

ENGINE DEVELOPMENTS LIMITED

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STATUTORY INFORMATION

COMPANY NUMBER

00694741

DIRECTORS

Mr J D Judd
Mrs S F Judd
Sir Jack Brabham OBE

SECRETARY

Mrs S F Judd

REGISTERED OFFICE

14/16 Great Portland Street
London W1N 6BL

REGISTERED AUDITORS

Blinkhorns
14/16 Great Portland Street
London W1N 6BL



DIRECTORS' REPORT

The directors submit their report and audited financial statements for the year ended 31 December 1997.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The principal activities of the company during the year were those of designing, developing, testing and manufacturing motor car engine components.

The company performed satisfactorily during the year.

However, in December 1997 the company lost its Formula One engine contract. The contract had accounted for a significant proportion of the company's activities in recent years. The directors are presently seeking alternative sources of work to replace this contract.

FUTURE DEVELOPMENTS

The directors expect the company's turnover to fall in 1998 as a result of losing a major contract.

EVENTS SINCE THE END OF THE YEAR

There have been no events since the balance sheet date which affect the state of the affairs shown in these financial statements.

FIXED ASSETS

Changes in fixed assets are shown in notes 9 and 10 to the financial statements.

RESULTS AND DIVIDENDS

The results for the year under review are summarised in the profit and loss account on page 5.

The directors recommend the payment of a total dividend of £ 200,000 (1996 £102,000).

DIRECTORS' INTERESTS

The interests of the directors in the shares of the company at the beginning and end of the year, were as follows:

	<u>Ordinary shares of £1 each</u>	
	<u>31 December 1997</u>	<u>1 January 1997</u>
	<u>Number</u>	<u>Number</u>
Mr J D Judd	630	630
Mrs S F Judd	30	30
Sir Jack Brabham OBE	-	-

FREEHOLD LAND AND BUILDINGS

The directors consider that the market value of freehold land and buildings is in excess of the amount shown in the accounts but, as these assets are used in the company's business, the excess is not quantified.

DIRECTORS' REPORT (CONTINUED)

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 and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

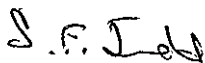
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records 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 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS

The Registered Auditors, Messrs. Blinkhorns, have indicated their willingness to accept re-appointment under Section 385 of the Companies Act 1985.

By order of the Board



MRS S F JUDD
Secretary

25 September 1998

TO THE SHAREHOLDERS OF

ENGINE DEVELOPMENTS LIMITED

We have audited the financial statements on pages 5 to 14 which have been prepared under the historical cost convention and the accounting policies set out on page 8.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described in the Directors Report the company's directors are responsible for the preparation of financial statements. 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 Auditing Standards issued by the Auditing Practices Board, except that the scope of our work was limited as explained below.

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. However, as stated in note 1, due to their specialised nature, the company's stock and work in progress have been included at the directors' valuation. There were no satisfactory audit procedures that we could adopt to confirm independently the valuation prepared by the directors and as a result we have been unable to verify the valuation of stock and work in progress shown in the financial statements.

In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

QUALIFIED OPINION ARISING FROM LIMITATION IN AUDIT SCOPE

Except for any adjustment that might have been found to be necessary had we been able to verify the value of stock and work in progress, in our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 1997 and of its results for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Blinkhorns

Blinkhorns
Registered Auditors
14/16 Great Portland Street
London W1N 6BL

25 September 1998

PROFIT AND LOSS ACCOUNTFOR THE YEAR ENDED 31 DECEMBER 1997

	<u>NOTES</u>	<u>1997</u>	<u>1996</u>
		£	£
TURNOVER	2	6,754,725	5,321,286
Cost of sales		3,311,855	2,884,183
GROSS PROFIT		3,442,870	2,437,103
Selling expenses		463,900	405,330
Establishment expenses		70,646	66,696
Administration expenses		2,710,195	1,748,143
		(3,244,741)	(2,220,169)
		198,129	216,934
Other operating costs		(21,022)	(4,427)
OPERATING PROFIT	3	177,077	212,507
Interest receivable	5	394,125	309,781
Interest payable	6	(317,333)	(236,179)
		76,792	73,602
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		253,899	286,109
Tax on profit on ordinary activities	7	(43,417)	(69,856)
PROFIT FOR THE FINANCIAL YEAR		210,482	216,253
Dividends	8	(200,000)	(102,000)
RETAINED PROFIT FOR THE YEAR		10,482	114,253
Balance brought forward		1,988,907	1,874,654
BALANCE CARRIED FORWARD		1,999,389	1,988,907

The company has no recognised gains or losses other than those dealt with in the profit and loss account.

All amounts relate to continuing activities.

The attached notes form part of these financial statements.

