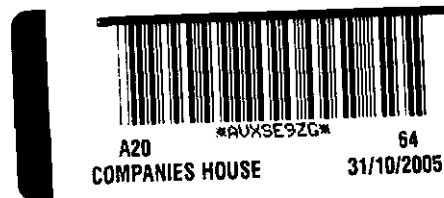


BORGWARNER LIMITED

Report and Financial Statements

31 December 2004

**Deloitte & Touche LLP
Leeds**



BORGWARNER LIMITED

REPORT AND FINANCIAL STATEMENTS 2004

CONTENTS	Page
Officers and professional advisers	1
Directors' report	2
Statement of directors' responsibilities	3
Independent auditors' report	4
Profit and loss account	5
Note of historical cost profits and losses	5
Note of historical cost profits and losses	5
Balance sheet	6
Notes to the financial statements	7

BORGWARNER LIMITED

REPORT AND FINANCIAL STATEMENTS 2004

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

M D Fischer
J M McNamara

SECRETARY

M R Taylor

REGISTERED OFFICE

Roydsdale Way
Euroway Industrial Estate
Bradford
BD4 6SE

BANKERS

Barclays Bank Plc
10 Market Street
Bradford
BD1 1NR

SOLICITORS

Pinsent Masons
1 Park Row
Leeds
LS1 5AB

AUDITORS

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Leeds

BORGWARNER LIMITED

DIRECTORS' REPORT

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

ACTIVITIES

The principal activity of the company is the manufacture and sale of turbochargers and transfer cases and components.

RESULTS AND DIVIDENDS

The profit after taxation for the financial year is £2,609,000 (2003: £3,061,000). No dividend is proposed (2003: £nil), leaving a profit of £2,609,000 to be transferred to reserves (2003: profit of £3,061,000 transferred to reserves).

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

The directors consider the performance of the company to be satisfactory and are optimistic about its prospects.

DIRECTORS AND THEIR INTERESTS

The directors who served during the year are shown below.

M Fischer (appointed 25th July 2005)
J M McNamara (appointed 25th July 2005)
R J Trendera (resigned 29th July 2005)
G F Carter (resigned 1st March 2005)
C P Morgan (resigned 29th July 2005)

None of the directors have any interests in the shares of the company.

CHARITABLE DONATIONS

The company made £42,596 (2003: £40,431) of donations to charity in 2004.

EMPLOYEE CONSULTATION

The company places considerable value on the involvement of its employees and has continued its previous practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the company. This is achieved through circulation of information to employees via notice boards, production of a quarterly newsletter and monthly staff committee meetings.


DISABLED EMPLOYEES

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should as far as possible, be identical to that of other employees.

AUDITORS

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors, and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board



M R Taylor
20th October 2005

BORGWARNER LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom 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 as at the end of the financial year 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; and
- 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 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. 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BORGWARNER LIMITED

We have audited the financial statements of BorgWarner Limited for the year ended 31 December 2004 which comprise the profit and loss account, the statement of total recognised gains and losses, the note of historical cost profits and losses, the balance sheet, and the related notes 1 to 22. 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 directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and 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 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 the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

Basis of audit 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 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP

Chartered Accountants and
Registered Auditors
Leeds

28 October 2005

BORGWARNER LIMITED

PROFIT AND LOSS ACCOUNT

Year ended 31 December 2004

	Note	2004 £'000	2003 £'000
TURNOVER			
Continuing operations		106,019	96,224
Discontinued operations		6,914	5,773
		<hr/>	<hr/>
Cost of sales	2 3	112,933 (101,401)	101,997 (90,197)
		<hr/>	<hr/>
Gross profit		11,532	11,800
Other operating expenses, net (including amortisation of negative goodwill of £824,000 (2003: £824,000))	3	(6,062)	(6,303)
		<hr/>	<hr/>
OPERATING PROFIT			
Continuing operations		5,052	5,144
Discontinued operations		418	353
		<hr/>	<hr/>
	4	5,470	5,497
Costs of a fundamental restructuring of discontinued operations	5	(651)	-
Amounts written off investments		-	(494)
Interest payable and similar charges	6	(1,051)	(613)
		<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		3,768	4,390
Tax on profit on ordinary activities	8	(1,159)	(1,329)
		<hr/>	<hr/>
PROFIT FOR THE FINANCIAL YEAR TRANSFERRED TO RESERVES	18	2,609	3,061
		<hr/> <hr/>	<hr/> <hr/>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Year ended 31 December 2004

There are no recognised gains and losses in the current or preceding financial year other than the profit for the year. Accordingly, no statement of total recognised gains and losses is provided.

