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KETLON LIMITED

FINANCIAL STATEMENTS

FOR THE PERIOD ENDED

31 DECEMBER 2002

Company no 4375868

KETLON LIMITED

FINANCIAL STATEMENTS

For the period ended 31 December 2002

Company registration number:	4375868
Registered office:	3 Worcester Street Oxford OX1 2PZ
Directors:	Andrew Barr Russell Barr Brian J Barr Alan N Latham Paul A Cahill David Nicholas
Secretary:	Aldwych Secretaries Limited
Bankers:	Barclays Bank Plc Birmingham GE Capital Commercial Finance Limited Tunbridge Wells Kent
Solicitors:	Manches Solicitors
Auditors:	Grant Thornton Registered Auditors Chartered Accountants Central Milton Keynes

KETLON LIMITED

FINANCIAL STATEMENTS

For the period ended 31 December 2002

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REPORT OF THE DIRECTORS

The directors present their report together with the audited financial statements for the period ended 31 December 2002.

Principal activity

The company was incorporated on 18 February 2002 and its principal activity is the manufacture and sale of motor vehicle components.

Business review

As described in note 19 the company acquired the Ketlon business division of Unipart Group Limited on 8 March 2002.

There was a profit for the period after taxation amounting to £913,802. The directors do not recommend the payment of a dividend.

Turnover, gross profit and operating profit were all ahead of the plan and a profit before taxation for the period of £1,255,802 was achieved. The balance sheet shows net current assets of £1.7 million including cash at bank of £2.0 million.

Since the acquisition of the business from Unipart a number of changes have been implemented, including;

- all business systems have been separated from Unipart
- the finance systems have been upgraded and a new management reporting structure has been put in place
- the organisation and cost structure has been realigned to better meet the needs of the business and provide a competitive cost base
- credit control and treasury management have been improved
- a factory wide productivity based bonus system has been installed
- there has been a considerable increase in sales and marketing activity which has already led to significant new orders being won

Directors

The present membership of the Board is set out below.

The interests of the directors and their families in the shares of the company as at 31 December 2002 and at date of appointment were as follows:

	Ordinary shares of £1 each	
	31 December 2002	Date of appointment
Andrew Barr (appointed 4 March 2002)	75	-
Russell Barr (appointed 13 May 2002)	25	25
Brian J Barr (appointed 4 March 2002)	-	-
Alan N Latham (appointed 11 July 2002)	-	-
Paul A Cahill (appointed 11 July 2002)	-	-
David Nicholas (appointed 22 July 2002)	-	-

No director had any right to subscribe in shares of the company during the period, or was granted or exercised any right in the period.

London Law Services Limited was the first director of the company and resigned on 18 February 2002.
David P Tighe was appointed a director on 18 February 2002 and resigned on 4 March 2002.

Directors' responsibilities for the financial statements

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 of the company 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
- prepare the financial statements 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, for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Employee involvement

The company has established a practice of keeping employees informed of matters affecting them as employees and the financial and economic factors affecting the performance of the company. This is achieved through an employee forum comprising representatives from each area of the business, which meets monthly. The forum is used to communicate on business issues that affect the employees. The company also uses communication boards in each area of the site, holds weekly team talks, and issues a monthly newsletter. The company also holds monthly management meetings and twice a year employee presentations are given covering important aspects of the business.

Disabled employees

Applications for employment by disabled persons are given full and fair consideration for all vacancies in accordance with their particular aptitudes and abilities. In the event of current employees becoming disabled, every effort is made to carry out any retraining necessary in order that their employment with the company may continue.

It is the policy of the company that training, career development and promotion opportunities should be available to all employees.

Auditors

Grant Thornton were appointed the first auditors of the company and offer themselves for reappointment as auditors in accordance with Section 385 of the Companies Act 1985.

ON BEHALF OF THE BOARD

A Barr

Andrew Barr
Director
15 May 2003

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF KETLON LIMITED

We have audited the financial statements of Ketlon Limited for the period ended 31 December 2002 which comprise the principal accounting policies, the profit and loss account, the balance sheet, the cash flow statement and notes 1 to 23. These financial statements have been prepared under the accounting policies set out therein.

