Company Registration No. 00694741 (England and Wales)

ENGINE DEVELOPMENTS LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

ENGINE DEVELOPMENTS LIMITED

COMPANY INFORMATION

Directors	Mr J D Judd Mrs S F Judd
Secretary	Mrs S F Judd
Company number	00694741
Registered office	27 Mortimer Street London W1T 3BL
Auditors	Blinkhorns 27 Mortimer Street London W1T 3BL

ENGINE DEVELOPMENTS LIMITED

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ENGINE DEVELOPMENTS LIMITED

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2002

The directors present their report and financial statements for the year ended 31 December 2002.

Principal activities and review of the business

The principal activities of the company in the year under review were those of designing, developing, testing and manufacturing motor racing car engines.

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

The net profit after providing for taxation amounted to £97,303.

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

Results and dividends

The results for the year are set out on page 4.

The directors recommend payment of an ordinary dividend amounting to £100,000 .

Market value of land and buildings

In the opinion of the directors the market value of land and buildings exceeds the current net book value.

Future developments

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

Directors

The following directors have held office since 1 January 2002:

Mr J D Judd	
Mrs S F Judd	
Sir Jack Brabham OBE	(Resigned 21 October 2002)

Directors' interests

The directors' interests in the shares of the company were as stated below:

	Ordinary shares of £ 1 each	
	31 December 2002	**1 January 2002**
Mr J D Judd	630	630
Mrs S F Judd	30	30

Auditors

In accordance with section 385 of the Companies Act 1985, a resolution proposing that Blinkhorns be reappointed as auditors of the company will be put to the Annual General Meeting.

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;
- 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.

On behalf of the board

S F Judd

Mrs S F Judd

Director

17.10.03

ENGINE DEVELOPMENTS LIMITED

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF ENGINE DEVELOPMENTS LIMITED

We have audited the financial statements of Engine Developments Limited on pages 4 to 14 for the year ended 31 December 2002. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

Respective responsibilities of the directors and auditors
As described in the statement of directors' responsibilities on page 2 the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit 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 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 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 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 2002 and of its results for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Blinkhorns

Blinkhorns

Registered Auditor

3 November 2003

27 Mortimer Street
London
W1T 3BL

ENGINE DEVELOPMENTS LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2002

	Notes	2002 £	2001 £
Turnover	**2**	3,913,176	6,151,124
Cost of sales		(2,511,614)	(4,373,802)
Gross profit		1,401,562	1,777,322
Distribution costs		(161,478)	(219,422)
Administrative expenses		(1,067,191)	(1,515,105)
Operating profit	**3**	172,893	42,795
Other interest receivable and similar income		310,213	324,262
Interest payable and similar charges	4	(368,000)	(345,648)
Profit on ordinary activities before taxation		115,106	21,409
Tax on profit on ordinary activities	5	(17,803)	(99,077)
Profit/(loss) on ordinary activities after taxation		97,303	(77,668)
Dividends	6	(100,000)	-
Retained loss for the year	**15**	(2,697)	(77,668)

The profit and loss account has been prepared on the basis that all operations are continuing operations.

There are no recognised gains and losses other than those passing through the profit and loss account.

ENGINE DEVELOPMENTS LIMITED

BALANCE SHEET
AS AT 31 DECEMBER 2002

	Notes	2002 £	2002 £	2001 £	2001 £
Fixed assets					
Tangible assets	7		1,093,287		1,232,920
Investments	8		472,781		472,781
			1,566,068		1,705,701
Current assets					
Stocks	9	733,347		788,390	
Debtors	10	670,609		1,294,559	
Cash at bank and in hand		7,627,623		6,807,485	
		9,031,579		8,890,434	
Creditors: amounts falling due within one year	11	(8,301,399)		(8,297,190)	
Net current assets			730,180		593,244
Total assets less current liabilities			2,296,248		2,298,945
Provisions for liabilities and charges	12		(103,000)		(103,000)
			2,193,248		2,195,945
Capital and reserves					
Called up share capital	14		1,000		1,000
Profit and loss account	15		2,192,248		2,194,945
Shareholders' funds - equity interests	16		2,193,248		2,195,945

The financial statements were approved by the Board on 27-10-03

Mr J D Judd
Director

ENGINE DEVELOPMENTS LIMITED

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2002

	2002		2001	
	£	£	£	£
Net cash inflow from operating activities		834,956		1,745,515
Returns on investments and servicing of finance				
Interest received	310,213		324,262	
Interest paid	(368,000)		(345,648)	
Net cash outflow for returns on investments and servicing of finance		(57,787)		(21,386)
Taxation		(3,687)		3,418
Capital expenditure				
Payments to acquire tangible assets	(20,509)		(235,165)	
Receipts from sales of tangible assets	67,165		22,950	
Net cash inflow/(outflow) for capital expenditure		46,656		(212,215)
Net cash inflow before management of liquid resources and financing		820,138		1,515,332
Increase in cash in the year		820,138		1,515,332

