

**SAF-HOLLAND S.A.**  
**Société anonyme**

**Annual Accounts**  
**and**  
**Independent Auditor's Report**  
**as of**  
**31 December 2008**

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## **Independent Auditor's report**

To the Shareholders of  
SAF-HOLLAND S.A.  
Société Anonyme  
68-70, boulevard de la Pétrusse  
L-2320 Luxembourg

Following our appointment by the Shareholders dated April 24, 2008, we have audited the accompanying annual accounts of SAF-HOLLAND S.A., which comprise the balance sheet as at December 31, 2008 and the profit and loss account for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### *Board of Directors' responsibility for the annual accounts*

The Board of Directors is responsible for the preparation and fair presentation of these annual accounts in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of annual accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Responsibility of the "Réviseur d'Entreprises"*

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted by the "Institut des Réviseurs d'Entreprises". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the judgment of the "Réviseur d'Entreprises", including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the "Réviseur d'Entreprises" considers internal control relevant to the entity's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the annual accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Without qualifying our opinion we draw your attention to Notes 2 and 10. The annual accounts indicate that during the fourth quarter of 2008 the Group breached the financial covenants on their loan financing. The Group's continued existence is dependent upon the successful negotiation of a new long-term credit agreement together with the achievement of certain conditions as set out in Note 10. The Group has signed a standstill agreement with the lending banks for current financing facilities which is applicable until 19 June 2009. These conditions, along with other matters set forth in Note 10, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

*Opinion*

In our opinion, the annual accounts give a true and fair view of the financial position of SAF-HOLLAND S.A. as of December 31, 2008, and of the results of its operations for the year then ended in accordance with the Luxembourg legal and regulatory requirements relating to the preparation and presentation of the annual accounts.

ERNST & YOUNG  
Société Anonyme  
Réviseur d'Entreprises



Thierry BERTRAND

Luxembourg, 23 April 2009

SAF-HOLLAND S.A.  
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**Balance sheet**  
31 December 2008  
(expressed in EUR)

<b><u>ASSETS</u></b>	<b>December 31, 2008</b>	<b>December 31, 2007</b>
<b>Fixed assets</b>		
Tangible assets		
Other fixtures and fittings, tools and equipment (Note 3)	1,136	--
Financial assets		
Shares in affiliated undertakings (Note 4)	16,450,013	16,450,013
	<u>16,451,149</u>	<u>16,450,013</u>
<b>Current assets</b>		
Amounts owed by affiliated undertakings (Note 5)		
becoming due and payable within one year	33,015,926	18,390,946
becoming due and payable after more than one year	67,254,421	72,001,831
Other debtors becoming due and payable within one year	4,500	3,303
Cash at bank	102,664	1,451,896
	<u>100,377,511</u>	<u>91,847,976</u>
Prepayments	269,889	280,911
<b>TOTAL ASSETS</b>	<b><u>117,098,549</u></b>	<b><u>108,578,900</u></b>

The accompanying notes form an integral part of these annual accounts.

**LIABILITIES****December 31, 2008****December 31, 2007****Capital and reserves (Note 6)**

Subscribed capital	207,023	188,374
Legal reserve	18,837	--
Share premium	111,306,500	97,338,399
Result brought forward	488,389	(174,645)
Profit for the financial year	3,854,439	8,682,104
	<u>115,875,188</u>	<u>106,034,232</u>

**Creditors**

Trade creditors	224,564	2,024,447
Amounts owed to affiliated undertakings (Note 7) becoming due and payable within one year	96,964	96,964
Tax debts and social security debts	449,750	1,682
Other creditors becoming due and payable within one year	452,083	421,575
	<u>1,223,361</u>	<u>2,544,668</u>

**TOTAL LIABILITIES****117,098,549****108,578,900**

SAF-HOLLAND S.A.  
Société anonyme

**Profit and loss account**  
31 December 2008  
(expressed in EUR)

<b><u>EXPENSES</u></b>	<b>December 31, 2008</b>	<b>December 31, 2007</b>
Staff costs		
wages and salaries	27,832	8,602
social security costs	3,176	984
Value adjustments in respect of tangible assets	299	---
Other external charges	3,246,510	11,947,234
Interest payable and similar charges		
concerning affiliated undertakings (Note 7)	---	3,373,627
other interest payable and similar charges	5,243	4,572
Taxes (Note 8)	447,920	465
Profit for the financial year	3,854,439	8,682,104
	<hr/>	<hr/>
	<u>7,585,419</u>	<u>24,017,588</u>
 <b><u>INCOME</u></b>		
Income derived from affiliated undertakings (Note 4)	---	19,100,000
Other interest receivable and similar income (Note 5)		
derived from affiliated undertakings	7,546,670	4,840,946
other interest receivable and similar income	38,749	76,642
	<hr/>	<hr/>
	<u>7,585,419</u>	<u>24,017,588</u>

