ENGINE DEVELOPMENTS LIMITED

REPORT AND
FINANCIAL STATEMENTS

FOR THE YEAR ENDED
31 DECEMBER 1998

REGISTERED NUMBER: 00694741

ENGINE DEVELOPMENTS LIMITED

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 1998

Contents | **Pages**

COMPANY INFORMATION
AS AT 31 DECEMBER 1998

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

AUDITORS

Blinkhorns
14/16 Great Portland Street
London
W1N 6BL

DIRECTORS' REPORT

The directors present their annual report with the financial statements of the company for the year ended 31 December 1998.

PRINCIPAL ACTIVITIES
The principal activities of the company in the year under review were those of designing, developing, testing and manufacturing motor car engine components.

No significant change in the nature of these activities occurred during the year.

REVIEW OF THE BUSINESS
The net profit after providing for taxation amounted to £87,707.

The company has had a difficult year trading due to the reported loss last year of a key contract. Despite this the directors are pleased with the results for the year and are confident that the company's performance will continue to improve during the coming year.

DIVIDENDS
The directors do not recommend the payment of a dividend for the year under review (1997 - £200,000).

FUTURE DEVELOPMENTS
The company will continue to develop its core business and is actively seeking to secure new contracts.

INTRODUCTION OF THE SINGLE EUROPEAN CURRENCY
In the view of the directors the impact of the introduction of the single European currency on the company's activities will be minimal.

INTEREST IN LAND AND BUILDINGS
The directors are of the opinion that the market value of the company's interest in freehold land and buildings substantially exceeds the net book value stated in these financial statements.

DIRECTORS AND THEIR INTERESTS
The directors in office in the year and their beneficial interests in the company at the balance sheet date and the beginning of the year (or on appointment if later) were as follows:

		Number of Shares	
		1998	**1997**
Mr J D Judd	Ordinary shares of £1 each	630	630
Mrs S F Judd	Ordinary shares of £1 each	30	30
Sir Jack Brabham OBE		-	-

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;
- 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 maintaining 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.

YEAR 2000 ISSUES
The directors have made an assesment of the Year 2000 problem and its impact on the activities of the company.

Plans have been developed designed to enhance the computer and other date dependant systems prior to the end of this millenium which, when implemented, should ensure that the Year 2000 problem will not adversely impact on the operations of the company. However, given the complexity of the problem, it is impossible to guarantee that no Year 2000 problems will occur.

It is estmated that the cost of implementing these plans will not be significant.

AUDITORS
The auditors, Blinkhorns, will be proposed for re-appointment in accordance with section 385 of the Companies Act 1985.

By order of the board:

S F Judd

Mrs S F Judd
Secretary

Date: 4 October 1999

AUDITORS' REPORT TO THE SHAREHOLDERS

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

RESPECTIVE RESPONSIBILITIES OF THE 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. 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 as to whether 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 special 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 adjustments that might have been found to be necessary had we been able to obtain sufficient evidence towards the valuation 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 as at 31 December 1998 and of its results for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

....
Blinkhorns

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

Date: 26 October 1999

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 1998

	Notes	1998 £	1997 £
TURNOVER	2	3,003,009	6,754,725
Cost of sales		1,711,374	3,311,855
GROSS PROFIT		1,291,635	3,442,870
Selling expenses		375,818	463,900
Establishment expenses		54,612	70,646
Administrative expenses		780,011	2,731,217
OPERATING PROFIT	3	81,194	177,107
Investment income and interest receivable	4	413,684	394,125
Interest payable and similar charges	5	(407,171)	(317,333)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		87,707	253,899
Tax on profit on ordinary activities	7	-	(43,417)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		87,707	210,482
Dividends	8	-	(200,000)
RETAINED PROFIT FOR THE FINANCIAL YEAR	16	87,707	10,482

Continuing operations
None of the company's activities were acquired or discontinued during the above two financial years.

Total recognised gains and losses
The company has no recognised gains or losses other than the profit for the above two financial years.

The notes on pages 8 to 14 form part of these financial statements.

BALANCE SHEET
AT 31 DECEMBER 1998

	Notes	1998 £	1998 £	1997 £	1997 £
FIXED ASSETS					
Tangible assets	9		1,120,603		1,274,629
Investments	10		472,781		472,781
			1,593,384		1,747,410
CURRENT ASSETS					
Stocks	11	200,655		187,036	
Debtors	12	1,016,685		1,261,520	
Cash at bank and in hand		5,110,317		5,654,155	
		6,327,657		7,102,711	
CREDITORS: amounts falling due within one year	13	(5,832,945)		(6,849,732)	
NET CURRENT ASSETS			494,712		252,979
TOTAL ASSETS LESS CURRENT LIABILITIES			2,088,096		2,000,389
CAPITAL AND RESERVES					
Called up share capital	15		1,000		1,000
Profit and loss account	16		2,087,096		1,999,389
TOTAL SHAREHOLDERS' FUNDS	17		2,088,096		2,000,389

Approved by the board of directors on 4 October 1999 and signed on its behalf by:

Mr J D Judd
Director

The notes on pages 10 to 16 form part of these financial statements.

