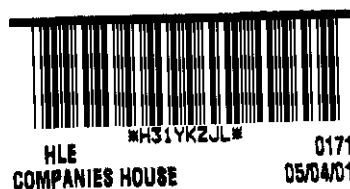


**BORG-WARNER AUTOMOTIVE TURBO
SYSTEMS LIMITED**

Report and Financial Statements

31 December 1999



Deloitte & Touche
10-12 East Parade
Leeds
LS1 2AJ

REPORT AND FINANCIAL STATEMENTS 1999

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REPORT AND FINANCIAL STATEMENTS 1999

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

P G Sanderson
D W Krol
R J Trender
C P Morgan

SECRETARY

M R Taylor

REGISTERED OFFICE

Roydsdale Way
Euroway Industrial Estate
Bradford
BD4 6SE

BANKERS

National Westminster Bank Plc
5th Floor
City Square House
7 Wellington Street
Leeds
LS1 4DC

SOLICITORS

Pinsent Curtis 1 Park Row Leeds LS1 5AB	Slaughter and May 35 Basinghall Street London EC2V 5DB
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AUDITORS

Deloitte & Touche
10-12 East Parade
Leeds
LS1 2AJ

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 1999.

ACTIVITIES

The principal activity of the company is the manufacture and sale of turbochargers, dampers, cooling system products and transfer cases and components.

RESULTS AND DIVIDENDS

The profit after taxation for the financial year is £2,530,000 (1998: £2,158,000). The directors do not propose the payment of a dividend (1998: £Nil), leaving £2,530,000 (1998: £2,158,000) to be transferred to reserves.

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

On 1 March 1999 the company's parent company was acquired by the Borg Warner Automotive Inc. group of companies as part of the acquisition of the Kuhlman Corporation group.

On 9 June 1999 the company changed its name from Schwitzer (Europe) Limited to Borg-Warner Automotive Turbo Systems Limited.

On 30 September 1999 the company acquired the trade and assets of another group company, Borg-Warner Automotive GMBH. Details of this transaction are given in note 21 to the accounts.

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

YEAR 2000

Following their initial review, the directors continue to be alert to the potential risks and uncertainties surrounding the year 2000 issue. As at the date of this report, the directors are not aware of any significant factors which have arisen, or that may arise, which will affect the activities of the business; however the situation is still being monitored. Any future costs associated with this issue cannot be quantified but are not anticipated to be significant.

DIRECTORS AND THEIR INTERESTS

The directors who served during the year are shown below.

P G Sanderson	
P F Spratt	(resigned 8 December 1999)
G Dillon	(resigned 1 March 1999)
R M Ruzic	(appointed 4 June 1999, resigned 1 May 2000)
D W Krol	(appointed 4 June 1999)
R J Trenda	(appointed 4 June 1999)
C P Morgan	(appointed 8 December 1999)

The company's ultimate parent is a company incorporated outside Great Britain. As a result, details of the directors' interests are not required to be given in accordance with Statutory Instrument No. 802 of the Companies Act 1985.

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

CHARITABLE DONATIONS

The company made £8,527 (1998: £1,380) donations to charity in 1999.

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.

DIRECTORS' REPORT

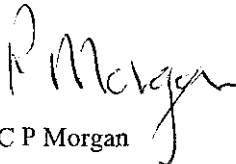
DISABLED EMPLOYEES

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

Arthur Anderson resigned as auditors during the year. Deloitte & Touche were appointed auditors to the company and a resolution for their reappointment will be proposed at the forthcoming Annual General Meeting.

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



C P Morgan

29 March 2001

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company 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.



AUDITORS' REPORT TO THE MEMBERS OF

BORG-WARNER AUTOMOTIVE TURBO SYSTEMS LIMITED

We have audited the financial statements on pages 6 to 17 which have been prepared under the accounting policies set out on pages 8 and 9.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of financial statements, which are required to be prepared in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