SAF-HOLLAND S.A.  
Société anonyme

**Notes to the annual accounts**  
31 December 2008

**Note 1 – Organisation**

SAF-HOLLAND S.A. (the "Company") is a commercial company incorporated in Luxembourg on December 21, 2005, under the legal form of a "Société Anonyme". The registered office of the Company is at 68-70, boulevard de la Pétrusse, L-2320 Luxembourg and the Company is registered with the Register of Commerce of Luxembourg under the section B number 113.090.

The Company's purpose is to acquire directly or indirectly shareholdings (including but not limited by way of setting-up new companies) and interests, in any form whatsoever, in any connection with Group Companies and any other company being in the same line of business, to acquire any securities and rights through participation, contribution, underwriting firm purchase or option, negotiation or any other way in Group Companies or other companies being in the same line of business, and generally to hold, manage, develop, sell or dispose of the same, in whole or in part, for such consideration as the Company may think fit. The Company may further grant to, or for the benefit of, any holding company, subsidiary, or fellow subsidiary, or any other company associated in any way with Group Companies, any assistance such as pledges, loans, advances or guarantees. The Company may borrow and raise money in any manner for the purpose of its investment in Group Companies and secure the repayment of any money borrowed. The Company may further borrow funds and issue bonds and other securities to a limited number of subscribers. The Company can perform all commercial, technical and financial operations, connected directly or indirectly in all areas as described above in order to facilitate the accomplishment of its purpose.

The Company prepares consolidated accounts and files these accounts with the Luxembourg Trade Registry.

The accounting year begins on January 1 and ends on December 31.

The Company listed on the Prime Standard of the Frankfurt Stock Exchange on July 25, 2007 and began trading on July 26, 2007 under the symbol "SFQ".



**Notes to the annual accounts (continued)**  
31 December 2008

**Note 2 – Summary of significant accounting policies**

The Company maintains its books in Euro ("EUR") and the annual accounts have been prepared in conformity with legal and regulatory requirements in Luxembourg as well as with generally accepted accounting principles in Luxembourg including the following significant accounting policies:

The annual accounts of SAF Holland S.A. were prepared under the assumption that the Company is a going concern. In general, significant uncertainties exist covering the Company's estimated existence which cannot be assessed conclusively at this time. The assessment of the Company's continued existence is mainly subject to uncertainties to whether a long-term credit agreement can be negotiated with the lending banks upon the maturity of the standstill agreement. There is also uncertainty as to whether the conditions specified in the expert opinion on the Group capacity for financial restructuring can be fulfilled. Further details regarding the current status of negotiations are given in Note 10.

*a) Tangible assets*

Tangible assets are accounted for at their acquisition costs plus associated acquisition costs. The other fixtures and fittings, tools and equipment are depreciated on a straight-line basis over 4 years. Write-downs are recorded if, in the opinion of the directors, there is a permanent impairment in value.

*b) Financial assets and dividends*

Financial assets are stated at historical acquisition cost. Write-downs are recorded if, in the opinion of management, a permanent impairment in value has occurred. Dividends receivable from affiliated undertakings are recognised in the period in which they are declared by the entity. However dividends receivable from affiliated undertakings may be recognised in the profit and loss account in the period in which the subsidiary proposes their allocation of profits, if the following conditions are met:

- the Company is the sole shareholder of the entity and controls it;
- the Company and the subsidiary entities form a group;
- the financial year ends of the two entities coincide;
- the annual accounts of the subsidiary for the financial year in question were approved by the Annual General Meeting before the approval of the annual accounts of the parent company;
- the annual accounts of the subsidiary, for the financial year in question, show that the subsidiary appropriated profits to the Company and;
- the annual accounts of the subsidiary show a true and fair view of the financial position and of the results of its operations for the financial year concerned.

**Notes to the annual accounts (continued)**  
31 December 2008

**Note 2 – Summary of significant accounting policies (continued)**

*c) Receivables, cash at banks and debts*

Receivables, cash at banks, and debts are stated at their nominal value less allowance for doubtful accounts.