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 auditors' 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 the directors and auditors

The directors' responsibilities for preparing the directors' report and the financial statements in accordance with United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards.

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.

We read other information contained in the directors' report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of opinion

We conducted our audit in accordance with United Kingdom 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 period then ended and have been properly prepared in accordance with the Companies Act 1985.

Grant Thornton

GRANT THORNTON
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
Central Milton Keynes
[Date]

15 May 2003

BASIS OF PREPARATION

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

The principal accounting policies of the company are set out below.

TURNOVER

Turnover is the total amount receivable by the company for goods supplied and services provided, excluding VAT and trade discounts.

NEGATIVE GOODWILL

Negative goodwill arising on acquisitions is written back to the profit and loss account to match the recovery of the non-monetary assets acquired.

TANGIBLE FIXED ASSETS AND DEPRECIATION

Depreciation is calculated to write down the cost less estimated residual value of all tangible fixed assets other than freehold land by equal annual instalments over their expected useful lives. The rates generally applicable are:

Assets in the course of construction	Nil
Plant and machinery	7 years straight line
Office equipment	2 years straight line

LEASED ASSETS

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

All other leases are regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight line basis over the lease term.

STOCKS

Stocks are stated at the lower of cost and net realisable value, after making allowance for obsolete and slow moving items.

DEFERRED TAXATION

Deferred tax is recognised on all timing differences where the transactions or events that give the company an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance date.

FOREIGN CURRENCY

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. 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.

CONTRIBUTIONS TO PENSION SCHEMES

Defined Contribution Scheme

The pension costs charged against profits represent the amount of the contributions payable to the scheme in respect of the accounting period.

KETLON LIMITED

PROFIT AND LOSS ACCOUNT

For the period from 18 February 2002 to 31 December 2002

	Note	£
Turnover	1	**21,465,266**
Cost of sales		**(18,797,232)**
Gross profit		**2,668,034**
Other operating charges	2	**(1,304,141)**
Operating profit		**1,363,893**
Net interest	3	**(108,091)**
Profit on ordinary activities before taxation	1	**1,255,802**
Tax on profit on ordinary activities	5	**(342,000)**
Profit for financial period, transferred to reserves		**913,802**

All the results above relate to operations acquired during the period.

There were no recognised gains or losses other than the profit for the financial period.

The accompanying accounting policies and notes form an integral part of these financial statements.

BALANCE SHEET AT 31 DECEMBER 2002

	Note	£	£
Fixed assets			
Intangible assets - negative goodwill	6		(3,543,376)
Tangible assets	7		3,018,877
			(524,499)
Current assets			
Stocks	8	1,415,871	
Debtors	9	4,050,354	
Cash at bank and in hand		1,997,347	
		7,463,572	
Creditors: amounts falling due within one year	10	(5,788,893)	
Net current assets			1,674,679
			1,150,180
Creditors: amounts falling due after more than one year	11		(224,278)
Provisions for liabilities and charges	13		(12,000)
			913,902
Capital and reserves			
Called up share capital	15		100
Profit and loss account			913,802
Shareholders' funds			913,902

The financial statements were approved by the Board of Directors on 15 May 2003.

Brian J Barr Director

The accompanying accounting policies and notes form an integral part of these financial statements.

KETLON LIMITED

CASH FLOW STATEMENT

For the period ended 31 December 2002

	Note	£	£
Net cash flow from operating activities	16		2,193,867
Returns on investments and servicing of finance			
Interest received		55,623	
Interest paid		(44,165)	
Invoice discounting charges paid		(58,130)	
Finance lease interest paid		(6,686)	
Net cash flow from returns on investments and servicing of finance			(53,358)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(59,336)	
Net cash flow from capital expenditure and financial investment			(59,336)
Acquisitions and disposals			
Purchase of Ketlon business	19	(621,379)	
Net cash flow from acquisitions and disposals			(621,379)
Net cash flow before financing			1,459,794
Financing			
Issue of ordinary shares		100	
Bank loan		1,000,000	
Debt costs paid		(79,433)	
Repayments of loan		(356,432)	
Finance lease capital repayments		(26,682)	
Net cash flow from financing			537,553
Increase in cash	17		1,997,347

The accompanying accounting policies and notes form an integral part of these financial statements.