NOTE OF HISTORICAL COST PROFITS AND LOSSES

Year ended 31 December 2004

	2004 £'000	2003 £'000
Profit on ordinary activities before taxation	3,768	4,390
Difference between the historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	588	485
	<hr/>	<hr/>
Historical cost profit on ordinary activities before taxation	4,356	4,875
Historical cost profit for the year after taxation	3,197	3,546
	<hr/> <hr/>	<hr/> <hr/>

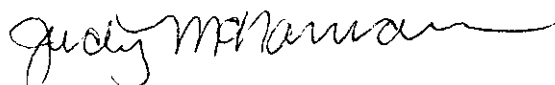
BORGWARNER LIMITED

BALANCE SHEET 31 December 2004

	Note	2004 £'000	2003 £'000
FIXED ASSETS			
Intangible assets – negative goodwill	9	(2,268)	(3,092)
Tangible assets	10	20,587	20,217
Investments	11	2,833	2,833
		<u>21,152</u>	<u>19,958</u>
CURRENT ASSETS			
Stocks	12	10,899	9,672
Debtors : amounts falling due within one year	13	23,723	25,045
Debtors: amounts falling due after more than one year	13	1,791	-
Cash at bank and in hand		8	220
		<u>36,421</u>	<u>34,937</u>
CREDITORS: amounts falling due within one year	14	<u>(31,970)</u>	<u>(32,230)</u>
NET CURRENT ASSETS		<u>4,451</u>	<u>2,707</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		25,603	22,665
CREDITORS: amounts falling due after more than one year	15	(5,403)	(5,291)
PROVISIONS FOR LIABILITIES AND CHARGES	16	(3,973)	(3,756)
NET ASSETS		<u>16,227</u>	<u>13,618</u>
CAPITAL AND RESERVES			
Called up share capital	17	10,190	10,190
Revaluation reserve	18	2,359	2,947
Profit and loss account	18	3,678	481
TOTAL EQUITY SHAREHOLDERS' FUNDS	19	<u>16,227</u>	<u>13,618</u>

These financial statements were approved by the Board of Directors on 20/10/2005.

Signed on behalf of the Board of Directors



J M McNamara

BORGWARNER LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2004

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies, all of which have been applied consistently throughout the year and the preceding year, are set out below.

Accounting convention

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets.

Cash flow statement

A cash flow statement has not been prepared as the company is a wholly owned subsidiary undertaking of BorgWarner Holdings Limited, a company registered in England and Wales. This company's ultimate parent, BorgWarner Inc., published consolidated accounts which include a consolidated cash flow statement dealing with the cash flows of the group. The accounts of BorgWarner Inc. are available from 3850 Hamlin Road, Auburn Hills, Michigan 48326, USA.

Group accounts

The directors have not presented consolidated accounts because the company is a wholly owned subsidiary undertaking of BorgWarner Holdings Limited, a company registered in England and Wales, which prepares consolidated accounts. Further information relating to the company's subsidiary undertakings is given in note 11 to the accounts. These financial statements therefore present information about the company and not its group.

Acquisitions

On the acquisition of a business, fair values are attributed to the separable net assets. Where the cost of acquisition exceeds the fair values attributable to such net assets, the difference is treated as purchased goodwill and is capitalised in the balance sheet in the year of acquisition.

The results relating to a business are included in the profit and loss account from the date of acquisition or up to the date of disposal.

Goodwill and intangible fixed assets

For acquisitions of a business purchased goodwill is capitalised in the year in which it arises and amortised over its estimated useful economic life up to a maximum of 20 years with a full year's charge for amortisation in the year of acquisition. The directors regard 20 years as a reasonable maximum for the estimated useful economic life of goodwill since it is difficult to make projections exceeding this period.

Negative goodwill in excess of the fair values of the assets acquired is credited to the profit and loss account over the period expected to benefit therefrom. The directors consider that 8 years is a reasonable period over which to amortise goodwill.