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

Deloitte & Touche
Chartered Accountants
and Registered Auditors

29 March 2001

PROFIT AND LOSS ACCOUNT
Year ended 31 December 1999

	Note	1999 £'000	1999 £'000	1998 £'000
TURNOVER	2	43,994		
Continuing operations				
Acquisitions		6,329		
Total turnover		<u>43,994</u>	50,323	44,411
Cost of sales			(41,625)	(36,223)
Gross profit			<u>8,698</u>	<u>8,188</u>
Other operating expenses	3		(4,978)	(4,979)
OPERATING PROFIT				
Continuing operations		2,890		
Acquisitions		830		
Total operating profit		<u>3,720</u>	3,720	3,209
Investment income	4		46	5
Interest payable and similar charges	5		(199)	(93)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	6		<u>3,567</u>	<u>3,121</u>
Tax on profit on ordinary activities	8		(1,037)	(963)
RETAINED PROFIT FOR THE FINANCIAL YEAR	18		<u><u>2,530</u></u>	<u><u>2,158</u></u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
Year ended 31 December 1999

	1999 £'000	1998 £'000
Profit for the financial year	2,530	2,158
Surplus arising on revaluation of fixed assets	5,290	-
Total recognised gains and losses relating to the year	<u><u>7,820</u></u>	<u><u>2,158</u></u>

NOTE OF HISTORICAL COST PROFITS AND LOSSES
Year ended 31 December 1999

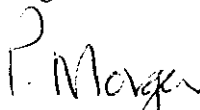
	1999 £'000	1998 £'000
Profit on ordinary activities before taxation	3,567	3,121
Difference between the historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	403	-
Historical cost profit on ordinary activities before taxation	<u>3,970</u>	<u>3,121</u>
Historical cost profit for the year after taxation	<u><u>2,933</u></u>	<u><u>2,158</u></u>

BALANCE SHEET
31 December 1999

	Note	1999 £'000	1998 £'000
FIXED ASSETS			
Intangible assets	9	(6,978)	-
Tangible assets	10	22,686	6,685
Investments	11	3,327	3,327
		<u>19,035</u>	<u>10,012</u>
CURRENT ASSETS			
Stocks	12	8,041	4,570
Debtors	13	25,161	14,044
Cash at bank and in hand		1,121	313
		<u>34,323</u>	<u>18,927</u>
CREDITORS: amounts falling due within one year	14	<u>(13,363)</u>	<u>(8,391)</u>
NET CURRENT ASSETS		<u>20,960</u>	<u>10,536</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		39,995	20,548
CREDITORS: amounts falling due after more than one year	15	(9,105)	(35)
PROVISIONS FOR LIABILITIES AND CHARGES	16	<u>(3,908)</u>	<u>(1,351)</u>
NET ASSETS		<u>26,982</u>	<u>19,162</u>
CAPITAL AND RESERVES			
Called up share capital	17	10,190	10,190
Revaluation reserve	18	4,887	-
Profit and loss account	18	11,905	8,972
TOTAL EQUITY SHAREHOLDERS' FUNDS	19	<u>26,982</u>	<u>19,162</u>

These financial statements were approved by the Board of Directors on 29 March 2001.

Signed on behalf of the Board of Directors


C P Morgan

NOTES TO THE ACCOUNTS

Year ended 31 December 1999

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 BWA Turbo Systems Holdings Limited, a company registered in England and Wales. This company's parent Borg-Warner Automotive Turbo Systems Corporation, published consolidated accounts which include a consolidated cash flow statement dealing with the cash flows of the group.

Group accounts

The directors have not presented consolidated accounts because the company is a wholly owned subsidiary undertaking of BWA Turbo Systems 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.

Acquisitions

On the acquisition of a business, fair values are attributed to the net separable assets. Where the cost of acquisition exceeds the fair values attributable to such net assets, the difference is treated as purchased goodwill and, following the implementation of FRS 10, is capitalised in the balance sheet in the year of acquisition. Previously purchased goodwill was written off directly to reserves as noted below.

The profit or loss on the disposal or closure of a previously acquired business includes the attributable amount of any purchased goodwill relating to that business not previously charged through the profit and loss account.

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 following the implementation of FRS 10 "Goodwill and Intangible Assets", purchased goodwill is capitalised in the year in which it arises and amortised over its estimated useful 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 life of goodwill since it is difficult to make projections exceeding this period.

Goodwill which arose on the acquisition of a business in prior periods and was written off to the profit and loss reserve as a matter of accounting policy remains eliminated in that reserve and will be charged or credited in the profit and loss account as appropriate on the subsequent disposal of the business to which it related.

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.

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.

NOTES TO THE ACCOUNTS**Year ended 31 December 1999****1. ACCOUNTING POLICIES (continued)****Pension costs**

Pension costs are charged against profits 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.