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 1998

	Notes	1998 £	1997 £
Net cash (outflow) / *inflow from operating activities*	3	(651,447)	207,767
Returns on investments and servicing of finance	18	6,782	58,064
Taxation	18	(59,262)	(85,884)
Capital expenditure	18	195,400	(158,485)
Equity dividends paid		(200,000)	(102,000)
Cash outflow before use of liquid resources and financing		(708,527)	(80,538)
Financing	18	98,000	-
DECREASE IN CASH IN THE YEAR		(610,527)	(80,538)

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	Notes	1998 £	1997 £
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS	19		
DECREASE IN CASH IN THE YEAR		(610,527)	(80,538)
Cash inflow from movement in debt and lease financing		(98,000)	-
Change in net funds resulting from cash flows		(708,527)	(80,538)
Movement in funds in the year		(708,527)	(80,538)
Net funds at 1 January 1998		5,552,155	5,632,693
Net funds at 31 December 1998		4,843,628	5,552,155

The notes on pages 8 to 14 form part of these financial statements.

1. STATEMENT OF ACCOUNTING POLICIES

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

Turnover
Turnover represents the total invoice value, excluding value added tax, of goods sold and services rendered during the year.

Depreciation of tangible fixed assets
Depreciation is provided at the following annual rates in order to write off each asset over its useful life:

Plant and machinery	15% on cost
Fixtures and fittings	20% on cost
Motor vehicles	25% on cost

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.

Investments
Investments held as fixed assets are stated at cost less provision for permanent diminution in value. Those held as current assets are stated at the lower of cost and net realisable value.

Dividends are brought to account in the profit and loss account when received.

Deferred taxation
Deferred taxation is provided using the liability method on all timing differences to the extent that they are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse.

Foreign currencies
Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into the profit and loss account for the year.

Pension costs
The company operates a money purchase (defined contribution) pension scheme. Contributions payable to this scheme are charged to the profit and loss account in the period to which they relate. The charge for the year was £91,700 (1997 - £87,000). These contributions are invested separately from the company's assets.

2. TURNOVER

	1998	1997
	£	£
Analysis by geographical market:		
United Kingdom	2,425,991	1,133,053
Japan	543,302	5,572,962
United States of America	2,274	900
Rest of Europe	31,442	47,810
	3,003,009	6,754,725

Turnover is attributable to the one principal activity of the company.

3. OPERATING PROFIT

Operating profit is stated	1998	1997
	£	£
After charging:		
Depreciation of fixed assets	87,192	107,727
Auditors' remuneration	28,200	20,000
Hire of equipment	472	688
Loss on foreign currencies	-	21,262

After crediting:		
Profit on disposal of tangible assets	128,566	-
Profit on foreign currencies	16,200	-

Reconciliation of operating profit to net cash(outflow) / inflow from operating activities

	1998	1997
	£	£
Operating profit	81,193	177,107
Depreciation	87,192	107,727
(Profit) / loss on disposal of fixed assets	(128,566)	-
(Increase) / decrease in stocks	(13,619)	45,058
Decrease / (increase) in debtors	244,566	(423,278)
(Decrease) / increase in creditors	(922,213)	301,153
Net cash(outflow) / inflow from operating activities	(651,447)	207,767

4. INVESTMENT INCOME AND INTEREST RECEIVABLE

	1998	1997
	£	£
Interest received and receivable		
Bank interest	403,016	378,168
Other interest	10,668	15,957
	413,684	394,125

5. INTEREST PAYABLE AND SIMILAR CHARGES

	1998 £	1997 £
On other loans	407,171	317,333

6. INFORMATION ON DIRECTORS AND EMPLOYEES

Staff costs	1998 £	1997 £
Wages and salaries	1,609,681	3,929,844
Other pension costs	91,700	87,000
	1,701,381	4,016,844

	1998 No.	1997 No.
The average number of employees during the year was made up as follows:		
Office and management	24	11
Manufacturing	22	51
	46	62

Directors' emoluments	1998 £	1997 £
Emoluments	187,309	1,499,837

The number of directors to whom retirement benefits are accruing under money purchase pension schemes is 1 (1997 - 1).

