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ENGINE DEVELOPMENTS LIMITED

COMPANY INFORMATION
AT 31 DECEMBER 1999

DIRECTORS

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

SECRETARY

Mrs S F Judd

REGISTERED OFFICE

27 Mortimer Street
London W1T 3BL

AUDITORS

Blinkhorns
27 Mortimer Street
London
W1T 3BL

ENGINE DEVELOPMENTS LIMITED

DIRECTORS' REPORT

The directors present their annual report with the financial statements of the company for the year ended 31 December 1999.

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 £129,122.

The directors are satisfied with the performance of the company and are pleased with the current level of business which is being generated.

DIVIDENDS

The directors do not recommend the payment of a dividend for the year under review (1998 - £nil).

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 at the beginning of the year were as follows:

		Number of Shares	
		1999	**1998**
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		-	-

ENGINE DEVELOPMENTS LIMITED

DIRECTORS' REPORT

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 Company has long recognised the importance of ensuring compliance with the year 2000 problem and other date related issues. Subsequent to the year end there have been no issues arising in connection with the year 2000, and the Company will continue to monitor its systems in respect of any further date related issues. The cost of dealing with these date related issues is not expected to 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: 17 October 2000

ENGINE DEVELOPMENTS LIMITED

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the financial statements on pages 5 to 15 which have been prepared under the historical cost convention and on the basis of accounting policies set out on pages 8 and 9.

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 1999 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
27 Mortimer Street
London
W1T 3BL

Date: 25 October 2000

ENGINE DEVELOPMENTS LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 1999

	Notes	1999 £	1998 £
TURNOVER	2	3,168,418	3,003,009
Cost of sales		1,944,947	1,711,374
GROSS PROFIT		1,223,471	1,291,635
Selling expenses		168,421	375,818
Establishment expenses		56,385	54,612
Administrative expenses		838,125	780,011
OPERATING PROFIT	3	160,540	81,194
Investment income and interest receivable	4	265,876	413,684
Interest payable and similar charges	5	(344,958)	(407,171)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		81,458	87,707
Tax on profit on ordinary activities	7	47,664	-
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		129,122	87,707

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 15 form part of these financial statements.

ENGINE DEVELOPMENTS LIMITED

BALANCE SHEET
AT 31 DECEMBER 1999

	Notes	1999 £	1999 £	1998 £	1998 £
FIXED ASSETS					
Tangible assets	8		1,080,903		1,120,603
Investments	9		472,781		472,781
			1,553,684		1,593,384
CURRENT ASSETS					
Stocks	10	683,558		200,655	
Debtors	11	1,437,110		1,016,685	
Cash at bank and in hand		4,722,863		5,110,317	
		6,843,531		6,327,657	
CREDITORS: amounts falling due within one year	12	(6,179,997)		(5,832,945)	
NET CURRENT ASSETS			663,534		494,712
TOTAL ASSETS LESS CURRENT LIABILITIES			2,217,218		2,088,096
CAPITAL AND RESERVES					
Called up share capital	14		1,000		1,000
Profit and loss account	15		2,216,218		2,087,096
TOTAL SHAREHOLDERS' FUNDS	16		2,217,218		2,088,096

Approved by the board of directors on 17 October 2000 and signed on its behalf by:

Mr J D Judd
Director

The notes on pages 8 to 15 form part of these financial statements.

ENGINE DEVELOPMENTS LIMITED

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 1999

	Notes	1999 £	1998 £
Net cash outflow from operating activities	3	(104,780)	(651,447)
Returns on investments and servicing of finance	17	(71,024)	6,782
Taxation	17	76,131	(59,262)
Capital expenditure	17	(43,900)	195,400
Equity dividends paid		-	(200,000)
Cash outflow before use of liquid resources and financing		(143,573)	(708,527)
Financing	17	(200,000)	98,000
DECREASE IN CASH IN THE YEAR		(343,573)	(610,527)

	Notes	1999	1998
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS	18		
DECREASE IN CASH IN THE YEAR		(343,573)	(610,527)
Cash (outflow) / inflow from movement in debt and lease financing		200,000	(98,000)
Change in net funds resulting from cash flows		(143,573)	(708,527)
Movement in funds in the year		(143,573)	(708,527)
Net funds at 1 January 1999		4,843,628	5,552,155
Net funds at 31 December 1999		4,700,055	4,843,628

The notes on pages 8 to 15 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:

Fixtures and fittings	15% on the reducing balance
Plant and machinery	20% on the reducing balance
Motor vehicles	25% on the reducing balance

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.
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, and is 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.

1. STATEMENT OF ACCOUNTING POLICIES - (continued)

Leases
Gross earnings from leases are recognised in the profit and loss account on a straight line basis over the period of each lease. The initial direct costs incurred in negotiating and arranging leases are charged to the profit and loss account in the period in which they are incurred.

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 £7,825 (1998 - £91,700). These contributions are invested separately from the company's assets.

