

 ERNST & YOUNG

# **J E M Enterprises Limited**

## **Report and Accounts**

31 December 1999



# J E M Enterprises Limited

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Registered No. 3163864

## **DIRECTORS**

J Mall  
S Rogers  
N Shelton  
N Garner

## **SECRETARY**

N Shelton

## **AUDITORS**

Ernst & Young  
100 Barbirolli Square  
Manchester  
M2 3EY

## **BANKERS**

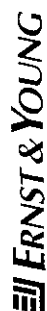
National Westminster Bank plc  
PO Box 14  
23 Sankey Street  
Warrington  
Cheshire  
WA1 1XH

## **SOLICITORS**

Eversheds  
London Scottish House  
24 Mount Street  
Manchester  
M2 3DB

## **REGISTERED OFFICE**

John Street  
Warrington  
Cheshire  
WA2 7UB

 ERNST & YOUNG

# J E M Enterprises Limited

## DIRECTORS' REPORT

The directors present their report and accounts for the year ended 31 December 1999.

### RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £239,958 (1998: loss £755,517).

The directors do not recommend the payment of a dividend.

### PRINCIPAL ACTIVITY

The principal activity of the company is to hold shares in K&N Filters (Europe) Limited. The company has no other operations.

### BUSINESS REVIEW

With no operations beyond the holding of shares in K&N Filters (Europe) Limited, the company continues to meet interest payments arising under original acquisition indebtedness supported by its parent undertaking K&N Engineering Inc.

### DIRECTORS AND THEIR INTERESTS

The directors at 31 December 1999 and their interests in the issued ordinary share capital of the company were as follows:

	1999 No.	1998 No.
J Mall	-	-
S Rogers	-	-
N Shelton	-	-
D Bickerton (resigned 28 February 1999)	-	10

### AUDITORS

Haslam Tunstall resigned during the year as auditors and Ernst & Young were appointed. Ernst & Young will seek reappointment at the Annual General Meeting.

On behalf of the board



S Rogers  
Director

22/9/00

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE  
ACCOUNTS

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 of the profit or loss of the company 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;
- 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 accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**REPORT OF THE AUDITORS**

to the members of J E M Enterprises Limited

We have audited the accounts on pages 6 to 11, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on page 8.

**Respective responsibilities of directors and auditors**

As described on page 4, the company's directors are responsible for the preparation of accounts in accordance with application United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

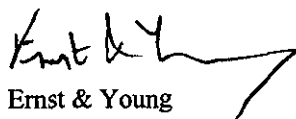
**Basis of opinion**

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 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 affairs of the company as at 31 December 1999 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young  
Registered Auditor  
Manchester

10/10/00

# J E M Enterprises Limited

## PROFIT AND LOSS ACCOUNT for the year ended 31 December 1999

	<i>Notes</i>	<i>1999</i> £	<i>1998</i> £
Administrative expenses		584	32
<b>OPERATING LOSS</b>		<b>(584)</b>	<b>(32)</b>
Amounts written off investments		-	(730,286)
Amounts written back to investments		258,033	-
Interest payable	3	(17,491)	(25,199)
<b>PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<b>239,958</b>	<b>(755,517)</b>
Taxation	4	-	-
<b>PROFIT/(LOSS) RETAINED FOR THE FINANCIAL YEAR</b>	11	<b>239,958</b>	<b>(755,517)</b>

### STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

The company has no recognised gains and losses other than those shown by the above profit and loss account.

# J E M Enterprises Limited

## BALANCE SHEET at 31 December 1999

	Notes	1999 £	1998 £
<b>FIXED ASSETS</b>			
Investments	5	462,579	204,546
<b>CURRENT ASSETS</b>			
Debtors	6	100	100
Cash at bank and in hand		573	417
		<u>673</u>	<u>517</u>
<b>CREDITORS: amounts falling due within one year</b>	7	131,831	124,274
<b>NET CURRENT LIABILITIES</b>		<u>(131,158)</u>	<u>(123,757)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		331,421	80,789
<b>CREDITORS: amounts falling due after more than one year</b>	8	672,184	661,510
<b>NET LIABILITIES</b>		<u>(340,763)</u>	<u>(580,721)</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	10	250,100	250,100
Profit and loss account	11	(590,863)	(830,821)
		<u>(340,763)</u>	<u>(580,721)</u>
<b>SHAREHOLDERS' FUNDS</b>			
Equity shareholders' funds		(590,763)	(830,721)
Non-equity shareholders funds		250,000	250,000
		<u>(340,763)</u>	<u>(580,721)</u>



S Rogers - Director

22/9/00

NOTES TO THE ACCOUNTS  
at 31 December 1999

1. ACCOUNTING POLICIES

*Fundamental accounting concept*

The accounts are prepared on the going concern basis as the parent company has agreed to provide financial support for the foreseeable future.

*Accounting convention*

The accounts are prepared under the historical cost convention and are in accordance with applicable accounting standards.

The company has taken advantage of the exemptions conferred by Section 248 of the Companies Act 1985 not to prepare group accounts on the basis that it heads a medium-sized group. Hence the financial statements present information about the company as an individual undertaking and not about its group.

*Deferred taxation*

Deferred taxation is provided using the liability method on all timing differences, including those relating to pensions, which are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse. Advance corporation tax which is expected to be recoverable in the future is deducted from the deferred taxation balance.

Deferred taxation assets are only recognised if recovery without replacement by equivalent debit balances is reasonably certain.

*Capital instruments*

Shares are included in shareholders' funds. Other instruments are classified as liabilities if they contain an obligation to transfer economic benefits and if not they are included in shareholders' funds. The finance cost recognised in the profit and loss account in respect of capital instruments other than equity shares is allocated to periods over the term of the instrument at a constant rate on the carrying amount.