*d) Foreign currency translation*

Monetary assets and liabilities stated in currencies other than EUR are translated at the exchange rates prevailing at the balance sheet date. Income and expenses denominated in foreign currency have been translated at the exchange rate prevailing at the transaction date. Realised and unrealised exchange losses and realised exchange gains are recorded in the statement of profit and loss.

**Note 3 – Tangible assets**

On February 28, 2008, the Company acquired a computer for an amount of EUR 1,435.

During the year ended December 31, 2008, the tangible assets evolved as follows:

**Acquisition**

At the beginning of the year	-
Additions	1,435
Disposals	-
At the end of the year	<u>1,435</u>

**Depreciation**

Accumulated depreciation at the beginning of the year	-
Depreciation charge for the year	(299)
Disposals	-
Accumulated depreciation at the end of the year	<u>(299)</u>

**Net book value**

At the beginning of the year	-
At the end of the year	1,136

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**Notes to the annual accounts (continued)**  
31 December 2008

**Note 4 – Shares in affiliated undertakings (in EUR)**

As of December 31, 2008 and 2007, the Company held the following participation:

Name of the Company	Country	% ownership	Acquisition cost	Shareholders equity
SAF-HOLLAND GROUP GmbH	Germany	100%	16,450,013	20,345,477

The shareholders net equity includes the result for the period of EUR 147,596.37 (2007: EUR 23,556,903) which is for the period ended December 31, 2008.

Through a resolution of SAF-HOLLAND GROUP GmbH dated March 12, 2008, the Company's subsidiary decided to distribute a dividend to the Company for an aggregate amount of EUR 19,100,000, payable in two equal instalments on April 30, 2008 and April 30, 2009. The dividend receivable has been booked in the amounts owed by affiliated undertakings.

On April 30, 2008, the Company's subsidiary paid the first instalment of the dividend approved on March 12, 2008 to the Company for an aggregate amount of EUR 8,550,000. The difference for an amount of EUR 1,000,000 between the first instalment approved and the amount paid was recorded as a loan granted by the Company to SAF-HOLLAND GROUP GmbH.

In the opinion of the management, no permanent diminution in value has occurred during the year ended December 31, 2008.

The shares in SAF-HOLLAND GROUP GmbH have been pledged as a security to guarantee a bank loan granted to its subsidiary.

**Note 5 – Amounts owed by affiliated undertakings**

Included in this amount is a loan of EUR 42,600,000 granted by the Company to SAF-HOLLAND TECHNOLOGIES GmbH on March 29, 2006. This loan bears interest at a rate of 10.3% per annum and is repayable on March 29, 2036 at the latest.

On December 18, 2006, the Company granted a new loan facility of up to EUR 16,513,800 to SAF-HOLLAND TECHNOLOGIES GmbH. An amount of EUR 16,463,475 was drawn down as at December 31, 2008 (2007: EUR 16,463,475). This loan facility was interest free until December 31, 2007 from 1 January 2008 it bears interest at a rate of 10.3% per annum. This loan facility is repayable on December 18, 2036 at the latest.

On October 16, 2007 the Company granted a new loan of EUR 4,000,000 to SAF-HOLLAND GmbH. This loan bears interest at a rate of 5 % per annum and has no fixed repayment date. During the year 2008, the Company received partial reimbursements for an aggregate amount of EUR 2,460,000. As of December 31, 2008, the outstanding principal amount of this loan amounted to EUR 1,540,000 (2007: EUR 4,000,000).

**Notes to the annual accounts (continued)**  
31 December 2008

**Note 5 – Amounts owed by affiliated undertakings (continued)**

On April 23, 2008, the Company granted a new loan of EUR 1,000,000 to SAF-HOLLAND Group GmbH. This loan bears interest at a rate of 5 % per annum and has no fixed repayment date. As of December 31, 2008, the outstanding principal amount of this loan amounted to EUR 1,000,000 (2007: EUR 0).

On October 2, 2008, the Company granted a new loan of EUR 13,340,900 to SAF-HOLLAND TECHNOLOGIES GmbH. This loan bears interest at a rate of 10.3 % per annum and has no fixed repayment date. As of December 31, 2008, the outstanding principal amount of this loan amounted to EUR 13,340,900 (2007: EUR 0).

As of December 31, 2008, the interest accrued on the various loans amounted to EUR 15,775,972 (2007: EUR 8,229,302) of which an amount of EUR 8,190,946 (2007: EUR 3,388,356) was capitalised on January 1, 2008.

