the company and of the group at 31 December 1999 and of the group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen
Chartered Accountants and Registered Auditors

Fothergill House
16 King Street
Nottingham
NG1 2AS

23 March 2000

Consolidated profit and loss account

For the year ended 31 December 1999

	Notes	1999 £'000	1998 £'000
Turnover: group and share of joint venture	2	277,314	299,764
Less: share of joint venture turnover	2	(29,408)	(36,420)
Group turnover	2	247,906	263,344
Cost of sales		(222,333)	(221,116)
Gross profit		25,573	42,228
Distribution costs		(6,693)	(5,117)
Administrative expenses		(49,278)	(40,099)
Other operating expenses		(2,719)	(3,175)
Group operating loss		(33,117)	(6,163)
Share of operating (loss) profit in:			
Joint venture		(1,979)	432
Associates		(569)	(133)
Loss before interest		(35,665)	(5,864)
Group interest receivable and similar income	3	3,564	4,391
Share of interest receivable of joint venture		221	348
Group interest payable and similar charges	4	(12,828)	(13,880)
Share of interest payable of joint venture		(915)	(932)
Loss before taxation	5	(45,623)	(15,937)
Tax on loss	7	466	478
Loss after taxation		(45,157)	(15,459)
Minority interest	19	2,718	1,244
Loss for the financial year transferred to reserves	18	(42,439)	(14,215)

A statement of movements on reserves is given in note 18.

All operations of the group continued throughout both years.

In each financial year, there is no material difference between the loss for the financial year and the respective historical cost equivalent.

The accompanying notes are an integral part of this consolidated profit and loss account.

Consolidated statement of total recognised gains and losses

For the year ended 31 December 1999

	1999 £'000	1998 £'000
Loss for the financial year	(42,439)	(14,215)
Loss on foreign currency translation	(2,000)	(20)
Unrealised (deficit) surplus on revaluation of properties	(2,400)	373
Total recognised losses relating to the year	(46,839)	(13,862)


The accompanying notes are an integral part of this consolidated statement of total recognised gains and losses.

Consolidated balance sheet

31 December 1999

	Notes	1999 £'000	1998 £'000
Fixed assets			
Goodwill	11	8,141	10,854
Tangible assets	9	125,515	123,016
Investments:			
Investments in joint ventures:	10		
Share of gross assets		18,296	19,670
Share of gross liabilities		(16,179)	(14,880)
Investments in associates	10	1,577	2,146
Other investments		36	62
		<u>137,386</u>	<u>140,868</u>
Current assets			
Stocks	12	74,312	77,931
Debtors	13	78,962	84,294
Cash at bank and in hand		64,251	45,580
		<u>217,525</u>	<u>207,805</u>
Creditors: Amounts falling due within one year	14	(286,278)	(234,159)
Net current liabilities		<u>(68,753)</u>	<u>(26,354)</u>
Total assets less current liabilities		68,633	114,514
Creditors: Amounts falling due after more than one year	15	(6,820)	(7,631)
Provisions for liabilities and charges	16	(10,867)	(5,959)
Net assets		<u>50,946</u>	<u>100,924</u>
Capital and reserves			
Called-up share capital	17	74,620	74,620
Revaluation reserve	18	3,094	5,501
Foreign currency reserve	18	(2,483)	(483)
Merger reserve	18	15,503	15,503
Profit and loss account	18	(41,046)	1,386
Shareholders' funds – all equity	20	49,688	96,527
Minority interest – all equity	19	1,258	4,397
Total capital employed		<u>50,946</u>	<u>100,924</u>

Signed on behalf of the Board on 23 March 2000

S Asaka  Director

The accompanying notes are an integral part of this consolidated balance sheet.

Company balance sheet

31 December 1999

	Notes	1999 £'000	1998 £'000
Fixed assets			
Tangible assets	9	13,656	11,996
Investments	10	96,761	96,761
		<u>110,417</u>	<u>108,757</u>
Current assets			
Stocks	12	33,474	35,112
Debtors	13	74,949	62,660
Cash at bank and in hand		8	20,653
		<u>108,431</u>	<u>118,425</u>
Creditors: Amounts falling due within one year	14	(166,564)	(155,961)
Net current liabilities		<u>(58,133)</u>	<u>(37,536)</u>
Total assets less current liabilities		52,284	71,221
Creditors: Amounts falling due after more than one year	15	(5,687)	(5,862)
Net assets		<u>46,597</u>	<u>65,359</u>
Capital and reserves			
Called-up share capital	17	74,620	74,620
Profit and loss account	18	(28,023)	(9,261)
Shareholders' funds - all equity		<u>46,597</u>	<u>65,359</u>

Signed on behalf of the Board:

S Asaka  Director

23 March 2000

The accompanying notes are an integral part of this company balance sheet.