Turnover

Turnover comprises the value of sales (excluding VAT and trade discounts) of goods in the normal course of business.

Foreign currency

Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as of the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year-end are reported at the rates of exchange prevailing at the year-end. Any gain or loss 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.

Research and development

Research and development costs are written off in the year of expenditure.

Fixed asset investments

Fixed asset investments are stated at cost less provision for permanent impairment in value.

BORGWARNER LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2004

1. ACCOUNTING POLICIES (continued)

Tangible fixed assets

Tangible fixed assets are stated at cost or revalued amount less accumulated depreciation.

Depreciation is provided at rates calculated to write off the cost or revalued of each asset on a straight-line basis over its estimated useful life as follows:

There is no depreciation on freehold land

Freehold buildings 25 years

Plant and machinery 3 to 10 years

Leases

Assets held under finance leases and hire purchase contracts are capitalised at their fair value on the inception of the leases and depreciated over the shorter of the period of the lease and the estimated useful economic lives of the assets. The finance charges are allocated over the period of the lease in proportion to the capital amount outstanding and are charged to the profit and loss account.

Stocks

Stocks are stated at the lower of cost and net realisable value.

Cost represents expenses incurred in bringing each product to its present location and condition and includes materials, direct labour and a share of manufacturing overheads based on normal levels of activity.

Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

Pension costs

The expected cost of providing pensions under the defined benefit scheme, as calculated periodically by professionally qualified actuaries, is charged to the profit and loss account in a systematic manner over the service lives of the employees in the scheme.

Total pension costs comprise the regular pension costs, that is the consistent ongoing cost, calculated as a level percentage of the current and expected future pensionable payroll.

Any difference between amounts charged to the profit and loss account and the amounts payable to the scheme for the year is shown as a separately identified liability or asset in the balance sheet.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

BORGWARNER LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2004

2. SEGMENTAL INFORMATION

Turnover, which relates entirely to the supply of components to the automotive industry, comprised:

	2004 £'000	2003 £'000
Sales to third parties	101,407	89,432
Sales to fellow group undertakings	11,526	12,565
	<u>112,933</u>	<u>101,997</u>

Contributions to turnover by geographical area were as follows:

	2004 £'000	2003 £'000
United Kingdom	9,092	5,570
Rest of Europe	51,067	44,390
Rest of the World	52,774	52,037
	<u>112,933</u>	<u>101,997</u>

All of the company's turnover originated in the United Kingdom.

3. ANALYSIS OF PROFIT AND LOSS ACCOUNT

	Continuing operations 2004 £'000	Discontinued operations 2004 £'000	Total 2004 £'000	Continuing operations 2003 £'000	Discontinued operations 2003 £'000	Total 2003 £'000
Cost of sales	<u>95,288</u>	<u>6,113</u>	<u>101,401</u>	<u>85,325</u>	<u>4,872</u>	<u>90,197</u>
Operating expenses, net						
Selling and marketing costs	<u>830</u>	<u>121</u>	<u>951</u>	<u>921</u>	<u>288</u>	<u>1,209</u>
Administrative expenses:						
General	4,926	72	4,998	5,454	251	5,705
Research and development costs	747	190	937	204	9	213
Amortisation of negative goodwill	<u>(824)</u>	<u>-</u>	<u>(824)</u>	<u>(824)</u>	<u>-</u>	<u>(824)</u>
Total administrative expenses	<u>4,849</u>	<u>262</u>	<u>5,111</u>	<u>4,834</u>	<u>260</u>	<u>5,094</u>
	<u>5,679</u>	<u>383</u>	<u>6,062</u>	<u>5,755</u>	<u>548</u>	<u>6,303</u>

The research and development costs all relate to current year expenditure.

BORGWARNER LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2004

4. OPERATING PROFIT

	2004 £'000	2003 £'000
Operating profit is stated after charging/(crediting):		
Depreciation of tangible fixed assets		
- owned assets	3,687	2,954
Operating lease rentals		
- plant and machinery	327	206
- other	254	200
Auditors' remuneration		
- audit	58	65
- other	134	42
Loss on disposal of fixed assets	40	46
Redundancy payments	134	-
Amortisation of negative goodwill	(824)	(824)
	<u> </u>	<u> </u>

5. EXCEPTIONAL ITEMS REPORTED AFTER OPERATING PROFIT

The costs of a fundamental restructuring of discontinued operations arose in respect of the disposal of the Cooling fans division, which has had a material effect on the nature and focus of the company's operations.