BALANCE SHEET31 DECEMBER 1997

	<u>NOTES</u>	<u>1997</u>	<u>1996</u>
		£	£
FIXED ASSETS			
Tangible assets	9	1,274,629	1,223,870
Investments	10	472,781	472,781
		1,747,410	1,696,651
CURRENT ASSETS			
Stocks		187,036	232,094
Debtors	11	1,261,520	795,014
Cash at bank and in hand		5,654,155	5,734,693
		7,102,711	6,761,801
CREDITORS – Amounts falling due within one year	12	(6,849,732)	(6,468,545)
NET CURRENT ASSETS		252,979	293,256
TOTAL ASSETS LESS CURRENT LIABILITIES		2,000,389	1,989,907
CAPITAL AND RESERVES			
Called up share capital	13	1,000	1,000
Profit and loss account		1,999,389	1,988,907
SHAREHOLDERS' FUNDS	14	2,000,389	1,989,907

The financial statements were approved by the Board of Directors on 25 September 1998.


J D JUDD - Director

The attached notes form part of these financial statements.

CASH FLOW STATEMENTFOR THE YEAR ENDED 31 DECEMBER 1997

	<u>NOTES</u>	<u>1997</u>	<u>1996</u>
		£	£
<u>RECONCILIATION OF OPERATING PROFIT TO</u>			
<u>NET CASH INFLOW FROM OPERATING ACTIVITIES</u>			
Operating profit		177,077	212,507
Depreciation charges		107,727	96,535
Decrease in stock		45,058	70,731
Decrease in debtors		(466,506)	149,923
Increase in creditors		423,653	640,797
Profit on disposal of fixed assets		-	(5,128)
Net cash inflow from operating activities		287,009	1,165,367

CASH FLOW STATEMENT

Net cash inflow from operating activities		287,009	1,165,367
Returns on investments and servicing of finance	15	(123,208)	(28,398)
Taxation		(85,854)	(69,856)
Capital expenditure	15	(158,485)	(129,071)
(Decrease)/Increase in cash		(80,538)	938,042

RECONCILIATION OF NET CASH FLOW
TO MOVEMENT IN NET CASH

(Decrease)/Increase in cash in the year	16	(80,538)	938,042
Net cash at 1 January 1997		5,734,693	4,796,651
Net cash at 31 December 1997		5,654,155	5,734,693

The attached notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTSAT 31 DECEMBER 19971. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below and have remained unchanged from the previous year and also have been consistently applied within the same financial statements.

Basis of Preparation of the Financial Statements

The financial statements have been prepared under the historical cost convention.

The effect of events relating to the year ended 31 December 1997 which occurred before the date of approval of the financial statements by the Board of Directors, have been included in the financial statements to the extent required to show a true and fair view of the state of affairs at 31 December 1997 and of the results for the year ended on that date.

Depreciation

Depreciation is provided on all tangible assets, other than freehold land and buildings, at the following annual rates calculated to write off the cost, less estimated residual value, of each asset over its expected useful life.

Plant and machinery	- 20% reducing balance basis
Fixtures, furniture and equipment	- 15% reducing balance basis
Motor vehicles	- 25% reducing balance basis

No depreciation is provided on freehold buildings as the directors are of the opinion that the residual values of the buildings will be at least equal to the amount in these financial statements.

Stocks

The company develops and manufactures specialist motor racing engine components, the design and development of which changes constantly.

As a result the valuation of the company's stock and work in progress has to take into account special factors. As the directors possess a detailed knowledge of the market the company operates in, stock and work in progress have been included in the financial statements at the lower of cost or net realisable value provided by the directors.

Deferred Taxation

The company has adopted the proposals of Statement of Standard Accounting Practice No 15 whereby no provision has been made for deferred taxation arising from the excess of accelerated capital allowances over depreciation charged in the financial statements as no liability of this nature is expected to arise in the foreseeable future.

Foreign Exchange

Transactions denominated in foreign currencies are translated into sterling and recorded at the rate of exchange ruling at the date of the transaction. Balances at the year end denominated in a foreign currency are translated into sterling at the rate of exchange ruling at the balance sheet date. Any differences are dealt with through the profit and loss account.

Pensions

Contributions to the company's defined contribution pension scheme are charged to the profit and loss account in the year in which they became payable.

NOTES TO THE FINANCIAL STATEMENTSAT 31 DECEMBER 19972. TURNOVER

Turnover represents the invoiced amount of goods sold and services provided, less refunds and value added tax.

The analysis of turnover by geographical area is as follows:-

	<u>1997</u>	<u>1996</u>
	£	£
United Kingdom	1,133,053	1,147,166
Japan	5,572,962	4,141,870
United States of America	900	960
Rest of Europe	47,810	31,290
	6,754,725	5,321,286

Turnover is attributable to one principal activity of the company.