Deferred taxation

Deferred taxation has been calculated under the liability method and is provided on timing differences which are expected to reverse in the future, calculated at the rate at which it is estimated that tax will be payable.

Deferred tax is not provided on timing differences which, in the opinion of the directors, will not reverse.

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 revealed amount, less estimated residual value, 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
Short leasehold property	25 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.

Rentals are charged to the profit and loss in equal annual amounts over the lease term.

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.

Fixed asset investments

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

Research and development

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

2. SEGMENTAL INFORMATION

The analysis of turnover by geographical areas has not been provided as in the opinion of the directors such disclosure would be seriously prejudicial to the business.

NOTES TO THE ACCOUNTS

Year ended 31 December 1999

3. OTHER OPERATING EXPENSES

	1999 £'000	1998 £'000
Selling and marketing costs	1,296	1,087
Research and development costs	1,214	1,422
Administrative expenses	2,468	2,470
	<u>4,978</u>	<u>4,979</u>

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

4. INVESTMENT INCOME

	1999 £'000	1998 £'000
Interest receivable and similar income	46	5
	<u>46</u>	<u>5</u>

5. INTEREST PAYABLE AND SIMILAR CHARGES

	1999 £'000	1998 £'000
On bank loans and overdrafts	44	88
Finance lease interest	5	5
On intercompany loans	150	-
	<u>199</u>	<u>93</u>

6. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	1999 £'000	1998 £'000
Profit on ordinary activities before taxation is stated after charging:		
Depreciation of tangible fixed assets		
- owned assets	2,181	1,302
- held under finance leases	14	14
Operating lease rentals		
- plant and machinery	137	90
- other	99	117
Auditors' remuneration		
- audit	30	19
- other	-	5
Loss on disposal of fixed assets	9	-
	<u>9</u>	<u>-</u>

NOTES TO THE ACCOUNTS

Year ended 31 December 1999

7. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

Staff costs (including directors) are as shown below:

	1999 £'000	1998 £'000
Employee costs during the period amounted to:		
Wages and salaries	10,277	7,735
Social security costs	772	556
Other pension costs	1,060	892
	<u>12,109</u>	<u>9,183</u>

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

	1999 No.	1998 No.
Production and engineering	397	311
Sales	24	24
Administration	31	14
	<u>452</u>	<u>349</u>

Directors' remuneration

	1999 £'000	1998 £'000
Emoluments	<u>246</u>	<u>231</u>

Highest paid director

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

	1999 £'000	1998 £'000
Emoluments	<u>175</u>	<u>168</u>

The accrued pension entitlement under the company's defined benefit scheme of the highest paid director at 31 December 1999 was £16,395 (1998: £29,797).

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

	1999 No	1998 No
Defined benefit scheme	<u>2</u>	<u>2</u>

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	1999 £'000	1998 £'000
The tax charge is based on the profit for the year and comprises:		
United Kingdom Corporation tax at 30% (1998: 31%)	1,408	878
Deferred taxation	(186)	73
	<u>1,222</u>	<u>951</u>
Adjustment in respect of prior years		
Corporation tax	(110)	12
Deferred tax	(75)	-
	<u>1,037</u>	<u>963</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 1999

9. INTANGIBLE FIXED ASSETS

Cost	Negative Goodwill £'000
At 1 January 1999	-
Arising on acquisition of business (note 21)	(7,203)
	<u>(7,203)</u>
Accumulated depreciation	
At 1 January 1999	-
Credit	225
	<u>225</u>
At 31 December 1999	<u>225</u>
Net book value	
At 31 December 1999	<u>(6,978)</u>
At 31 December 1998	<u>-</u>