The effects of the exceptional items reported after operating profit on the amount charged to the profit and loss account for taxation was:

	Tax on profit on ordinary activities	
	2004 £'000	2003 £'000
Cost of a fundamental restructuring of discontinued operations	[]	-
	<u> </u>	<u> </u>

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2004 £'000	2003 £'000
On bank loans and overdrafts	5	137
On intercompany loans	1,046	476
	<u> </u>	<u> </u>
	<u>1,051</u>	<u>613</u>

BORGWARNER LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2004

7. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2004	2003
	£'000	£'000
Employee costs during the period amounted to:		
Wages and salaries	16,719	17,694
Social security costs	1,375	1,367
Other pension costs	4,195	2,688
	<u>22,289</u>	<u>21,749</u>

The average monthly number of persons employed by the company (including executive directors) during the year was as follows:

	2004	2003
	No.	No.
Production and engineering	644	650
Sales	10	15
Administration	103	100
	<u>757</u>	<u>765</u>

Directors' remuneration

	2004	2003
	£'000	£'000
Emoluments	83	100

The number of directors who were members of the company's defined benefit schemes was as follows:

	2004	2003
	No	No
Defined benefit scheme	1	1

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2004	2003
	£'000	£'000
The tax charge is based on the profit for the year and comprises:		
United Kingdom Corporation tax at 30% (2003: 30%)	730	1,170
Adjustments in respect of prior year:-		
Corporation tax	(7)	(40)
Total current taxation	723	1,130
Deferred taxation:-		
Origination and reversal of timing differences	426	226
Adjustment in respect of prior years	10	(27)
	<u>1,159</u>	<u>1,329</u>

BORGWARNER LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2004

8. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

The tax assessed for the period is lower (2003: lower) than that resulting from applying the standard rate of corporation tax in the UK of 30% (2003: 30%). The differences are explained below:

	2004 £'000	2003 £'000
Profit on ordinary activities before tax	3,768	4,390
Tax at 30% thereon	1,130	1,317
Effects of:		
Expenses not deductible for tax purposes	273	178
Non-deductible impairment of investments	-	148
Capital allowances in excess of depreciation	16	(125)
Movement in short term timing differences	(442)	(101)
Non taxable amortisation of negative goodwill	(247)	(247)
Prior year adjustments	(7)	(40)
Current tax charge for the year	723	1,130

9. INTANGIBLE FIXED ASSETS

	Negative Goodwill £'000
Cost	
At 1 January 2004 and 31 December 2004	7,203
Accumulated amortisation	
At 1 January 2004	4,111
Credit for the year	824
At 31 December 2004	4,935
Net book value	
At 31 December 2004	2,268
At 31 December 2003	3,092

Negative goodwill of £7,203,000 was brought into the balance sheet in the year ended 31 December 1999 to reflect the purchase of the Margam division. The negative goodwill is being amortised over an 8 year period.

BORGWARNER LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2004

10. TANGIBLE FIXED ASSETS

	Freehold land and buildings £'000	Plant and machinery £'000	Total £'000
Cost or valuation			
At 1 January 2004	4,103	34,497	38,600
Additions	263	6,336	6,599
Transfers to group companies	(3)	(1,780)	(1,783)
Disposals	(21)	(3,228)	(3,249)
	<u>4,342</u>	<u>35,825</u>	<u>40,167</u>
At 31 December 2004			
Accumulated depreciation			
At 1 January 2004	982	17,401	18,383
Charge for the year	229	3,458	3,687
Transfers to group companies	-	(1,152)	(1,152)
Disposals	(21)	(1,317)	(1,338)
	<u>1,190</u>	<u>18,390</u>	<u>19,580</u>
At 31 December 2004			
Net book value			
At 31 December 2004	<u>3,152</u>	<u>17,435</u>	<u>20,587</u>
At 31 December 2003	<u>3,121</u>	<u>17,096</u>	<u>20,217</u>

Freehold land amounting to £207,547 (2003: £207,547) has not been depreciated. Plant and machinery includes fixed assets held under finance leases with a net book value of £nil (2003: £nil).