2. DIRECTORS' REMUNERATION

The directors are remunerated by the parent undertaking and subsidiary undertaking respectively.

3. INTEREST PAYABLE

	31 December 1999 £	31 December 1998 £
Loan notes	17,491	25,199

4. TAX ON LOSS ON ORDINARY ACTIVITIES

At 31 December 1999 the company had tax losses available to carry forward of approximately £33,000 (1998: £25,300). No provision is required for deferred taxation.



# J E M Enterprises Limited

## NOTES TO THE ACCOUNTS at 31 December 1999

### 5. INVESTMENTS

	<i>Subsidiary undertaking £</i>
Cost:	
At 31 December 1998 and 31 December 1999	934,832
Provisions	
At 1 January 1999	730,286
Release of provision	(258,033)
At 31 December 1999	472,253
Net book value	
At 31 December 1999	462,579
At 31 December 1998	204,546

The company owns the entire issued ordinary share capital of K&N Filters (Europe) Limited, a company engaged in the importation, manufacture and sale of air filters. K&N Filters (Europe) Limited is registered in England and Wales.

The aggregate amount of capital and reserves of K&N Filters (Europe) Limited at 31 December 1999 was £462,579 (1998: £204,546). Its profit after taxation for the year was £258,033 (1998 loss £1,068,251).

The value of the company's investment in K&N Filters (Europe) Limited, stated by way of the equity method of accounting, is £462,579 (1998: £204,546).

The directors are of the opinion that the aggregate value of the company's investment in K&N Filters (Europe) Limited is not less than the amount at which it is stated in the accounts.

### 6. DEBTORS

	<i>1999 £</i>	<i>1998 £</i>
Amount due from group undertakings	100	100

### 7. CREDITORS: amounts falling due within one year

	<i>1999 £</i>	<i>1998 £</i>
Current instalment due on loan notes (note 9)	116,854	116,854
Amounts owed to group undertakings	12,189	2,777
Other creditors	2,788	4,643
	131,831	124,274

# J E M Enterprises Limited

## NOTES TO THE ACCOUNTS at 31 December 1999

### 8. CREDITORS: amounts falling due after more than one year

	1999 £	1998 £
Loan notes (note 9)	116,854	233,708
Amounts owed to group undertakings	555,330	427,802
	<u>672,184</u>	<u>661,510</u>

### 9. LOAN NOTES

	1999 £	1998 £
Amounts repayable:		
In one year or less, or on demand	129,043	119,631
Between one and two years	672,184	544,656
Between two and five years	-	116,854
	<u>801,227</u>	<u>781,141</u>
Less: included in creditors: amounts falling due within one year	(129,043)	(119,631)
	<u>672,184</u>	<u>661,510</u>

The loan notes are secured on the investment in the subsidiary undertaking.

### 10. SHARE CAPITAL

#### Authorised:

	1999 No.	1998 No.	1999 £	1998 £
Ordinary shares of £1 each	100	100	100	100
Preference shares of £1 each	620,000	620,000	620,000	620,000
	<u>620,100</u>	<u>620,100</u>	<u>620,100</u>	<u>620,100</u>

#### Allotted, called up and fully paid

	1999 No.	1998 No.	1999 £	1998 £
Ordinary shares of £1 each	100	100	100	100
Preference shares of £1 each	250,000	250,000	250,000	250,000
	<u>250,100</u>	<u>250,100</u>	<u>250,100</u>	<u>250,100</u>

NOTES TO THE ACCOUNTS  
at 31 December 1999**10. SHARE CAPITAL (continued)**

The preference shares of £1 each shall have priority over the ordinary shares of £1 each in respect of the declaration and payment of any dividends. The preference shares of £1 each shall carry no entitlement to attend, speak or vote at the general meetings of the company.

Upon the occurrence of certain events, each preference share of £1 each shall immediately convert into an ordinary share of £1 each which will rank equally in all respects with the ordinary shares of £1 each then in issue.

In the event of a winding up of the Company the holders of preference shares of £1 each shall receive (in proportion to the numbers of ordinary shares of £1 each held by them) all unpaid arrears and accruals of any dividend payable upon such shares together with an amount equal to the aggregate amount paid, or credited as paid up, in respect of each ordinary share of £1 each held by them.

Subject to the foregoing, the holders of the ordinary shares of £1 each (in proportion to the numbers of preference shares of £1 each held by them) shall receive all unpaid arrears and accruals of any dividend payable upon such shares together with an amount equal to the aggregate amount paid, or credited as paid up, in respect of each preference share of £1 each held by them.

Any remaining distribution on winding up will be paid to holders of preference shares (pro-rata to their holdings of ordinary shares) up to a maximum of £10,000,000 and thereafter any remaining amounts available for distribution shall be distributed to the holders of ordinary shares and preference shares (pro-rata to their total shareholdings in the company).

**11. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES**

	<i>Share capital £</i>	<i>Profit and loss account £</i>	<i>Total Shareholders' funds £</i>
At 1 January 1999	250,100	(830,821)	(580,721)
Profit for the year	-	239,958	239,958
At 31 December 1999	<u>250,100</u>	<u>(590,863)</u>	<u>(340,763)</u>

**12. RELATED PARTIES**

The company has taken advantage of the exemption conferred under FRS 8 not to disclose certain related party transactions.

**13. PARENT UNDERTAKING AND CONTROLLING PARTY**

The ultimate parent undertaking and controlling party is K&N Engineering Inc. which is incorporated in the United States of America.