ENGINE DEVELOPMENTS LIMITED

NOTES TO THE CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2002

1	**Reconciliation of operating profit to net cash inflow from operating activities**	**2002**	**2001**
		£	**£**
	Operating profit	172,893	42,795
	Depreciation of tangible assets	96,429	121,154
	(Profit)/loss on disposal of tangible assets	(3,452)	4,953
	Decrease/(increase) in stocks	55,043	(5,760)
	Decrease in debtors	623,950	227,583
	(Decrease)/Increase in creditors within one year	(109,907)	1,354,790
	Net cash inflow from operating activities	834,956	1,745,515

2	**Analysis of net funds**	**1 January 2002**	**Cash flow**	**Other non-cash changes**	**31 December 2002**
		£	**£**	**£**	**£**
	Net cash:				
	Cash at bank and in hand	6,807,485	820,138	-	7,627,623
	Net funds	6,807,485	820,138	-	7,627,623

3	**Reconciliation of net cash flow to movement in net funds**	**2002**	**2001**
		£	**£**
	Increase in cash in the year	820,138	1,515,332
	Movement in net funds in the year	820,138	1,515,332
	Opening net funds	6,807,485	5,292,153
	Closing net funds	7,627,623	6,807,485

ENGINE DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2002

1 Accounting policies

1 .1 Accounting convention

The financial statements are prepared under the historical cost convention.

1 .2 Compliance with accounting standards

The financial statements are prepared in accordance with applicable accounting standards.

1 .3 Turnover

Turnover represents amounts receivable for goods and services net of VAT and trade discounts. Income from leased engines is recognised on a time apportionment basis.

1 .4 Tangible fixed assets and depreciation

Tangible fixed assets other than freehold land are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Freehold buildings	2% per annum on a straight line basis
Plant and machinery	20% on a reducing balance basis
Fixtures, fittings & equipment	15% on a reducing balance basis
Motor vehicles	25% on a reducing balance basis

No depreciation is provided in respect of freehold land.

1 .5 Investments

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

1 .6 Stock

The company develops and manufactures specialist motor racing engines and 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.

1 .7 Pensions

The pension costs charged in the financial statements represent the contributions payable by the company during the year in accordance with FRS 17.

1 .8 Deferred taxation

The accounting policy in respect of deferred tax has been changed to reflect the requirements of FRS19 - Deferred tax. Deferred tax is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. The deferred tax balance has not been discounted.

The above amounts to a change in accounting policy. The previous policy was to provide deferred tax only to the extent that it was probable that liabilities would crystallise in the foreseeable future.

The adoption of the standard has not required a prior period adjustment.

ENGINE DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2002

1 Accounting policies **(continued)**

1 .9 Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to profit and loss account.

2 Turnover

Geographical market

	Turnover 2002	2001
	£	£
United Kingdom	1,370,199	1,285,929
Japan	54,645	220,127
United States of America	1,516,968	3,553,724
Rest of Europe	971,364	1,091,344
	3,913,176	6,151,124

3 Operating profit	**2002**	**2001**
	£	£
Operating profit is stated after charging:		
Depreciation of tangible assets	96,429	121,154
Loss on disposal of tangible assets	-	4,953
Loss on foreign exchange transactions	7,405	-
Auditors' remuneration	19,000	17,800
and after crediting:		
Profit on disposal of tangible assets	(3,452)	-
Profit on foreign exchange transactions	-	(1,666)

4 Interest payable	**2002**	**2001**
	£	£
On other loans	368,000	345,359
Other interest	-	289
	368,000	345,648

ENGINE DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2002

		2002	2001
5	**Taxation**	**£**	**£**
	Domestic current year tax		
	U.K. corporation tax	17,803	3,687
	Adjustment for prior years	-	(7,610)
	Current tax charge	17,803	(3,923)
	Deferred tax		
	Deferred tax charge/credit current year	-	103,000
		17,803	99,077
	Factors affecting the tax charge for the year		
	Profit on ordinary activities before taxation	115,106	21,409
	Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 20.00 % (2001 : 20.00 %)	23,021	4,282
	Effects of:		
	Non deductible expenses	-	58
	Depreciation add back	18,595	25,221
	Capital allowances	(23,117)	(25,729)
	Adjustments to previous periods	-	(7,610)
	Other tax adjustments	(696)	(145)
		(5,218)	(8,205)
	Current tax charge	17,803	(3,923)