The transitional arrangements of FRS 15 'Tangible Fixed Assets' have been adopted in the case of freehold land and buildings and plant and machinery where the valuations of £1,522,000 and £9,847,000 respectively have not been updated since the September 1999 review. The company is not continuing the valuation policy relating to these classes of asset and the assets have been frozen at modified historic cost.

At 31 December 2004, under the historical cost convention, freehold land and buildings and plant and machinery would have been stated at a net book value of £2,668,000 and £15,560,000 respectively.

11. FIXED ASSET INVESTMENTS

Subsidiary undertakings	£'000
Cost	
At 1 January 2004 and 31 December 2004	<u>3,327</u>
Provision for impairment	
At 1 January 2004 and 31 December 2004	<u>494</u>
Net book value	
At 31 December 2004 and 31 December 2003	<u>2,833</u>

BORGWARNER LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2004

11. FIXED ASSET INVESTMENTS (continued)

The company holds an investment in the equity (but no other share capital or capital loan) of the following subsidiary undertakings:

	Country of Incorporation /registration	Principal activity	Description of shares held	Proportion of shares held
Kysor (Europe) Limited	England and Wales	Dormant	£1 ordinary shares	100%
Kysor BV	Belgium	Dormant	£1 ordinary shares	100%

The provision for impairment relates to the investment in Kysor BV, which has been impaired to nil value upon that company's liquidation in 2004.

12. STOCKS

	2004 £'000	2003 £'000
Raw materials and consumables	6,912	7,259
Work-in-progress	2,079	1,481
Finished goods and goods for resale	1,908	932
	<u>10,899</u>	<u>9,672</u>

In the opinion of the directors there is no material difference between the balance sheet value of stocks and their replacement cost.

13. DEBTORS

	2004 £'000	2003 £'000
Amounts falling due within one year	£'000	£'000
Trade debtors	15,639	16,095
Amounts owed by group undertakings	5,211	5,434
VAT	1,137	1,924
Prepayments and accrued income	1,736	1,592
	<u>23,723</u>	<u>25,045</u>
Amount falling due after more than one year		
Pension prepayment	1,791	-
	<u>1,791</u>	<u>-</u>

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2004 £'000	2003 £'000
Overdraft	2,525	-
Trade creditors	10,489	9,118
Amounts owed to other group companies	16,056	19,136
Other creditors:		
UK corporation tax payable	1,077	1,205
Social security and PAYE	518	475
Accruals and deferred income	1,305	2,296
	<u>31,970</u>	<u>32,230</u>

Amounts owed to other group companies are repayable on demand, and include an £11.9 million loan with BorgWarner Holdings Limited, which accrues interest at a rate of 4% per annum, and a Euro 1.5 million loan with BorgWarner Europe GmbH, which accrues interest at a rate of 3.5% per annum.

BORGWARNER LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2004

15. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2004 £'000	2003 £'000
Owed to group companies	5,403	5,291

Creditors falling due after more than one year are all repayable within 2-5 years and are interest free.

16. PROVISIONS FOR LIABILITIES AND CHARGES

Provisions for liabilities and charges comprise:	Deferred Taxation £'000	Product Warranties £'000	Restructuring Provision £'000	Total £'000
At 1 January 2004	2,021	1,703	32	3,756
Charged to profit and loss account	436	711	165	1,312
Utilised in year	-	(1,063)	(32)	(1,095)
At 31 December 2004	2,457	1,351	165	3,973

The amounts of deferred taxation provided in the accounts and the amounts not provided are as follows:

	Provided 2004 £'000	Not provided 2004 £'000	Provided 2003 £'000	Not provided 2003 £'000
Capital allowances in advance of depreciation	2,024	-	2,021	-
Short term timing differences	433	-	-	-
	2,457	-	2,021	-

Deferred taxation has not been provided in respect of gains realised that have been rolled over into the acquisition cost of replacement assets. This tax will become payable if the replacement assets are sold and further rollover relief is not available. The estimated amount of tax that would be payable in these circumstances is £[].