Notes to accounts

31 December 1999

1 Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, is set out below.

a) Basis of accounting

The accounts are prepared under the historical cost convention, modified to include the revaluation of certain land and buildings on 31 December 1999 and in accordance with applicable accounting standards.

b) Basis of consolidation

The group accounts consolidate the accounts of NSK-RHP Europe Limited and its subsidiary undertakings.

Acquisitions are accounted for under the acquisition method. The results of subsidiaries acquired are consolidated from the date on which control passes.

c) Goodwill

Goodwill arising on the acquisition of subsidiary undertakings, representing any excess of the fair value of the consideration given over the fair value of identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its estimated useful economic life of 5 years. Provision is made for any impairment.

Goodwill which arose on acquisitions in the year ended 31 December 1997 and earlier periods was written off against a reserve for goodwill as permitted by the accounting standard then in force. Goodwill within this reserve was appropriated to the profit and loss account reserve over a period of 20 years. Goodwill previously written off to this reserve has not been reinstated in the balance sheet as permitted by FRS10.

d) Turnover

Turnover, which arises wholly from the group's principal activity of the manufacture and sale of bearings and components, represents the net invoiced value of goods and services sold, exclusive of value added tax. Net income arising from commissions and other intercompany recharges is included within other operating income.

e) Tangible fixed assets

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment. Once an asset has been brought into use its cost or valuation, less estimated residual value, is written off in equal instalments over its expected useful life. Assets are written off over the following periods:

Freehold land	-	not depreciated
Freehold buildings	-	between 18 and 50 years
Leasehold land and buildings	-	greater of 2% or term of lease
Short leasehold property	-	over period of lease
Plant and machinery	-	between 3 and 15 years
Fixtures and fittings	-	between 3 and 10 years
Motor vehicles	-	4 years

Residual value is calculated on prices prevailing at the date of acquisition or revaluation.

Notes to accounts (continued)

1 Accounting policies (continued)

f) Investments

In the company's accounts, investments in subsidiary undertakings are stated at cost less amounts written off and provision for impairment. Only dividends received and receivable are credited to the company's profit and loss account.

g) Stocks

Stocks are stated at the lower of cost and net realisable value. Where stocks are purchased from abroad, cost includes all expenses of importation and delivery to the group's premises. Where stocks are manufactured by the group, cost includes materials, labour and an appropriate proportion of manufacturing overheads. Net realisable value is based on estimated normal selling prices less further costs expected to be incurred to completion and disposal. Provision is made for obsolete and slow-moving items where appropriate.

h) Foreign currency

In the accounts of individual undertakings, transactions denominated in foreign currencies are recorded in the local currency at the actual exchange rate as of the date of the transaction or, where appropriate, at the rate of exchange in a related forward exchange contract. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end or, where appropriate, at the rate of exchange in a related forward exchange contract. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

The results of overseas operations are translated at the average rates of exchange during the period and their balance sheets at the rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets and results of overseas operations are dealt with through reserves.

i) Taxation

Corporation tax payable is provided on taxable profits at the current rate.

The taxation liabilities of certain group companies are reduced wholly or in part by the surrender of losses by fellow group companies. The tax benefits or charges arising from group relief are recognised in the accounts of the surrendering or recipient companies.

Deferred taxation (which arises from differences in the timing of the recognition of items in the accounts and by the tax authorities), has been calculated on the liability method. Deferred tax is provided on timing differences which will probably reverse, at the rates likely to be in force at the time of the reversal. Deferred tax is not provided on timing differences which, in the opinion of the directors, will probably not reverse.

Notes to accounts (continued)

1 Accounting policies (continued)

j) Pension scheme

The group is party to an arrangement whereby two externally managed defined benefit pension schemes are operated for the majority of its employees. The pension costs are assessed in accordance with the advice from an independent qualified actuary and the amount charged to the profit and loss account is calculated so as to allocate the costs to the group over the average expected remaining working lives of the participating employees. Differences between the amounts charged to the profit and loss account and amounts funded or paid directly to members of unfunded schemes are shown as either provisions or prepayments in the balance sheet.

k) Leases

The group enters into operating leases as described in note 21b. Rentals under operating leases are charged on a straight-line basis over the lease term.

