Company Registration No. 00694741 (England and Wales)

ENGINE DEVELOPMENTS LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

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 2003

The directors present their report and financial statements for the year ended 31 December 2003.

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 £362,567.

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 5.

The directors do not recommend payment of an ordinary dividend.

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 2003:

Mr J D Judd
Mrs S F Judd

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

	Ordinary shares of £ 1 each	
	31 December 2003	1 January 2003
Mr J D Judd	870	870
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' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2003

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

26 October 2004

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 5 to 16 for the year ended 31 December 2003. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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.

ENGINE DEVELOPMENTS LIMITED

INDEPENDENT AUDITORS' REPORT (CONTINUED)
TO THE SHAREHOLDERS OF ENGINE DEVELOPMENTS LIMITED

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 2003 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

28 October 2004

27 Mortimer Street
London
W1T 3BL

ENGINE DEVELOPMENTS LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2003

	Notes	2003 £	2002 £
Turnover	**2**	2,688,112	3,913,176
Cost of sales		(1,292,891)	(2,511,614)
Gross profit		1,395,221	1,401,562
Distribution costs		(60,011)	(161,478)
Administrative expenses		(715,243)	(1,067,191)
Operating profit	**3**	619,967	172,893
Other interest receivable and similar income	**4**	245,366	310,213
Interest payable and similar charges	**5**	(444,491)	(368,000)
Profit on ordinary activities before taxation		420,842	115,106
Tax on profit on ordinary activities	**6**	(58,275)	(17,803)
Profit on ordinary activities after taxation		362,567	97,303
Dividends	**7**	-	(100,000)
Retained profit/(loss) for the year	**16**	362,567	(2,697)

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 2003

		2003		2002	
	Notes	£	£	£	£
Fixed assets					
Tangible assets	8		985,505		1,093,287
Investments	9		472,781		472,781
			1,458,286		1,566,068
Current assets					
Stocks	10	439,468		733,347	
Debtors	11	676,073		670,609	
Cash at bank and in hand		7,530,023		7,627,623	
		8,645,564		9,031,579	
Creditors: amounts falling due within one year	12	(7,473,035)		(8,301,399)	
Net current assets			1,172,529		730,180
Total assets less current liabilities			2,630,815		2,296,248
Provisions for liabilities and charges	13		(75,000)		(103,000)
			2,555,815		2,193,248
Capital and reserves					
Called up share capital	15		1,000		1,000
Profit and loss account	16		2,554,815		2,192,248
Shareholders' funds - equity interests	17		2,555,815		2,193,248

The financial statements were approved by the Board on 26 October 2004

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Mr J D Judd
Director

ENGINE DEVELOPMENTS LIMITED

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2003

		2003		2002
	£	£	£	£
Net cash inflow from operating activities		69,818		834,956
Returns on investments and servicing of finance				
Interest received	245,366		310,213	
Interest paid	(444,491)		(368,000)	
Net cash outflow for returns on investments and servicing of finance		(199,125)		(57,787)
Taxation		(15,943)		(3,687)
Capital expenditure				
Payments to acquire tangible assets	-		(20,509)	
Receipts from sales of tangible assets	47,650		67,165	
Net cash inflow for capital expenditure		47,650		46,656
Net cash (outflow)/inflow before management of liquid resources and financing		(97,600)		820,138
(Decrease)/increase in cash in the year		(97,600)		820,138

ENGINE DEVELOPMENTS LIMITED

NOTES TO THE CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2003

		2003	2002
1	**Reconciliation of operating profit to net cash inflow from operating activities**		
		£	£
	Operating profit	619,967	172,893
	Depreciation of tangible assets	69,504	96,429
	Profit on disposal of tangible assets	(9,372)	(3,452)
	Decrease in stocks	293,879	55,043
	(Increase)/decrease in debtors	(5,464)	623,950
	Decrease in creditors within one year	(898,696)	(109,907)
	Net cash inflow from operating activities	69,818	834,956

		1 January 2003	Cash flow	Other non-cash changes	31 December 2003
2	**Analysis of net funds**	£	£	£	£
	Net cash:				
	Cash at bank and in hand	7,627,623	(97,600)	-	7,530,023
	Net funds	7,627,623	(97,600)	-	7,530,023

		2003	2002
3	**Reconciliation of net cash flow to movement in net funds**	£	£
	(Decrease)/increase in cash in the year	(97,600)	820,138
	Movement in net funds in the year	(97,600)	820,138
	Opening net funds	7,627,623	6,807,485
	Closing net funds	7,530,023	7,627,623

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

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.

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.