17. CALLED UP SHARE CAPITAL

	2004 £'000	2003 £'000
Authorised 20,000,000 ordinary shares of £1 each	20,000	20,000
Called up, allotted and fully paid 10,190,002 ordinary shares of £1 each	10,190	10,190

18. RESERVES

	Revaluation reserve £'000	Profit and loss account £'000
At 1 January 2004	2,947	481
Retained profit for the year	-	2,609
Transfer of amount equivalent to additional depreciation on revalued assets	(588)	588
At 31 December 2004	2,359	3,678

BORGWARNER LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2004

19. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	2004 £'000	2003 £'000
Profit for the financial year	2,609	3,061
Net additions to shareholders' funds	2,609	3,061
Opening equity shareholders' funds	13,618	10,557
Closing equity shareholders' funds	<u>16,227</u>	<u>13,618</u>

20. GUARANTEES AND OTHER FINANCIAL COMMITMENTS

(a) Capital commitments at the end of the year were:	2004 £'000	2003 £'000
Contracted for but not provided for	3,845	1,343

(b) Contingent liabilities:

The company has unsecured guarantees to third parties outstanding amounting to £nil (2003: £nil).

(c) Lease commitments:

The group leases certain assets under operating leases. The lease agreements provide that the company will pay all insurance, maintenance and repairs. The lease of land and buildings are subject to rent reviews at specified periods.

	2004		2003	
	Property £'000	Plant and machinery £'000	Property £'000	Plant and machinery £'000
Operating leases which expire:				
Within one year	-	11	-	18
Within 2-5 years	254	90	186	144
After 5 years	-	-	36	-
	<u>254</u>	<u>101</u>	<u>222</u>	<u>162</u>

21. PENSION SCHEME

The company participates in an approved pension plan (the "Plan"). The Plan consists of two defined benefit sections, referred to as the Bradford and Margam sections, and a defined contribution section that was introduced with effect from October 2003. The funds of the plan are administered by trustees and are separate from the company.

Regular pension costs – SSAP 24

The pension cost relating to the Plan is assessed in accordance with the advice of an independent qualified actuary, Watson Wyatt LLP, using the project unit method. For the purposes of determining pension costs the principal financial assumptions adopted were as follows:

Rate of increase in pensionable earnings	4.0% per annum
Rate of increase to pensions in payment	2.5% per annum
Rate of investment return:	
- pensioners	5.0% per annum
- non-pensioners	6.0% per annum

The most recent actuarial valuation of the Plan was carried out as at 31 March 2004. The market value of the Plan's assets was £56.7million, which represented 93 per cent of the value of accrued benefits after allowing for expected increases in future earnings.

BORGWARNER LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2004

21. PENSION SCHEME (continued)

The contribution rates for the year ended 31 December 2004 were 13.5% and 10% - 17.5% of pensionable earnings for the Bradford and Margam components respectively. During the year the Margam contributions have increased from 10% of pensionable earnings at 1 January 2004 to 17.5% of pensionable earnings at 31 December 2004. The long-term contribution rates for the Bradford and Margam components are 13.5% and 17.5% respectively. In addition, monthly contributions of £8,500 (Bradford component) and £32,500 (Margam component) have been made since January 2004 to address the valuations deficit.

As required by SSAP 24, the figures included in the accounts in respect of the defined benefit pension plan are based on an actuarial valuation carried out as at 31 March 2004. This does not take into account any impact of the fall in general stock market values since that date. Any such impact will be reflected in the next SSAP 24 triennial valuation as at 31 March 2005, based upon which subsequent pension costs will be determined until adoption of FRS 17.

Financial Reporting Standard 17 ("Retirement Benefits")

In November 2000 the Accounting Standards Board issued Financial Reporting Standard No. 17 'Retirement Benefits' replacing SSAP 24 'Accounting for Pension Costs'. The company has complied with the transitional arrangements of FRS17. The transitional arrangements require certain disclosures to be made and do not impact upon the profit and loss account or balance sheet, the disclosures for which are set out below.

The actuarial valuation of the defined benefit plan was updated to 31 December 2004. The principal actuarial assumptions used at 31 December are shown below:

	At 31 December 2004	At 31 December 2003	At 31 December 2002
Rate of increase in salaries	4.00% p.a.	4.00% p.a.	4.00% p.a.
Rate of increase of pensions in payment and deferment	2.75% p.a.	2.50% p.a.	2.50% p.a.
Discount Rate	5.40% p.a.	5.50% p.a.	5.75% p.a.
Inflation assumption	2.75% p.a.	2.50% p.a.	2.50% p.a.