Assets held under finance leases are accounted for as purchases. Consequently, when such a leasing agreement is entered into, the fixed assets and the related obligations are included in the balance sheet at the fair value of the asset. The fixed assets are depreciated over the shorter of the lease term and their useful economic lives. Periodic lease payments are accounted for in the appropriate proportions as repayments of capital and interest which is charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of the capital repayments outstanding.

l) Government grants

Government grants relating to tangible fixed assets are treated as deferred income and released to the profit and loss account over the expected useful lives of the assets concerned. Other grants are credited to the profit and loss account as the related expenditure is incurred.

m) Research and development

Research and development expenditure is written off in the year of expenditure.

n) Associate and joint ventures

The associates are entities in which the group has a participating interest and over whose operating and financial policies it exercises a significant influence.

In the group accounts, investments in associates are accounted for using the equity method. The consolidated profit and loss account includes the group's share of associates' profits less losses, while the group's share of the net assets of the associates is shown in the consolidated balance sheet. Goodwill arising on the acquisition of associates is accounted for in accordance with the policy set out above. Any unamortised balance of goodwill is included in the carrying value of the investment in associates. Joint ventures are similarly accounted for in accordance with FRS 9.

Notes to accounts (continued)

1 Accounting policies (continued)

o) Revaluation reserve

Until 31 December 1999, certain land and buildings were revalued, in accordance with the accounting standards then in force. Revaluation surpluses arising on the revaluation of individual fixed assets were credited to a non-distributable reserve known as the revaluation reserve. Revaluation deficits in excess of the amount of prior revaluation surpluses on the same asset were charged to the profit and loss account. Where depreciation charges are increased following a revaluation, an amount equal to this increase is transferred annually from this reserve to the profit and loss account as a reserve movement. On the disposal of a revalued fixed asset, any remaining revaluation surplus corresponding to the item is transferred to the profit and loss account as a reserve movement.

The group has elected to adopt the transitional provisions of FRS15 and therefore the valuation at 31 December 1999 will not be updated in future years.

p) Related party transactions

The group is a wholly owned subsidiary of NSK Ltd (Japan) and has taken advantage of the exemptions of FRS 8 which allow non-disclosure of all intragroup transactions which are eliminated on consolidation as the consolidated accounts of its parent are publicly available.

q) Cash flows

A statement of cash flows has not been prepared on the basis that NSK-RHP Europe Limited is a wholly owned subsidiary of NSK Ltd (Japan) whose consolidated accounts are publicly available.

2 Turnover

An analysis of turnover by geographical destination is as follows:

	1999 £'000	1998 £'000
Group:		
United Kingdom	75,183	80,672
Rest of Europe	147,874	144,980
Rest of World	24,849	37,692
	<hr/> 247,906	<hr/> 263,344
Share of joint venture's turnover:		
United Kingdom	14,372	14,626
Rest of Europe	14,924	21,412
Rest of World	112	382
	<hr/> 29,408	<hr/> 36,420
Total turnover: group and share of joint venture	<hr/> 277,314	<hr/> 299,764

Notes to accounts (continued)

2 Turnover (continued)

Turnover arose wholly in relation to the group's principal activity.

An analysis of results by geographical segment of manufacture is as follows:

	Turnover £'000	Loss before tax £'000	Net assets £'000
<i>Year ended 31 December 1999</i>			
Group:			
UK	213,026	(33,364)	40,392
Rest of Europe	34,880	(12,259)	10,554
	<u>247,906</u>	<u>(45,623)</u>	<u>50,946</u>
Share of joint venture:			
UK	29,408		
	<u>277,314</u>		

	Turnover £'000	Loss before tax £'000	Net assets £'000
<i>Year ended 31 December 1998</i>			
Group:			
UK	225,352	(12,268)	78,879
Rest of Europe	37,992	(3,669)	22,045
	<u>263,344</u>	<u>(15,937)</u>	<u>100,924</u>
Share of joint venture:			
UK	36,420		
	<u>299,764</u>		

3 Interest receivable and similar income

	1999 £'000	1998 £'000
Bank interest	<u>3,564</u>	<u>4,391</u>

Notes to accounts (continued)

4 Interest payable and similar charges

	1999 £'000	1998 £'000
Bank loans and overdrafts		
- repayable within five years, by instalments	-	651
- repayable within five years, not by instalments	11,419	12,299
Loans from group undertakings	800	309
Finance lease interest	609	621
	<u>12,828</u>	<u>13,880</u>

5 Loss before taxation

Loss before taxation is stated after charging (crediting):

	1999 £'000	1998 £'000
Staff costs (note 6)	88,473	91,850
Depreciation and amounts written off tangible fixed assets		
- owned assets	14,234	13,538
- held under finance leases and hire purchase contracts	1,237	1,241
Reorganisation costs	8,785	2,513
Early retirement and severance costs	9,856	3,245
Research and development costs	4,614	4,418
Amortisation of goodwill	2,713	2,713
Government grant amortisation	(52)	(227)
Operating lease rentals		
- plant and machinery	382	344
- other	1,331	869
Rent receivable	(299)	(203)
Auditors' remuneration for audit services	<u>214</u>	<u>187</u>

Auditors' remuneration for audit services includes £41,000 (1998 - £42,000) paid to auditors other than Arthur Andersen.