		2002	2001
6	**Dividends**	**£**	**£**
	Ordinary final proposed	100,000	-

ENGINE DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2002

7 Tangible fixed assets

	Land and buildings Freehold	Plant and machinery	Fixtures, fittings & equipment	Motor vehicles	Total
	£	£	£	£	£
Cost					
At 1 January 2002	768,375	1,388,172	236,716	195,614	2,588,877
Additions	-	-	1,014	19,495	20,509
Disposals	-	-	-	(111,297)	(111,297)
At 31 December 2002	768,375	1,388,172	237,730	103,812	2,498,089
Depreciation					
At 1 January 2002	-	1,110,926	169,197	75,834	1,355,957
On disposals	-	-	-	(47,584)	(47,584)
Charge for the year	11,809	55,449	10,280	18,891	96,429
At 31 December 2002	11,809	1,166,375	179,477	47,141	1,404,802
Net book value					
At 31 December 2002	756,566	221,797	58,253	56,671	1,093,287
At 31 December 2001	768,375	277,246	67,519	119,780	1,232,920

The depreciable cost of freehold buildings included within "Land and Buildings Freehold" amounts to £590,474.

8 Fixed asset investments

	Listed investments
	£
Cost	
At 1 January 2002 & at 31 December 2002	472,781

	Market value
	£
At 31 December 2002	2,050,063
At 31 December 2001	1,982,957

ENGINE DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2002

9 Stocks

	2002	2001
	£	£
Finished goods and goods for resale	733,347	788,390

10 Debtors

	2002	2001
	£	£
Trade debtors	436,922	1,259,880
Other debtors	-	10,723
Prepayments and accrued income	233,687	23,956
	670,609	1,294,559

11 Creditors: amounts falling due within one year

	2002	2001
	£	£
Trade creditors	48,671	207,887
Corporation tax	17,803	3,687
Other taxes and social security costs	607,254	1,089,267
Directors' current accounts	5,782,914	4,713,292
Other creditors	1,423,500	1,359,961
Accruals and deferred income	321,257	923,096
Proposed dividend	100,000	-
	8,301,399	8,297,190

12 Provisions for liabilities and charges

	Deferred tax liability
	£
Balance at 1 January 2002 & at 31 December 2002	103,000

The deferred tax liability is made up as follows:

	2002	2001
	£	£
Accelerated capital allowances	103,000	103,000

ENGINE DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2002

13 Pension costs

Defined contribution

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund and amounted to £8,800 (2001 - £46,695). The number of directors included in the scheme is 1 (2001 - 1).

	2002	2001
	£	£
Contributions payable by the company for the year	8,800	46,695

14 Share capital

	2002	2001
	£	£
Authorised		
1,000 Ordinary shares of £ 1 each	1,000	1,000
Allotted, called up and fully paid		
1,000 Ordinary shares of £ 1 each	1,000	1,000

15 Statement of movements on profit and loss account

	Profit and loss account
	£
Balance at 1 January 2002	2,194,945
Retained loss for the year	(2,697)
Balance at 31 December 2002	2,192,248

16 Reconciliation of movements in shareholders' funds

	2002	2001
	£	£
Profit/(Loss) for the financial year	97,303	(77,668)
Dividends	(100,000)	-
Net depletion in shareholders' funds	(2,697)	(77,668)
Opening shareholders' funds	2,195,945	2,273,613
Closing shareholders' funds	2,193,248	2,195,945

17 Directors' emoluments

	2002	2001
	£	£
Emoluments for services	456,234	653,987

Emoluments disclosed above include the following amounts paid to the highest paid director:

	2002	2001
Emoluments for qualifying services	397,267	532,678

18 Transactions with directors

Interest is charged on J D Judd's loan account at the rate of 3.0% per annum above NatWest Bank's Base Rate. The amount charged for the year amounted to £355,296 (2001: £345,359).

Interest is charged on Mrs S F Judd's loan account at the rate of 3.0% per annum above NatWest Bank's Base Rate. The amount charged for the year amounted to £1,059 (2001: £nil).

19 Employees

Number of employees

The average monthly number of employees (including directors) during the year was:

	2002 Number	2001 Number
Office and management	22	23
Manufacturing	19	29
	41	52

Employment costs

	£	£
Wages and salaries	2,320,057	3,523,507
Other pension costs	8,800	46,695
	2,328,857	3,570,202

20 Control

The ultimate controlling party is Mr J D Judd.