3. OPERATING PROFIT

a) This is stated after charging or (crediting):-

Directors' emoluments (including pension contributions)	1,499,837	1,089,532
Auditors' remuneration	20,000	20,000
Depreciation of owned assets	107,727	96,537
Hire of equipment	688	687
Profit on disposal of motor vehicles	-	(5,128)
Rents receivable	(240)	(19,580)
Loss on exchange	21,262	24,007

b) Directors' emoluments

The chairman (who was also the highest paid director) excluding pension contributions	1,342,603	969,736

NOTES TO THE FINANCIAL STATEMENTSAT 31 DECEMBER 1997

	<u>1997</u>	<u>1996</u>
4. <u>STAFF COSTS</u>	Number	Number
The average weekly number of employees during the year was made up as follows:		
Office and management	11	7
Manufacturing	51	42
	62	49
	£	£
The aggregate payroll costs of these persons were as follows:		
Wages and salaries	2,169,082	1,395,603
Social security costs	320,925	250,113
Other pension costs	27,000	24,300
	2,517,007	1,670,016
5. <u>INTEREST RECEIVABLE</u>		
Bank deposit interest	378,168	281,192
Other interest	15,957	28,589
	394,125	309,781
6. <u>INTEREST PAYABLE</u>		
Director's current account	317,333	236,179
7. <u>TAX ON PROFIT ON ORDINARY ACTIVITIES</u>		
Based on the assessable profit for the year:-		
Corporation tax at 33% and 31% (1996: 24% and 25%)	43,417	71,343
Adjustment in respect of prior years	-	(1,487)
	43,417	69,856
8. <u>DIVIDEND</u>		
Ordinary - final proposed	200,000	102,000

NOTES TO THE FINANCIAL STATEMENTSAT 31 DECEMBER 19979. TANGIBLE FIXED ASSETS

	<u>Freehold Land and Buildings</u>	<u>Plant and Machinery</u>	<u>Fixtures and Fittings and Equipment</u>	<u>Motor Vehicles</u>	<u>Total</u>
	£	£	£	£	£
Cost at:					
1 January 1997	841,098	1,000,964	209,120	236,555	2,287,737
Additions	-	151,018	7,467	-	158,485
At 31 December 1997	841,098	1,151,982	216,587	236,555	2,446,222
Depreciation at:					
1 January 1997	-	838,300	97,567	128,000	1,063,867
Charge for the year	-	62,736	17,853	27,137	107,726
At 31 December 1997	-	901,036	115,420	155,137	1,171,593
Net book value:					
At 31 December 1997	841,098	250,946	101,167	81,418	1,274,629
At 31 December 1996	841,098	162,664	111,553	108,555	1,223,870

	<u>1997</u>	<u>1996</u>
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	£	£
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10. FIXED ASSET INVESTMENTSListed investments

Cost at 1 January 1997 and 31 December 1997	472,781	472,781
Market value at 31 December 1997	1,597,899	1,505,368

NOTES TO THE FINANCIAL STATEMENTSAT 31 DECEMBER 1997

	<u>1997</u>	<u>1996</u>
	£	£
11. DEBTORS		
Trade debtors	1,110,520	611,795
ACT recoverable	50,000	25,500
Other debtors	63,209	140,508
Corporation tax refund	37,791	17,211
	1,261,520	795,014

12. CREDITORS:
AMOUNTS FALLING DUE WITHIN ONE YEAR

Payments received on account	-	810,000
Trade creditors	668,885	861,995
Directors' current accounts	4,042,016	3,404,443
Corporation tax	33,762	76,228
ACT payable	50,000	25,500
Other taxes and social security costs	1,014,710	739,998
Other creditors and accruals	738,359	346,381
Proposed dividends	200,000	102,000
Loan accounts	102,000	102,000
	6,849,732	6,468,545

13. SHARE CAPITAL

	<u>Authorised</u>	<u>Called Up & Paid</u>
	£	£
Ordinary shares of £1 each	1,000	1,000

There were no changes during the year.

NOTES TO THE FINANCIAL STATEMENTSAT 31 DECEMBER 1997

	<u>1997</u>	<u>1996</u>
	<u>£</u>	<u>£</u>
14. <u>MOVEMENTS IN SHAREHOLDERS' FUNDS</u>		
Profit for the financial year	210,482	216,253
Proposed dividend	(200,000)	(102,000)
Opening shareholders' funds	10,482 1,989,907	114,253 1,875,654
CLOSING SHAREHOLDERS' FUNDS	2,000,389	1,989,907

15. GROSS CASHFLOWS

Returns on Investments and Servicing of Finance:		
Interest received	394,125	309,781
Interest paid	(317,333)	(236,179)
Dividends paid	(200,000)	(102,000)
	(123,208)	(28,398)
Capital Expenditure:		
Payments to acquire tangible fixed assets	(158,485)	(141,866)
Receipts from sales of tangible fixed assets	-	12,795
	(158,485)	(129,071)

16. ANALYSIS OF CHANGES IN NET CASH

	<u>At</u> <u>1 January</u> <u>1997</u>	<u>Cashflows</u>	<u>At</u> <u>31 December</u> <u>1997</u>
	<u>£</u>	<u>£</u>	<u>£</u>
Cash in hand, at bank	5,734,693	(80,538)	5,654,155
Total	5,734,693	(80,538)	5,654,155

DETAILED TRADING AND PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 1997

17. PENSION COSTS

The company operates a non-contributory pension scheme. It is a defined contribution scheme and contributions are charged in the profit and loss account as they accrue. The charge for the year was £87,000 (1996 £85,000).