Amounts payable to Arthur Andersen and their associates by the company and its subsidiary undertakings in respect of non-audit services were £183,000 (1998 - £100,000).

Auditors' remuneration for audit services in respect of the company was £37,000 (1998 - £30,000).

Notes to accounts (continued)

6 Staff costs

The average monthly number of employees (including executive directors) was:

	1999 Number	1998 Number
UK	2,798	3,252
Overseas	3,475	3,525
	<u>6,273</u>	<u>6,777</u>

	1999 £'000	1998 £'000
Their aggregate remuneration comprised:		
Wages and salaries	73,359	74,335
Social security costs	7,230	10,306
Other pension costs	3,645	4,215
Other labour costs	4,239	2,994
	<u>88,473</u>	<u>91,850</u>

Directors' remuneration

Remuneration

Directors' remuneration includes emoluments paid in respect of directors of the group totalling £428,000 (1998 - £267,000).

Pensions

The number of directors who were members of pension schemes were as follows:

	1999 Number	1998 Number
Defined benefit schemes	<u>-</u>	<u>-</u>

The above amounts for remuneration include the following in respect of the highest paid director:

	1999 £'000	1998 £'000
Emoluments	<u>279</u>	<u>128</u>

Notes to accounts (continued)

7 Tax on loss

The tax (credit) charge is based on the loss for the year and comprises:

	1999 £'000	1998 £'000
Overseas tax	3	(537)
Joint ventures	-	(48)
Deferred tax	(71)	107
	<hr/> (68)	<hr/> (478)
Adjustments in respect of prior years		
- current taxation	(383)	-
- deferred taxation	(15)	-
	<hr/> (466)	<hr/> (478)

8 Parent company profit and loss account

The company has taken advantage of the exemption in the Companies Act 1985 Section 230 not to present its own profit and loss account. The company's loss for the financial year, determined in accordance with the Act, was £18,762,000 (1998 - £2,892,000).

Notes to accounts (continued)

9 Tangible fixed assets

Group	Land and buildings £'000	Assets in course of construction £'000	Plant and machinery £'000	Fixtures and fittings and motor vehicles £'000	Total £'000
Cost or valuation					
Beginning of year	60,406	4,511	153,719	11,800	230,436
Additions	2,066	16,292	7,144	1,847	27,349
Exchange movement	(1,568)	(95)	(191)	(98)	(1,952)
Revaluation	(2,400)	-	-	-	(2,400)
Transfers	(66)	(5,725)	5,606	185	-
Disposals	(62)	(1,950)	(6,611)	(563)	(9,186)
End of year	58,376	13,033	159,667	13,171	244,247
Depreciation					
Beginning of year	10,521	-	89,415	7,484	107,420
Exchange movement	(122)	-	347	(11)	214
Charge	1,520	-	12,578	1,373	15,471
Impairment losses	-	-	1,662	-	1,662
Disposals	(62)	-	(5,520)	(453)	(6,035)
End of year	11,857	-	98,482	8,393	118,732
Net book value					
End of year	46,519	13,033	61,185	4,778	125,515
Beginning of year	49,885	4,511	64,304	4,316	123,016

Certain freehold land was professionally valued as at 31 December 1999 on an open market, existing use basis resulting in a reduction of £2,400,000 to the revaluation reserve. Certain other land and buildings were revalued as at 2 November 1998 on an open market, existing use basis resulting in a credit of £373,000 to the revaluation reserve.

The net book value of land and buildings comprises £46,416,000 (1998: £49,773,000) which is freehold and £103,000 (1998: £112,000) which is short leasehold.

Land and buildings include assets under finance leases with a net book value of £4,370,000 (1998 - £4,525,000). Plant and machinery includes assets under finance leases with a net book value of £834,000 (1998 - £1,672,000). Fixtures and fittings include assets under finance leases with a net book value of £656,000 (1998 - £900,000).