1 TURNOVER AND PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The turnover and profit on ordinary activities before taxation is attributable to the manufacture and sale of motor vehicle components from the UK. Turnover by destination is:

	£
United Kingdom	**15,629,293**
Overseas	**5,835,973**
	21,465,266

The profit on ordinary activities before taxation is stated after:

	£
Auditors' remuneration:	
Audit services	**24,500**
Non-audit services *	**7,800**
Depreciation:	
Tangible fixed assets owned	**376,084**
Tangible fixed assets held under finance lease	**19,375**
Amortisation of negative goodwill	**(1,688,058)**
Hire of plant and machinery under operating leases	**50,104**
Other operating lease rentals	**92,916**

* In addition to the above, £204,869 fees were charged as part of the cost of acquisition as set out in note 19.

2 OTHER OPERATING CHARGES

	£
Distribution costs	**342,376**
Administration expenses (including negative goodwill amortisation)	**1,011,159**
Other operating income	**(49,394)**
	1,304,141

3 NET INTEREST

	£
Interest payable on bank loan	**44,165**
Invoice discounting charges	**58,130**
Lease purchase interest	**6,686**
	108,981
Other debt costs	**54,733**
Interest receivable	**(55,623)**
	108,091

4 DIRECTORS AND EMPLOYEES

Staff costs during the period were as follows:

	£
Wages and salaries	6,551,595
Social security costs	555,930
Other pension costs	380,332
	7,487,857

The average number of employees of the company during the period was:

	Number
Production	420
Administration	21
	441

Remuneration in respect of directors was as follows:

	£
Emoluments	326,947
Pension contributions to money purchase pension schemes	34,435
	361,382

During the year 2 directors participated in money purchase pension schemes.

The amounts set out above include remuneration in respect of the highest paid director as follows:

	£
Emoluments	84,599
Pension contributions to money purchase pension schemes	21,750
	106,349

In addition to the above, £6,250 of fees were paid to a third party for the services of David Nicholas.

5 TAX ON PROFIT ON ORDINARY ACTIVITIES

The tax charge represents:

	£
United Kingdom corporation tax at 30%	330,000
Total current tax	330,000
Origination and reversal of timing differences	12,000
Total deferred tax	12,000
Tax on profit on ordinary activities	342,000

The tax assessed for the period is lower than the standard rate of corporation tax in the UK. The differences are explained as follows:

	2002 £
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	376,741
Effect of:	
Expenses not deductible for tax purposes	373,719
Depreciation for the period in excess of capital allowances	89,344
Amortisation of negative goodwill not taxable	(506,418)
Marginal tax rate	(3,386)
Current tax charge for period	330,000

6 INTANGIBLE FIXED ASSETS

	Negative goodwill £
Cost	
Additions (see note 19)	(5,231,434)
At 31 December 2002	(5,231,434)
Amortisation	
Credit for the period	1,688,058
At 31 December 2002	1,688,058
Net book amount	
At 31 December 2002	(3,543,376)

Negative goodwill is being written back over a period of 7 years in line with the recovery of non-monetary assets acquired as part of the acquisition.

7 TANGIBLE FIXED ASSETS

	Assets in the course of construction £	Plant and machinery £	Office equipment £	Total £
Cost				
Additions on acquisition				
On acquisition	-	3,200,000	-	3,200,000
Additions	16,549	42,787	155,000	214,336
At 31 December 2002	16,549	3,242,787	155,000	3,414,336
Depreciation				
Provided in the period	-	(376,084)	(19,375)	(395,459)
At 31 December 2002	-	(376,084)	(19,375)	(395,459)
Net book amount at 31 December 2002	**16,549**	**2,866,703**	**135,625**	**3,018,877**

The figures above include office equipment held under finance leases at cost of £155,000. £19,375 of depreciation was charged on these during the period, which left a net book value of £135,625.