The assets and liabilities of the Plan at 31 December, along with the expected rates of return on scheme assets are shown below:

	Expected rate of return year commencing 31 December 2004	Value at 31 December 2004 £'000	Expected rate of return year commencing 31 December 2003	Value at 31 December 2003 £'000	Expected rate of return year commencing 31 December 2002	Value at 31 December 2002 £'000
Equities	8.6%	40,920	8.1%	37,450	8.6%	29,660
Bonds	4.6%	21,620	4.35%	18,220	4.6%	18,710
Other assets	4.0%	350	3.8%	240	4.0%	20
Total market value of assets		62,890		55,910		48,390
Actuarial value of liabilities		(81,420)		(75,260)		(65,180)
Deficit in the scheme		(18,530)		(19,350)		(16,790)
Related deferred tax asset		5,559		5,805		5,037
Net pension liability		(12,971)		(13,545)		(11,753)

BORGWARNER LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2004

21. PENSION SCHEME (continued)

Analysis of amount chargeable to operating profit:

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Current service cost	3,100	3,150

Analysis of the amount to be (debited)/credited to other finance (charges)/income:

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Expected return on pension scheme assets	3,950	3,330
Interest on pension scheme liabilities	(4,070)	(3,580)
Net charge	(120)	(250)

Analysis of amount recognisable in the statement of total recognised gains and losses in the year 31 December had FRS 17 been applied:

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Actual return less expected return on pension scheme assets	860	3,820
Experience gains and losses arising on scheme liabilities	1,660	(2,220)
Changes in assumptions underlying present value of scheme liabilities	(3,440)	(3,440)
Actuarial loss recognised in the statement of total recognised gains and losses	(920)	(1,840)

Movement in deficit during the year:

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Deficit in scheme at the beginning of the year	(19,350)	(16,790)
Current service cost	(3,100)	(3,150)
Contributions	4,960	2,680
Other finance (charges)/income	(120)	(250)
Actuarial loss	(920)	(1,840)
Deficit in scheme at the end of the year	(18,530)	(19,350)

BORGWARNER LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2004

21. PENSION SCHEME (continued)

History of experience gains and losses:

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000
Difference between expected and actual return on scheme assets:			
Amount	860	3,820	(1,059)
Percentage of scheme assets	1.37%	6.83%	(21.88%)
Experience gains and (losses) on scheme liabilities:			
Amount	1,660	(2,220)	(170)
Percentage of scheme liabilities	2.04%	(2.95%)	(0.26%)
Changes in assumptions underlying present value of scheme liabilities			
Amount	(3,440)	(3,440)	(4,630)
Percentage of scheme assets	(5.47%)	(6.15%)	(9.57%)
Total amount recognised in statement of total recognised gains and losses			
Amount	(920)	(1,840)	(5,390)
Percentage of present value of scheme liabilities	(1.13%)	(2.44%)	(23.61%)

Had the company adopted FRS 17 early, profit and loss reserves would have been stated as follows:

	2004 £'000	2003 £'000
Profit and loss reserve in the financial statements as at year end	3,678	481
Deficit in relation to BW Plan, net of related deferred tax asset	(12,971)	(13,545)
Net additional pension liability	(12,971)	(13,545)
Profit and loss reserve as adjusted	(9,293)	(13,064)

22. ULTIMATE PARENT COMPANY

The company is a wholly owned subsidiary of BorgWarner Holdings Limited (formerly BWA Turbo Systems Holdings Limited), which heads the smallest group into which the company is consolidated.

At 31 December 2004 the ultimate parent undertaking and largest group for which consolidated accounts are prepared was Borg-Warner Inc. which is incorporated in the State of Delaware, USA. Copies of its financial statements can be obtained from 3850 Hamlin Road, Auburn Hills, Michigan 48326, USA.

The company has taken advantage of the exemption contained in Financial Reporting Standard No 8, "Related Party Disclosures" not to disclose related party transactions with other group companies as it is a wholly owned subsidiary.