Notes to accounts (continued)

9 Tangible fixed assets (continued)

Company	Land and buildings £'000	Assets in course of construction £'000	Plant and machinery £'000	Fixtures and fittings and motor vehicles £'000	Total £'000
Cost					
Beginning of year	9,459	833	325	4,685	15,302
Additions	1,493	-	32	1,636	3,161
Intragroup transfers	-	(245)	-	(260)	(505)
End of year	<u>10,952</u>	<u>588</u>	<u>357</u>	<u>6,061</u>	<u>17,958</u>
Depreciation					
Beginning of year	1,172	-	109	2,025	3,306
Charge	234	-	40	870	1,144
Intragroup transfers	-	-	-	(148)	(148)
End of year	<u>1,406</u>	<u>-</u>	<u>149</u>	<u>2,747</u>	<u>4,302</u>
Net book value					
End of year	<u>9,546</u>	<u>588</u>	<u>208</u>	<u>3,314</u>	<u>13,656</u>
Beginning of year	<u>8,287</u>	<u>833</u>	<u>216</u>	<u>2,660</u>	<u>11,996</u>

Land and buildings include assets under finance leases with a net book value of £4,370,000 (1998 - £4,525,000). Fixtures and fittings include assets under finance leases with a net book value of £656,000 (1998 - £900,000). The net book value of land and buildings comprises £9,443,000 (1998: £8,175,000) which is freehold, and £103,000 (1998: £112,000) which is short leasehold.

10 Fixed asset investments

	Company	
	1999 £'000	1998 £'000
Subsidiary undertakings	87,874	87,874
Associates and joint ventures – interests in ordinary shares	<u>8,887</u>	<u>8,887</u>
	<u>96,761</u>	<u>96,761</u>

Notes to accounts (continued)

10 Fixed asset investments (continued)

The parent company and group have investments in the following subsidiary undertakings, joint ventures and associates:

	Country of incorporation	Principal activity	Proportion of ordinary shares held
Subsidiary undertakings			
NSK-RHP UK Limited*	England and Wales	Sales	100%
NSK Bearings Europe Limited*	England and Wales	Manufacturing	100%
NSK-RHP Bearings Limited*	England and Wales	Manufacturing	100%
RHP Bearings Europe Limited*	England and Wales	Non-trading	100%
NSK-RHP European Distribution Centre BV*	Netherlands	Non-trading	100%
NSK Steering Systems Europe Limited*	England and Wales	Non-trading	100%
NSK-RHP European Technology Co. Limited*	England and Wales	Research	100%
NSK-RHP South Africa (Pty) Limited*	South Africa	Sales	100%
Walzlager Industriewerke Bulle AG	Switzerland	Manufacturing	100%
NSK-RHP Rulmanlari Orta Dogu Ticaret Limited*	Turkey	Sales	100%
NSK Iskra SA*	Poland	Manufacturing	76.34%
Iskra Zaklad Maszyni Lozysk Specjalnych Sp. Z.O.O.†	Poland	Research	100%
Iskra Zaklad Budowlano – Montazowy Sp. Z.O.O.†	Poland	Manufacturing	100%
Iskra Zaklad Uslug Socjalnych Sp. Z.O.O.†	Poland	Food, recreation and travel services	100%
Joint ventures			
Nastech Europe Limited*	England and Wales	Manufacturing	50%
Associates			
Industria Cuscinetti SpA*	Italy	Manufacturing	33.33%
NSK-RHP Iberica SA*	Spain	Sales	30%

* Held directly by NSK-RHP Europe Limited.

† Held directly by NSK Iskra SA.

Notes to accounts (continued)

10 Fixed asset investments (continued)

	Group £'000	Company £'000
Subsidiary undertakings		
Beginning and end of year	-	87,874
Associates and joint ventures		
Beginning of year	6,936	8,887
Share of loss of associates	(569)	-
Share of loss of joint ventures	(2,673)	-
End of year	3,694	8,887
Total	3,694	96,761

11 Goodwill

	£'000
Cost	
Beginning and end of year	13,567
Amortisation	
Beginning of year	2,713
Charge	2,713
End of year	5,426
Net book value	
End of year	8,141
Beginning of year	10,854

12 Stocks

	Group		Company	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
Raw materials and stores	16,769	19,404	-	-
Work-in-progress	18,161	17,877	-	-
Finished goods and goods for resale	39,382	40,650	33,474	35,112
	74,312	77,931	33,474	35,112

Notes to accounts (continued)

13 Debtors

	Group		Company	
	1999	1998	1999	1998
	£'000	£'000	£'000	£'000
Amounts falling due within one year:				
Trade debtors	21,495	17,161	10	67
Amounts owed by subsidiary undertakings	-	-	20,496	6,667
Amounts owed by other group undertakings	36,143	47,258	36,537	36,749
Amounts owed by associated and joint venture undertakings	13,465	4,150	13,444	3,540
Other debtors	4,923	1,823	292	1,089
Prepayments and accrued income	2,160	3,948	1,225	1,382
Pension prepayment	776	794	-	-
	<u>78,962</u>	<u>75,134</u>	<u>72,004</u>	<u>49,494</u>
Amounts falling due after more than one year:				
Amounts owed by subsidiary undertakings	-	-	2,945	4,006
Amounts owed by associated undertakings	-	9,160	-	9,160
	<u>-</u>	<u>9,160</u>	<u>2,945</u>	<u>13,166</u>
	<u>78,962</u>	<u>84,294</u>	<u>74,949</u>	<u>62,660</u>