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	1998 £	1997 £
The taxation charge comprises:		
Corporation tax at 21% (1997 - 31%)	-	43,417
	-	43,417

8. DIVIDENDS PAID OR PROPOSED

	1998 £	1997 £
On ordinary shares:		
Final dividend proposed		
Dividend - £1 ordinary shares	-	200,000

9. TANGIBLE FIXED ASSETS

	Land and buildings £	Plant and machinery £	Fixtures and fittings £	Motor vehicles £	Total £
Cost:					
At 1 Jan. 98	841,098	1,151,982	216,587	236,555	2,446,222
Additions	-	-	-	20,100	20,100
Disposals	(72,723)	-	-	(60,240)	(132,963)
At 31 Dec. 98	768,375	1,151,982	216,587	196,415	2,333,359
Depreciation:					
At 1 Jan. 98	-	901,036	115,420	155,137	1,171,593
Charge for year	-	50,189	15,175	21,828	87,192
On disposals	-	-	-	(46,029)	(46,029)
At 31 Dec. 98	-	951,225	130,595	130,936	1,212,756
Net book value:					
At 31 Dec. 98	768,375	200,757	85,992	65,479	1,120,603
At 31 Dec. 97	841,098	250,946	101,167	81,418	1,274,629

	1998 £	1997 £
Analysis of net book value of land and buildings:		
Freehold	768,375	841,098

10. INVESTMENTS

Cost or valuation:	**Beginning and end of year** £
Other investments	472,781

10. INVESTMENTS - (continued)

Other investments other than loans

Shares:

	Book value 1998 £	Market value 1998 £	Book value 1997 £	Market value 1997 £
Listed:				
U.K. Stock Exchange	472,781	1,702,729	472,781	1,597,899

11. STOCKS

	1998 £	1997 £
Stocks and work in progress	200,655	187,036

12. DEBTORS

	1998 £	1997 £
Trade debtors	886,679	1,110,520
Other debtors	104,491	113,209
Prepayments and accrued income	25,515	37,791
	1,016,685	1,261,520

13. CREDITORS: amounts falling due within one year

	1998 £	1997 £
Bank loans and overdrafts	66,689	-
Payments received on account	81,000	-
Trade creditors	371,637	668,885
Corporation tax	24,500	83,762
Other taxes and social security costs	271,673	1,014,710
Other creditors	4,999,113	4,852,980
Accruals and deferred income	18,333	29,395
Proposed dividend	-	200,000
	5,832,945	6,849,732

14. BORROWINGS

	1998 £	1997 £
The company's borrowings are repayable as follows		
Up to one year and on demand	266,689	102,000

15. SHARE CAPITAL

	1998 £	1997 £
Authorised:		
Equity interests:		
1,000 Ordinary shares of £1 each	1,000	1,000
Allotted, called up and fully paid:		
Equity interests:		
1,000 Ordinary shares of £1 each	1,000	1,000

16. PROFIT AND LOSS ACCOUNT

	1998 £	1997 £
Retained profit as at 1 January 1998	1,999,389	1,988,907
Profit for the year	87,707	10,482
Retained profit as at 31 December 1998	2,087,096	1,999,389

17. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1998 £	1997 £
Profit for the year	87,707	210,482
Dividends	-	(200,000)
Net addition to shareholders' funds	87,707	10,482
Opening shareholders' funds	2,000,389	1,989,907
Closing shareholders' funds	2,088,096	2,000,389
Represented by:-		
Equity interests	2,088,096	2,000,389

18. ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT

	1998 £	1997 £
Returns on investments and servicing of finance		
Interest received	413,953	375,397
Interest paid	(407,171)	(317,333)
Net cash inflow from returns on investments and **servicing of finance**	6,782	58,064

18. ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT - (continued)

	1998 £	1997 £
Taxation		
Corporation tax paid	(68,917)	(85,883)
Corporation tax received	9,655	-
Net cash outflow from taxation	(59,262)	(85,883)
Capital expenditure		
Purchase of tangible fixed assets	(20,100)	(158,485)
Receipts from sale of tangible fixed assets	215,500	-
Net cash inflow / (outflow) from capital expenditure	195,400	(158,485)
Financing		
Other new loans	200,000	-
Repayments of other loans	(102,000)	-
Net cash inflow / (outflow) from financing	98,000	-

19. ANALYSIS OF CHANGES IN NET FUNDS

	1997 £	Cash flow £	Other movements £	1998 £
Cash at bank and in hand	5,654,155	(543,838)	-	5,110,317
Bank overdraft	-	(66,689)	-	(66,689)
		(610,527)		
Debt due within one year	(102,000)	-	(98,000)	(200,000)
Debt due after one year	-	(98,000)	200,000	102,000
	5,552,155	(708,527)	102,000	4,945,628