10. TANGIBLE FIXED ASSETS

Cost	Short leasehold land and buildings £'000	Freehold land and buildings £'000	Plant and Machinery £'000	Total £'000
At 1 January 1999	67	1,614	15,935	17,616
Additions	-	8	1,574	1,582
Transfer	(67)	67	-	-
Acquisition of business (note 21)	-	1,346	10,157	11,503
Disposals	-	-	(376)	(376)
	<u>-</u>	<u>3,035</u>	<u>27,290</u>	<u>30,325</u>
At 31 December 1999	<u>-</u>	<u>3,035</u>	<u>27,290</u>	<u>30,325</u>
Accumulated depreciation				
At 1 January 1999	3	675	10,253	10,931
Charge for the year	-	139	2,056	2,195
Transfer	(3)	3	-	-
Revaluation	-	(630)	(4,660)	(5,290)
Disposals	-	-	(197)	(197)
	<u>-</u>	<u>187</u>	<u>7,452</u>	<u>7,639</u>
At 31 December 1999	<u>-</u>	<u>187</u>	<u>7,452</u>	<u>7,639</u>
Net book value				
At 31 December 1999	<u>-</u>	<u>2,848</u>	<u>19,838</u>	<u>22,686</u>
At 31 December 1998	<u>64</u>	<u>939</u>	<u>5,682</u>	<u>6,685</u>

Freehold land amounting to £207,547 (1998: £107,500) has not been depreciated.

Plant and machinery includes fixed assets held under finance leases with a net book value of £69,511 (1998: £83,414).

The revaluation of fixed assets shown above was performed during the year by the directors to reflect the estimated market value of those assets.

NOTES TO THE ACCOUNTS

Year ended 31 December 1999

11. FIXED ASSET INVESTMENTS

	1999 £'000	1998 £'000
Subsidiary undertakings		
Cost	3,327	3,327

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	Manufacture and sale of fans, heating, ventilation and air conditioning equipment	£1 ordinary shares	100%
Kysor BV	Belgium	Dormant	£1 ordinary shares	100%
Schwitzer Pension Trustee Limited	England and Wales	Trustee of the group pension scheme	£1 ordinary shares	100%
Dynair Limited	England and Wales	Dormant	£1 ordinary shares	100%*

* shares held indirectly through Kysor (Europe) Limited.

12. STOCKS

	1999 £'000	1998 £'000
Raw materials and consumables	2,965	1,144
Work-in-progress	277	148
Finished goods and goods for resale	4,799	3,278
	<u>8,041</u>	<u>4,570</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: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1999 £'000	1998 £'000
Trade debtors	10,825	8,784
Amounts owed by group undertakings	12,997	4,205
VAT	241	889
Prepayments and accrued income	1,098	166
	<u>25,161</u>	<u>14,044</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 1999

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1999 £'000	1998 £'000
Obligations under finance leases and hire purchase contracts	37	20
Trade creditors	6,339	5,343
Amounts owed to other group companies	2,729	1,237
Other creditors:		
UK corporation tax payable	2,433	945
Social security and PAYE	467	518
Accruals and deferred income	1,358	328
	<u>13,363</u>	<u>8,391</u>

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

	1999 £'000	1998 £'000
Obligations under finance leases and hire purchase contracts	-	35
Accruals and deferred income	105	-
Owed to group companies	9,000	-
	<u>9,105</u>	<u>35</u>

Creditors falling due after more than one year are all repayable within 2-5 years other than the group loan which is due for repayment on 1 October 2009.

16. PROVISIONS FOR LIABILITIES AND CHARGES

Provisions for liabilities and charges comprise:

	Deferred taxation £'000	Product warranties £'000	Pensions £'000	Total £'000
At 1 January 1999	686	580	85	1,351
Acquired with business	1,989	191	-	2,180
(Credited)/charged to profit and loss account	(186)	1,082	4	900
Adjustment in respect of prior years	(75)	-	-	(75)
Utilised in year	-	(363)	(85)	(448)
At 31 December 1999	<u>2,414</u>	<u>1,490</u>	<u>4</u>	<u>3,908</u>

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

	Provided 1999 £'000	Not provided 1999 £'000	Provided 1998 £'000	Not provided 1998 £'000
Capital allowances in advance of depreciation	2,680	-	747	-
Other timing differences	(266)	-	(61)	-
Revaluation	-	1,466	-	-
	<u>2,414</u>	<u>1,466</u>	<u>686</u>	<u>-</u>

NOTES TO THE ACCOUNTS
Year ended 31 December 1999

17. CALLED UP SHARE CAPITAL

	1999 £'000	1998 £'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 1999	-	8,972
Retained profit for the year	-	2,530
Arising on revaluation during the year	5,290	-
Transfer of amount equivalent to additional depreciation on revalued assets	(403)	403
At 31 December 1999	4,887	11,905

19. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	1999 £'000	1998 £'000
Profit for the financial year	2,530	2,158
Revaluation of fixed assets	5,290	-
Net addition to shareholders' funds	7,820	2,158
Opening equity shareholders' funds	19,162	17,004
Closing equity shareholders' funds	26,982	19,162

20. GUARANTEES AND OTHER FINANCIAL COMMITMENTS

(a) Capital commitments at the end of the year were:

	1999 £'000	1998 £'000
Contracted for but not provided for	675	264

(b) Contingent liabilities:

The company has unsecured guarantees to third parties outstanding amounting to £250,000 (1998: £250,000).