14 Creditors: Amounts falling due within one year

	Group		Company	
	1999	1998	1999	1998
	£'000	£'000	£'000	£'000
Obligations under finance leases	703	1,086	258	231
Bank overdrafts	63,443	46,153	11,887	-
Bank loans	148,307	129,673	100,428	100,385
Trade creditors	11,325	16,843	778	267
Amounts owed to subsidiary undertakings	-	-	34,625	41,597
Amounts owed to other group undertakings	37,781	24,024	9,635	9,968
Amounts owed to associated and joint venture undertakings	737	359	737	352
Taxation and social security	2,799	3,248	414	854
Other creditors	21,099	12,637	7,802	2,307
Deferred income – regional government grants	84	136	-	-
	<u>286,278</u>	<u>234,159</u>	<u>166,564</u>	<u>155,961</u>

Notes to accounts (continued)

15 Creditors: Amounts falling due after more than one year

	Group		Company	
	1999	1998	1999	1998
	£'000	£'000	£'000	£'000
Obligations under finance leases	5,687	6,368	5,687	5,862
Medium term bank loans	1,133	1,263	-	-
	<u>6,820</u>	<u>7,631</u>	<u>5,687</u>	<u>5,862</u>

a) Obligations under finance leases

Amounts payable:

- within one year	703	1,086	258	231
- between two and five years	479	1,240	479	734
- after five years	5,208	5,128	5,208	5,128
	<u>6,390</u>	<u>7,454</u>	<u>5,945</u>	<u>6,093</u>
Falling due within one year	703	1,086	258	231
Falling due after more than one year	5,687	6,368	5,687	5,862
	<u>6,390</u>	<u>7,454</u>	<u>5,945</u>	<u>6,093</u>

b) Bank loans

At 31 December 1999 the group had various unsecured sterling loans totalling £136,587,000 (1998 - £125,641,000) which bear interest at commercial rates in the range 5% to 8% and various unsecured currency loans totalling £8,633,000 (1998 - £3,234,000) which bear interest at commercial rates in the range 5% to 23%. The group also had currency loans of £1,133,000 (1998 - £1,263,000) which are secured on land and buildings of Walzlager Industriewerke Bulle AG, and £3,087,000 (1998 - £798,000) secured on land and buildings, plant and machinery of NSK Iskra SA.

At 31 December 1999 the company had various unsecured sterling loans totalling £99,887,000 (1998 - £98,941,000) which bear interest at commercial rates in the range 5% to 7% and various unsecured currency loans totalling £541,000 (1998 - £1,444,000) which bear interest at commercial rates in the range 5% to 8%.

The bank loans are repayable as follows:

	Group		Company	
	1999	1998	1999	1998
	£'000	£'000	£'000	£'000
Within one year	148,307	129,673	100,428	100,385
Between two and five years	1,133	-	-	-
After five years	-	1,263	-	-
	<u>149,440</u>	<u>130,936</u>	<u>100,428</u>	<u>100,385</u>

Notes to accounts (continued)

16 Provisions for liabilities and charges

	Group		Company	
	1999	1998	1999	1998
	£'000	£'000	£'000	£'000
Deferred tax	115	201	-	-
Reorganisation provision	4,869	2,513	-	-
Other employee liabilities	5,883	3,245	-	-
	<u>10,867</u>	<u>5,959</u>	<u>-</u>	<u>-</u>

Deferred tax

	Group		Company	
	1999	1998	1999	1998
	£'000	£'000	£'000	£'000
Beginning of year	201	94	-	-
(Credited) charged to profit and loss account	(86)	107	-	-
End of year	<u>115</u>	<u>201</u>	<u>-</u>	<u>-</u>

Deferred tax provided:

	Group		Company	
	1999	1998	1999	1998
	£'000	£'000	£'000	£'000
Accelerated capital allowances	5,497	5,215	-	-
Other short term timing differences	(1,896)	(764)	-	-
Effect of losses carried forward	(3,486)	(4,250)	-	-
	<u>115</u>	<u>201</u>	<u>-</u>	<u>-</u>

At 31 December 1999 there was a potential deferred tax liability, which has not been provided on the grounds that the directors believe that the liability arises from timing differences which are unlikely to reverse in the foreseeable future.