8 STOCKS

	£
Raw materials and consumables	**1,048,287**
Work in progress	**305,235**
Finished goods	**62,349**
	1,415,871

9 DEBTORS

	£
Trade debtors	3,722,306
Other debtors	131,759
Prepayments and accrued income	196,289
	4,050,354

10 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	£
Bank loan	458,868
Trade creditors	2,168,516
Corporation tax	330,000
Other taxation and social security	392,669
Accruals and deferred income	961,486
Other creditors	1,413,314
Obligations under finance leases	64,040
	5,788,893

11 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	£
Bank loan	160,000
Obligations under finance leases	64,278
	224,278

The bank loan is secured by a charge over all the assets of the company. The bank loan is repayable in instalments in the period to April 2004 and bears interest at a rate of 1.9% pa above base rate.

12 BORROWINGS

Borrowings are repayable as follows:

	Finance leases £	Bank loans £
Within one year	64,040	458,868
After one and within two years	64,039	160,000
After two and within five years	239	-
	128,317	618,868

13 PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred taxation £
Charge to profit and loss account	12,000
At 31 December 2002	12,000

14 DEFERRED TAXATION

Deferred taxation provided for in the financial statements is set out below.

	Amount provided £
Accelerated capital allowances	12,000

15 SHARE CAPITAL

	£
Authorised	
Ordinary shares of £1 each	100
Allotted, called up and fully paid	
Ordinary shares of £1 each	100

During the year 100 shares were issued at par for cash.

16 NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2002 £
Operating profit	1,363,893
Depreciation	395,459
Amortisation of negative goodwill	(1,688,058)
Decrease in stock	104,045
Increase in debtors	(2,282,683)
Increase in creditors	4,301,211
Net cash inflow from operating activities	2,193,867

17 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	£
Increase in cash in the period	**1,997,347**
Cash outflow from finance leases and loans	**(574,544)**
Change in net debt resulting from cash flows	**1,422,803**
Inception of finance leases	**(155,000)**
Other non-cash movements	**(17,642)**
Movement in net funds in the period	**1,250,161**
Net funds at 31 December 2002	**1,250,161**

18 ANALYSIS OF CHANGES IN NET FUNDS

	Cash flow £	Non cash movements £	At 31 Dec 2002 £
Cash in hand	1,997,347	-	**1,997,347**
Loans	(601,226)	(17,642)	**(618,868)**
Finance leases	26,682	(155,000)	**(128,318)**
	1,422,803	(172,642)	**1,250,161**

19 ACQUISITION

On 8 March 2002 the company acquired the Ketlon business division of Unipart Group Limited.

The initial consideration payable based on the provisional net asset values set out below was £1,007,210 payable in cash over a period, including related costs. In addition to the initial consideration payable, there could be further consideration payable, contingent upon

- future net operating profit exceeding 8% of turnover, in which case 50% of the excess is payable as additional consideration, and/or
- proceeds in respect of the sale of the business exceeding £6.5 million in which case half the excess would be payable as additional consideration.

No provision for contingent consideration has been made as based on current projections of profitability no further consideration would be payable, and no sale has been planned or agreed.

The book value of assets acquired is not available to the company. The provisional fair values of the assets and liabilities of the business acquired were as follows:

	£
Tangible fixed assets	**3,200,000**
Stocks	**1,519,916**
Debtors	**1,767,671**
Bank and cash	**3,000**
Total assets	**6,490,587**
Creditors	
Trade creditors	**(251,943)**
Net assets acquired	**6,238,644**
Negative goodwill capitalised	**(5,231,434)**
Initial consideration payable	**1,007,210**

The values of certain current assets are provisional as they are subject to final agreement with the vendor.

The cash outflow in respect of the acquisition is

	£
Cash paid in year	**624,379**
Less cash on acquisition	**(3,000)**
	621,379

Meaningful historical details of the profitability of the Ketlon Business before acquisition is not available.

20 CAPITAL COMMITMENTS

The company had no capital commitments at 31 December 2002.

21 PENSIONS

Defined contribution scheme

The company operates a money purchase pension scheme for the benefit of all employees and directors. The assets of the scheme are administered by trustees in funds independent from those of the company.

22 LEASING COMMITMENTS

Operating lease payments amounting to £143,020 are due within one year. The leases to which these amounts relate expire as follows:

	2002 Other £
In one year or less	50,104
Between one and five years	92,916
	143,020

23 CONTROLLING RELATED PARTY

Andrew Barr is the company's controlling related party by virtue of his majority shareholding.