Included in this amount is also a receivable from SAF-HOLLAND Group GmbH of EUR 9,550,000 relating to the second instalment of the dividend approved on March 12, 2008. This instalment is payable on April 30, 2009.

**Note 6 – Capital and reserves (in EUR)**

*a) Share Capital*

As at December 31, 2007 the share capital of the Company amounted to EUR 188,373.75 represented by 18,837,375 ordinary shares with a par value of EUR 0,01 fully paid in.

On September 4, 2008, the Board of Directors decided to increase the share capital by an amount of EUR 18,649 through the issuance of 1,864,900 new ordinary shares with a par value of EUR 0.01 each together with the issuance of a share premium of EUR 13,968,101.

As at December 31, 2008, the share capital of the Company amounts to EUR 207,022.75 represented by 20,702,275 ordinary shares with a par value of EUR 0.01 fully paid-in.

During the year, the Company did not acquire any of its own shares.

*b) Legal reserve*

Under Luxembourg law an amount equal to at least 5% of the net profit must be allocated annually to a legal reserve until such reserve equals to 10% of the share capital. This reserve is not available for dividend distribution.

**Notes to the annual accounts (continued)**  
31 December 2008

***Note 7 – Amounts owed to affiliated undertakings (in EUR)***

On March 31, 2006, the Company issued Non-Yield-Bearing Convertible Preferred Equity Certificates (CPEC's) for an aggregate amount of EUR 2,947,815. The CPEC's carried the right to convert one CPEC into one share of the Company upon conversion events as defined in the terms and conditions of the CPEC's. On the same day, the Company issued Preferred Equity Certificates (PEC's) for an aggregate amount of EUR 44,520,004. The PEC's carried the right to receive a yield of 10.00% per annum on the sum of the par value of the PEC's together with any accrued and unpaid yield. Unpaid yield is added to the par value of the PEC's on the last day of each period.

On December 18, 2006 the Company issued further Non-Yield-Bearing Convertible Preferred Equity Certificates (CPEC's) for an aggregate amount of EUR 4,245,165. The CPEC's carried the right to convert one CPEC into one share of the Company upon conversion events as defined in the terms and conditions of the CPEC's. On the same day, the Company issued Preferred Equity Certificates (PEC's) for an aggregate amount of EUR 4,574,534. The PEC's carried the right to receive a yield of 10.00% per annum on the sum of the par value of the PEC's together with any accrued and unpaid yield. Unpaid yield is added to the par value of the PEC's on the last day of each period.

On April 19, 2007, the Company issued further Non-Yield Bearing Convertible Preferred Equity Certificates (CPEC's) for an aggregate amount of EUR 40,037.50. The CPEC's carried the right to convert one CPEC into one share of the Company upon conversion events as defined in the terms and conditions of the CPEC's. On the same day, the Company issued Preferred Equity Certificates (PEC's) for an aggregate amount of EUR 52,738. The PEC's carried the right to receive a yield of 10,00 % per annum on the sum of the par value of the PEC's together with any accrued and unpaid yield. Unpaid yield is added to the par value of the PEC's on the last day of the period.

On July 25, 2007 the Company repaid all the issued Non-Yield-Bearing Convertible Preferred Equity Certificates (CPEC's) for an aggregate amount of EUR 7,233,018. On the same day, the Company repaid all the issued Preferred Equity Certificates (PEC's) for an aggregate amount of EUR 49,147,276 and related accrued interest amounting to EUR 6,452,658 out of which an amount of EUR 3,430,990 had been capitalised on January 1, 2007.

**Notes to the annual accounts (continued)**  
31 December 2008

**Note 7 – Amounts owed to affiliated undertakings (in EUR) (continued)**

In addition, on December 18, 2006 the Company issued unsecured subordinated loan notes of EUR 1 each amounting in total to EUR 7,616,003 and bearing interest at a rate of 8% per annum. Interest is payable on a yearly basis through the creation and issue of Funding Bonds of EUR 1 each to the Noteholder. On April 19, 2007, the Company issued further unsecured subordinated loan notes of EUR 1 each amounting in total to EUR 27,773 and bearing interest at a rate of 8 % per annum. Interest is payable on a yearly basis through the creation and issue of Funding Bonds of EUR 1 each to the Noteholder.