Notes to accounts (continued)

16 Provisions for liabilities and charges (continued)

Deferred tax (continued)

Deferred tax unprovided:

	Group		Company	
	1999	1998	1999	1998
	£'000	£'000	£'000	£'000
Accelerated capital allowances	8,795	4,688	-	-
Other short term timing differences	(2,350)	-	-	-
Effect of losses carried forward	(1,169)	-	-	-
	<u>5,276</u>	<u>4,688</u>	<u>-</u>	<u>-</u>

Reorganisation provision

	Group		Company	
	1999	1998	1999	1998
	£'000	£'000	£'000	£'000
Beginning of year	2,513	1,213	-	-
Charged to profit and loss account	4,869	2,513	-	-
Utilised in the year	(2,513)	(1,213)	-	-
End of year	<u>4,869</u>	<u>2,513</u>	<u>-</u>	<u>-</u>

Other employee liabilities

	Group		Company	
	1999	1998	1999	1998
	£'000	£'000	£'000	£'000
Beginning of year	3,245	-	-	-
Charged to profit and loss account	5,883	3,245	-	-
Utilised in the year	(3,245)	-	-	-
End of year	<u>5,883</u>	<u>3,245</u>	<u>-</u>	<u>-</u>

17 Called-up share capital

	1999	1998
	£'000	£'000
Authorised		
Ordinary shares of £1 each	<u>75,000</u>	<u>75,000</u>
	1999	1998
	£'000	£'000
Allotted, called-up and fully paid		
Ordinary shares of £1 each	<u>74,620</u>	<u>74,620</u>

Notes to accounts (continued)

18 Reserves

Group

	Revaluation reserve £'000	Foreign Currency Reserve £'000	Merger reserve £'000	Profit and loss account £'000	Total £'000
Beginning of year	5,501	(483)	15,503	1,386	21,907
Loss for the financial year	-	-	-	(42,439)	(42,439)
Loss on foreign currency translation	-	(2,000)	-	-	(2,000)
Revaluation deficit	(2,400)	-	-	-	(2,400)
Revaluation transfer	(7)	-	-	7	-
End of year	<u>3,094</u>	<u>(2,483)</u>	<u>15,503</u>	<u>(41,046)</u>	<u>(24,932)</u>

Company

	Profit and loss account £'000
Beginning of year	(9,261)
Loss for the financial year	(18,762)
End of year	<u>(28,023)</u>

The cumulative amount of goodwill written off against the group's reserves, net of goodwill relating to undertakings disposed of, is £9,797,000 (1998 - £9,797,000).

19 Minority interest

	£'000
Beginning of year	4,397
Loss for the financial year	(2,718)
Loss on foreign currency translation	(421)
At end of year	<u>1,258</u>

Notes to accounts (continued)

20 Reconciliation of movements in group shareholders' funds

	1999 £'000	1998 £'000
Opening shareholders' funds	96,527	79,389
Loss for the financial year	(42,439)	(14,215)
Loss on foreign currency translation	(2,000)	(20)
Revaluation surplus	-	373
Revaluation deficit	(2,400)	-
Share issue	-	31,000
Closing shareholders' funds	<u>49,688</u>	<u>96,527</u>

21 Guarantees and other financial commitments

a) Capital commitments

	Group		Company	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
Contracted but not provided for	<u>1,746</u>	<u>2,308</u>	<u>-</u>	<u>-</u>

b) Lease commitments

The minimum commitment for the next year in respect of non-cancellable operating leases analysed by expiry date is as follows:

Land and buildings

	Group		Company	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
After five years	<u>50</u>	<u>50</u>	<u>50</u>	<u>50</u>

Other leases

	Group		Company	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
Within one year	727	480	271	121
Between two and five years	<u>935</u>	<u>934</u>	<u>216</u>	<u>343</u>
	<u>1,662</u>	<u>1,414</u>	<u>487</u>	<u>464</u>

Notes to accounts (continued)

21 Guarantees and other financial commitments (continued)

c) Contingent liabilities

Bank guarantees

	Group		Company	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
Bank guarantees	3,740	3,700	700	700

The company is party to a group cross guarantee arrangement relating to fellow subsidiary undertakings of NSK-RHP Europe Limited operating in the UK. At 31 December 1999 the company's liability under the cross guarantee amounted to £17,008,000 (1998: £25,512,000)

d) Pension arrangements

The group is party to two principal schemes operating for certain employees. These are the NSK Pension Scheme and the NSK-RHP Pension Scheme. Both are defined benefit schemes, the assets of which are held in separate trustee administered funds.