2. TURNOVER

	1999	1998
	£	£
Analysis by geographical market:		
United Kingdom	1,973,897	2,425,991
Japan	139,095	543,302
United States of America	215,321	2,274
Rest of Europe	840,105	31,442
	3,168,418	3,003,009

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

3. OPERATING PROFIT

Operating profit is stated	1999	1998
	£	£
After charging:		
Depreciation of fixed assets	79,327	87,192
Loss on disposal of tangible assets	4,273	-
Auditors' remuneration	17,630	28,200
Hire of equipment	-	472
Loss on foreign currencies	7,223	-
After crediting:		
Profit on disposal of tangible assets	-	128,566
Profit on foreign currencies	-	16,200

3. OPERATING PROFIT - (continued)

Reconciliation of operating profit to net cash outflow from operating activities

	1999 £	1998 £
Operating profit	160,540	81,194
Depreciation	79,327	87,192
Loss / (profit) on disposal of fixed assets	4,273	(128,566)
Increase in stocks	(482,903)	(13,619)
(Increase) / decrease in debtors	(472,921)	244,566
Increase / (decrease) in creditors	606,904	(922,214)
Net cash outflow from operating activities	(104,780)	(651,447)

4. INVESTMENT INCOME AND INTEREST RECEIVABLE

	1999 £	1998 £
Interest received and receivable		
Bank interest	235,471	403,016
Other interest	30,405	10,668
	265,876	413,684

5. INTEREST PAYABLE AND SIMILAR CHARGES

	1999 £	1998 £
On other loans	344,958	407,171

6. INFORMATION ON DIRECTORS AND EMPLOYEES

	1999 £	1998 £
Staff costs		
Wages and salaries	1,548,833	1,609,681
Other pension costs	7,825	91,700
	1,556,658	1,701,381

6. INFORMATION ON DIRECTORS AND EMPLOYEES - (continued)

	1999 No.	1998 No.
The average number of employees during the year was made up as follows:		
Office and management	24	24
Manufacturing	16	22
	40	46

	1999 £	1998 £
Directors' emoluments		
Emoluments	189,479	187,309

The number of directors to whom retirement benefits are accruing under money purchase pension schemes is 1 (1998 - 1).

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	1999 £	1998 £
The taxation credit comprises:		
Corporation tax at 20% (1998 - 21%)	8,529	-
Adjustment in respect of prior years	(56,193)	-
	(47,664)	-

8. TANGIBLE FIXED ASSETS

	Land and buildings	Plant and machinery	Fixtures and fittings	Motor vehicles	Total
	£	£	£	£	£
Cost:					
At 1 January 1999	768,375	1,151,982	216,587	196,415	2,333,359
Additions	-	-	-	63,040	63,040
Disposals	-	-	-	(80,204)	(80,204)
At 31 December 1999	768,375	1,151,982	216,587	179,251	2,316,195
Depreciation:					
At 1 January 1999	-	951,225	130,595	130,936	1,212,756
Charge for year	-	40,151	12,899	26,277	79,327
On disposals	-	-	-	(56,791)	(56,791)
At 31 December 1999	-	991,376	143,494	100,422	1,235,292
Net book value:					
At 31 December 1999	768,375	160,606	73,093	78,829	1,080,903
At 31 December 1998	768,375	200,757	85,992	65,479	1,120,603

	1999	1998
	£	£
Analysis of net book value of land and buildings:		
Freehold	768,375	768,375

9. INVESTMENTS

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

9. INVESTMENTS - (continued)

Other investments

	Book value 1999 £	Market value 1999 £	Book value 1998 £	Market value 1998 £
Listed investments	472,781	1,789,683	472,781	1,702,729

10. STOCKS

	1999 £	1998 £
Stocks and work in progress	683,558	200,655

11. DEBTORS

	1999 £	1998 £
Trade debtors	1,157,867	886,679
Other debtors	106,216	104,491
Prepayments and accrued income	173,027	25,515
	1,437,110	1,016,685

12. CREDITORS: amounts falling due within one year

	1999 £	1998 £
Bank loans and overdrafts	22,808	66,689
Payments received on account	-	81,000
Trade creditors	250,589	371,637
Corporation tax	8,529	24,500
Other taxes and social security costs	350,721	271,673
Other creditors	5,065,109	4,999,113
Accruals and deferred income	482,241	18,333
	6,179,997	5,832,945

13. BORROWINGS

	1999 £	1998 £
The company's borrowings are repayable as follows		
Up to one year and on demand	22,808	266,689

14. SHARE CAPITAL

	1999 £	1998 £
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

15. PROFIT AND LOSS ACCOUNT

	1999 £	1998 £
Retained profit as at 1 January 1999	2,087,096	1,999,389
Profit for the year	129,122	87,707
Retained profit as at 31 December 1999	2,216,218	2,087,096

16. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1999 £	1998 £
Profit for the year	129,122	87,707
Opening shareholders' funds	2,088,096	2,000,389
Closing shareholders' funds	2,217,218	2,088,096
Represented by:-		
Equity interests	2,217,218	2,088,096

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

	1999 £	1998 £
Returns on investments and servicing of finance		
Interest received	273,934	413,953
Interest paid	(344,958)	(407,171)
Net cash (outflow) / inflow from returns on investments and servicing of finance	(71,024)	6,782
Taxation		
Corporation tax paid	-	(68,917)
Corporation tax received	76,131	9,655
Net cash inflow / (outflow) from taxation	76,131	(59,262)
Capital expenditure		
Purchase of tangible fixed assets	(63,040)	(20,100)
Receipts from sale of tangible fixed assets	19,140	215,500
Net cash (outflow) / inflow from capital expenditure	(43,900)	195,400
Financing		
Other new loans	-	200,000
Repayments of other loans	(200,000)	(102,000)
Net cash (outflow) / inflow from financing	(200,000)	98,000

18. ANALYSIS OF CHANGES IN NET FUNDS

	1998 £	Cash flow £	Other movements £	1999 £
Cash at bank and in hand	5,110,317	(387,454)	-	4,722,863
Bank overdraft	(66,689)	43,881	-	(22,808)
		(343,573)		
Debt due within one year	(200,000)	-	200,000	-
Debt due after one year	-	200,000	(200,000)	-
	4,843,628	(143,573)	-	4,700,055