ENGINE DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2003

2 Turnover

Geographical market

	Turnover 2003	2002
	£	£
United Kingdom	615,007	1,370,199
Japan	18,042	54,645
United States of America	1,577,236	1,516,968
Rest of Europe	477,827	971,364
	2,688,112	3,913,176

3 Operating profit

	2003	2002
	£	£
Operating profit is stated after charging:		
Depreciation of tangible assets	69,504	96,429
Loss on foreign exchange transactions	7,127	7,405
Auditors' remuneration	24,800	19,000
and after crediting:		
Profit on disposal of tangible assets	(9,372)	(3,452)

4 Investment income

	2003	2002
	£	£
Bank interest	245,366	303,238
Other interest	-	6,975
	245,366	310,213

5 Interest payable

	2003	2002
	£	£
On other loans	444,460	368,000
On overdue tax	31	-
	444,491	368,000

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2003

		2003	2002
6	**Taxation**	**2003**	**2002**
		£	**£**
	Domestic current year tax		
	U.K. corporation tax	88,135	17,803
	Adjustment for prior years	(1,860)	-
	Current tax charge	86,275	17,803
	Deferred tax		
	Deferred tax charge/credit current year	(28,000)	-
		58,275	17,803
	Factors affecting the tax charge for the year		
	Profit on ordinary activities before taxation	420,842	115,106
	Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 22.31% (2002: 20.00%)	93,890	23,021
	Effects of:		
	Depreciation add back	13,415	18,595
	Capital allowances	(19,167)	(23,117)
	Adjustments to previous periods	(1,860)	-
	Other tax adjustments	(3)	(696)
		(7,615)	(5,218)
	Current tax charge	86,275	17,803

7	**Dividends**	**2003**	**2002**
		£	**£**
	Ordinary final proposed	-	100,000

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2003

8 Tangible fixed assets

	Land and buildings Freehold	Plant and machinery	Fixtures, fittings & equipment	Motor vehicles	Total
	£	£	£	£	£
Cost					
At 1 January 2003	768,375	1,388,172	237,730	103,813	2,498,090
Disposals	-	-	-	(75,375)	(75,375)
At 31 December 2003	768,375	1,388,172	237,730	28,438	2,422,715
Depreciation					
At 1 January 2003	11,809	1,166,375	179,477	47,142	1,404,803
On disposals	-	-	-	(37,097)	(37,097)
Charge for the year	11,809	44,359	8,738	4,598	69,504
At 31 December 2003	23,618	1,210,734	188,215	14,643	1,437,210
Net book value					
At 31 December 2003	744,757	177,438	49,515	13,795	985,505
At 31 December 2002	756,566	221,797	58,253	56,671	1,093,287

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

9 Fixed asset investments

	Listed investments
	£
Cost	
At 1 January 2003 & at 31 December 2003	472,781

	Market value
	£
At 31 December 2003	2,113,531
At 31 December 2002	2,050,063

ENGINE DEVELOPMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2003

10	**Stocks**	**2003**	**2002**
		£	**£**
	Finished goods and goods for resale	439,468	733,347

11	**Debtors**	**2003**	**2002**
		£	**£**
	Trade debtors	664,089	436,922
	Prepayments and accrued income	11,984	233,687
		676,073	670,609

12	**Creditors: amounts falling due within one year**	**2003**	**2002**
		£	**£**
	Trade creditors	107,228	48,671
	Corporation tax	88,135	17,803
	Other taxes and social security costs	196,112	607,254
	Directors' current accounts	5,666,921	5,782,914
	Other creditors	1,224,432	1,423,500
	Accruals and deferred income	90,207	321,257
	Proposed dividend	100,000	100,000
		7,473,035	8,301,399

13 Provisions for liabilities and charges

	Deferred tax liability £
Balance at 1 January 2003	103,000
Profit and loss account	(28,000)
Balance at 31 December 2003	75,000

The deferred tax liability is made up as follows:

	2003 £	2002 £
Accelerated capital allowances	75,000	103,000

14 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 £Nil (2002- £8,800). The number of directors included in the scheme is 1 (2002- 1).

	2003 £	2002 £
Contributions payable by the company for the year	-	8,800

15 Share capital

	2003 £	2002 £
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

16 Statement of movements on profit and loss account

	Profit and loss account
	£
Balance at 1 January 2003	2,192,248
Retained profit for the year	362,567
Balance at 31 December 2003	2,554,815

17 Reconciliation of movements in shareholders' funds

	2003	2002
	£	£
Profit for the financial year	362,567	97,303
Dividends	-	(100,000)
Net addition to/(depletion in) shareholders' funds	362,567	(2,697)
Opening shareholders' funds	2,193,248	2,195,945
Closing shareholders' funds	2,555,815	2,193,248

18 Directors' emoluments

	2003	2002
	£	£
Emoluments for services	-	456,234

19 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 £386,998 (2002: £355,296).

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 £4,943 (2002: £1,059).

20 Employees

Number of employees

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

	2003 Number	2002 Number
Office and management	17	22
Manufacturing	11	19
	28	41

Employment costs

	£	£
Wages and salaries	922,097	2,320,057
Other pension costs	-	8,800
	922,097	2,328,857

21 Control

The ultimate controlling party is Mr J D Judd.