The total pension cost for the group during the year was £3,645,000 (1998 - £4,215,000). The pension cost relating to the schemes is assessed in accordance with the advice of a qualified actuary on the basis of valuations using the projected unit method. The current year charge arises from the rate of contributions based on advice from the actuary, following the results of the formal valuation.

The latest actuarial valuation of the NSK scheme was at 1 January 1998. The assumptions which had the most significant effect on the results of the valuation were an investment return of 9% per annum, pensionable salary increase of 7% per annum and pensions increases in payment of 4% per annum.

At the date of the latest valuation the market value of the assets of the NSK Pension Scheme was £16,806,000 and the actuarial value of the assets was sufficient to cover 85% of the benefits that had accrued to members, after allowing for expected future increases in pensionable salaries. The deficit will be reduced by increased contributions to the scheme.

The latest actuarial valuation of the NSK-RHP Pension Scheme was carried out as at 31 August 1999. The assumptions which had the most significant effect on the results of the valuation were an investment return of 8% per annum, pensionable salary increases of 6% per annum and pension increases in payment of 3.5% per annum.

The draft valuation showed that the market value of the assets of the NSK-RHP Pension Scheme was £118,383,000 and the actuarial value of the assets was sufficient to cover 101% of the benefits that had accrued to members, after allowing the expected future increases in pensionable salaries.

Notes to accounts (continued)

22 Subsequent events

On 31 January 2000, NSK Steering Systems Europe Limited increased its authorised share capital to 20 million £1 ordinary shares and allotted 2,999,998 £1 ordinary shares to NSK-RHP Europe Limited for cash at par.

On 14 February 2000, NSK-RHP Europe Limited acquired 1,731,176 ordinary shares in NSK Iskra SA for consideration of £3,026,000.

On 18 February 2000, NSK-RHP Europe Limited increased its authorised share capital to 250 million £1 ordinary shares and allotted 15,380,000 £1 ordinary shares to NSK Limited for cash at par.

On the same date, NSK-RHP Europe Limited acquired the remaining 50% shareholding of its joint venture, Nastech Europe Limited. The initial purchase price was US\$ 8,500,000, which is subject to a completion accounts process which could result in an adjustment to the final price.

On 2 March 2000, NSK-RHP Europe Limited acquired a further 1,141,933 ordinary shares in NSK Iskra SA for consideration of £2,029,000 and on 15 March 2000, NSK-RHP Europe Limited acquired a further 36,120 ordinary shares in NSK-RHP Iskra SA for consideration of £66,000, increasing its shareholding in the company to 87.81%.

23 Related party transactions

During the year the group purchased goods to the value of £3,937,000 (1998 - £4,375,000) from Industria Cuscinetti SpA, a 33 $\frac{1}{3}$ % owned associate. At 31 December 1999 the group had an outstanding liability with Industria Cuscinetti SpA of £122,000 (1998 - £186,000).

During the year the group sold goods and provided services to the combined value of £9,737,000 (1998 - £Nil) to NSK-RHP Iberica SA, a 30% owned associate. At 31 December 1999 the group had an outstanding balance owed by NSK-RHP Iberica SA of £3,214,000 (1998 - £165,000).

During both years the group has not sold goods or provided services to Nastech Europe Limited, a joint venture undertaking in which the group has a 50% shareholding. In addition Nastech Europe Limited has paid the group £129,000 (1998 - £110,000) during the year for the lease of land and buildings. The lease arrangements in place at the year end are due to expire on 1 April 2000. At 31 December 1999, the group had an outstanding balance owed by Nastech Europe Limited of £11,422,000 (1998 - £9,291,000). Of the outstanding balance at 31 December 1999, £6,450,000 (1998 - £6,450,000) relates to unsecured zero coupon bonds and the balance to a loan and related accrued interest. The loan, including the related accrued interest, is repayable on 26 March 2001. The unsecured zero coupon bonds including the related accrued interest, are repayable on 31 March 2000.

During the year the group sold goods and provided services to the combined value of £326,000 (1998 - £285,000) to NSK Iskra SA, a 76.34% subsidiary undertaking, and bought goods to the value of £391,000 (1998 - £Nil). At 31 December 1999 the group had an outstanding balance owed by NSK Iskra SA of £258,000 (1998 - £223,000).

Notes to accounts (continued)

24 Ultimate parent company

The company is a subsidiary undertaking of NSK Ltd, incorporated in Japan. The only group of which NSK-RHP Europe Limited is a member and for which group accounts are drawn up is that headed by NSK Ltd, whose principal place of business is Nissei Building, 1-6-3 Ohsaki, Shinagawa-ku, Tokyo 141, Japan. The consolidated accounts of this group are available to the public, and may be obtained from the address set out above.