(c) Lease commitments:

The group leases certain assets under operating lease. 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.

	1999		1998	
	Property £'000	Plant and machinery £'000	Property £'000	Plant and machinery £'000
Operating leases which expire:				
Within one year	57	54	-	-
Within 2-5 years	-	152	75	65
After 5 years	23	-	23	12
	80	206	98	77

NOTES TO THE ACCOUNTS

Year ended 31 December 1999

21. ACQUISITION OF BUSINESS DURING THE YEAR

On 30 September 1999 the company acquired the business and assets of the Margan division of Borg-Warner Automotive GMBH for a total cash consideration of £9,000,000. This acquisition has been accounted for using the acquisition accounting method.

The following provisional fair values have been attributed to the major categories of assets and liabilities acquired.

	Book values and provisional fair values £'000
Fixed assets	11,503
Stock	3,141
Debtors	9,793
Creditors	(8,234)
	<hr/>
Total net assets acquired	16,203
	<hr/>
Goodwill on acquisition	(7,203)
	<hr/>
Discharged by: Cash (including costs of acquisition)	9,000
	<hr/> <hr/>

The provisional fair values represents the directors' current estimate of the net assets acquired, however, in accordance with FRS7 the values attributed may be revised as further information becomes available.

The operating loss of the Margan division of Borg-Warner Automotive GMBH for the 12 months ended 31 December 1998 was £522,000.

In respect of the period 1 January 1999 to the date of acquisition, 30 September 1999, turnover and operating profit as extracted from management accounts was £19,866,000 and £2,704,000 respectively. There were no exceptional items and there was no tax charge, as the business was previously a division and not a stand alone entity.

Post acquisition results

	3 months ended 31 December 1999 £'000
The results of the Margan division since acquisition are as follows:	
Turnover	6,329
Cost of sales	(5,233)
	<hr/>
Gross profit	1,096
Other operating expenses	(266)
	<hr/>
Operating profit	830
Interest payable	(25)
	<hr/>
Profit before taxation	805
	<hr/> <hr/>

NOTES TO THE ACCOUNTS**Year ended 31 December 1999****22. PENSION SCHEME**

The company participates in two defined benefits plans for its employees. Both plans are fully funded. Pension costs are assessed with the advice of a qualified actuary using the projected unit funding method.

The most recent actuarial valuation of the first scheme was at 1 May 1998. The market value of the Plan's assets at this date was £6.9 million. The current level of funding is 12.7% of pensionable salaries. The valuation showed a surplus of £31,000 at the date of the valuation. The surplus on the scheme should be eliminated as a result of lower contributions.

The significant actuarial assumptions underlying the valuation of the first scheme are as follows: assumed rate of price inflation of 3%; assumed rate of interest 6%; assumed rate of future salary increases 4%; assumed rate of post retirement pension increased 3%; assumed rate of return on scheme investments 6%.

The most recent actuarial valuation of the second scheme was at 5 April 1999. The market value of the Plan's assets at this date was £49.21 million. The value of the assets of the scheme is 120% of the liabilities of the scheme and as such no contributions are required. The valuation showed a surplus of £1.16 million at the date of the valuation. The surplus on the scheme should be eliminated as a result of the nil contributions.

The significant actuarial assumptions underlying the valuation of the second scheme are as follows: assumed rate of price inflation 2.5%; assumed rate of interest 4.5%; assumed rate of future salary increases 4%; assumed rate of post retirement pension increased 2.5; assumed rate of return on scheme investments 5%.

23. ULTIMATE PARENT COMPANY

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

At 31 December 1999 the ultimate parent (and controlling) undertaking was BorgWarner Inc. which is incorporated in the State of Delaware, USA. Copies of its financial statements can be obtained from 200 South Michigan Avenue, Chicago, Illinois 60604, 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.