On July 25, 2007, the Company repaid, in full, the unsecured subordinated loan for an amount of EUR 7,643,776 and related accrued interest amounting to EUR 373,951 out of which an amount of EUR 22,002 had been capitalised on January 1, 2007.

The Company also received several advances from an affiliated undertaking to fund expenses for an amount of EUR 96,964. These advances bear no interest and have no fixed repayment date.

**Note 8 – Taxes (in EUR)**

The Company is subject to all taxes applicable to commercial companies in Luxembourg.

**Note 9 – Dividends paid and proposed (in EUR)**

In fiscal year 2008, a dividend amounting to EUR 8.000.233 (2007: nil) was paid to the shareholders.

	<b>2008</b>	<b>2007</b>
Proposed for approval at AGM	---	8,000,233

Equity dividends on ordinary shares:  
Final dividend for 2007: 42.47 cents per share

**Notes to the annual accounts (continued)**  
31 December 2008

**Note 10 – Subsequent events**

Since the balance sheet date of 31 December 2008, the following events of material importance for assessing the Group's position have occurred:

**Credit agreement**

Discussions which were initiated in October with the leaders of a bank consortium, UniCredit and Dresdner Kleinwort, regarding the new agreement for a credit line of EUR 325 million adjusted to the current market situation continued as of the end of fiscal year 2008. When the weak market development became apparent in January, both negotiating parties, the Group and the leaders of the bank consortium, decided to immediately disregard the already drafted contract proposal. Instead, both parties concluded a standstill agreement. On 27 February 2009, it was accepted by the entire bank consortium. The agreement consists of the following elements:

- Increase of the interest margin from 1.6% to 4.0%.
- Suspension of the covenants as of 31 December 2008 and 31 March 2009.
- Preparation and presentation by May 5, 2009 of an expert restructuring opinion which describes the ability of the Group to restructure financially. The auditing firm KPMG has been commissioned to prepare the study.
- Development of a new financing concept until 19 June 2009 after submission of the expert restructuring opinion.
- Extensive granting of guarantees in the form of commercial real estate mortgages, pledging of Group bank accounts, and the assignment of other assets as security.

The expert restructuring opinion compiled by KPMG has been completed in a preliminary version as of 20 April 2009. The opinion states the Group is capable of restructuring financially under the conditions listed below. The restructuring opinion is based on corporate planning sensitized in such a way as to take into account the greatest possible negative development that is likely to occur within the planning timeline. The main conditions are as follows:

- The occurrence of the assumptions on which the restructuring opinion is based, in particular the implementation of the targeted restructuring measures.
- Continuation of the existing credit line until 31 December 2010 (EUR 322.6 million as of 31 December 2009; EUR 310.6 million as of 31 December 2010).
- Coverage of the additional liquidity requirement of at most EUR 30 million in November 2010.
- No negative effects on liquidity of more than EUR 5.0 million during the planning period from the reduction or cancellation of credit insurance limits for goods. A negative effect on liquidity of EUR 5.0 million has been taken into account.
- Maintaining the possibility for the transfer of liquid funds between Group companies as part of active cash management.

In addition, the restructuring opinion explicates that sustainable yield and competitive ability can be considered existent, based on the planning as presented and the market position of the SAF-HOLLAND Group.

The Management Board expects to be able to negotiate a new financing concept with the leaders of the bank consortium, UniCredit and Dresdner Kleinwort, until 19 June 2009 in accordance with the requirements of the standstill agreement.

**Notes to the annual accounts (continued)**  
31 December 2008

***Note 10 – Subsequent events (continued)***

**Measures to Streamline Cost and Liquidity Structures**

In 2009, the Group has proceeded with the measures initiated during the reporting year and has supplemented them with an additional program to reduce costs by a further EUR 35 million in the current fiscal year. This package encompasses cost savings for materials, production, and other non-personnel and personnel expenses. These include such measures as reduced working hours, shortened weekly work schedules, and a temporary reduction in exempt salaries. In addition, SAF-Holland is continuing its program targeting the reduction of inventories, which was begun in 2008, with the aim of reducing the volume to 30 days' worth of inventories by the end of 2009.

***Note 11 – Off balance sheet item***

Since 19 September 2008, the Company is acting as a guarantor for a facility entered into between a Group company, Xiamen Austin-Westran Machinery Co, Ltd (China) and HSBC Bank (China).

Under this guarantee, the Company irrevocably and unconditionally, waiving all rights of objection and defence, absolutely guarantees the punctual payment when due of all and any claims arising from the facility up to a maximum amount of USD 1,500,000.