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ILMOR ENGINEERING LIMITED
AND ITS SUBSIDIARY UNDERTAKING
REGISTERED NUMBER 1760288
ACCOUNTS
30 NOVEMBER 1996

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ILMOR ENGINEERING LIMITED AND ITS SUBSIDIARY UNDERTAKING

DIRECTORS' REPORT

The directors submit their report and the accounts for the year ended 30 November 1996.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare accounts that give a true and fair view of the state of affairs of the company and of the profit or loss for its financial year. In doing so 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 accounts 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 that disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts 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.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the group is the development and production of motor car racing engines.

The development of the group's engines proceeded satisfactorily during the year and is expected to continue to do so in the forthcoming year. However the cost in achieving this position is reflected in an unsatisfactory result for the year and a less sound financial position at 30 November 1996.

DIVIDENDS

It is not proposed to recommend a dividend payment.

DIRECTORS

The directors of the company, and the number of shares in which they had an interest, were:

		Ordinary shares of £1 each	
		30.11.1996	1.12.1995
P.J. Morgan	- England	2,500	2,500
M.J. Illien	- Switzerland	2,500	2,500
R.S. Penske	- U.S.A.	2,500	2,500
Dr C.A. Baubin	- Austria	-	-

EMPLOYEE INVOLVEMENT

The group's management has an open policy on the communication of information to employees concerning factors affecting their interests as employees and also the development of the group and consults employees on a regular basis to ensure that their views are taken into account in making decisions on matters likely to affect their interests.

The company operates a profit related pay scheme for the benefit of employees.

DISABLED PERSONS

It is the group's policy to give full and fair consideration to suitable applications for employment by disabled persons having regard to particular aptitudes and abilities. Disabled employees are eligible to participate in all training, career development and promotion opportunities available to staff. Opportunities also exist for employees of the group who become disabled to continue their employment or to be trained in other positions in the group.


CHARITABLE DONATIONS

The company made charitable donations of £2,074 during the year.

AUDITORS

A resolution will be proposed at the annual general meeting to re-appoint Moores Rowland as auditors.

Approved by the board on 23 December 1996
and signed on its behalf by:


P J MORGAN
Director

Registered Office:
Quarry Road,
Brixworth,
Northamptonshire,
England.

AUDITORS' REPORT TO THE MEMBERS OF ILMOR ENGINEERING LIMITED

We have audited the accounts on pages four to thirteen.

Respective responsibilities of directors and auditors

As described in the directors' report the company's directors are responsible for the preparation of accounts. It is our responsibility as auditors to form an independent opinion, based on our audit, on those accounts 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 that we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company and the group at 30 November 1996 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



MOORES ROWLAND

Chartered Accountants
Registered Auditors
WALSALL

23 December 1996

ILMOR ENGINEERING LIMITED AND ITS SUBSIDIARY UNDERTAKING

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 30 November 1996

	Notes	1996 £	1995 £
TURNOVER	2	41,457,197	40,508,627
Cost of sales		<u>(37,038,776)</u>	<u>(33,659,379)</u>
GROSS PROFIT		4,418,421	6,849,248
Administrative expenses		<u>(3,742,439)</u>	<u>(3,628,453)</u>
OPERATING PROFIT		675,982	3,220,795
Investment income	3	<u>25,765</u>	<u>62,920</u>
		701,747	3,283,715
Interest payable	4	<u>(367,124)</u>	<u>(228,789)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX	2	334,623	3,054,926
Tax on profit on ordinary activities	6	<u>(265,363)</u>	<u>(1,054,350)</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAX		69,260	2,000,576
Dividends	7	<u>-</u>	<u>(100,000)</u>
RETAINED PROFIT FOR THE YEAR		69,260	1,900,576
Retained profits at 30 November 1995		7,159,444	5,223,111
Exchange gain on translation		<u>30,584</u>	<u>35,757</u>
RETAINED PROFITS AT 30 NOVEMBER 1996		<u>7,259,288</u>	<u>7,159,444</u>

The group's operations are continuing.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Profit for the financial year	69,260	2,000,576
Exchange gain on translation	<u>30,584</u>	<u>35,757</u>
	<u>99,844</u>	<u>2,036,333</u>


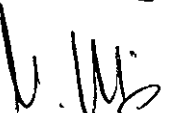
ILMOR ENGINEERING LIMITED AND ITS SUBSIDIARY UNDERTAKING

CONSOLIDATED BALANCE SHEET

30 November 1996

	Notes	£	1996 £	£	1995 £
FIXED ASSETS					
Tangible assets	8		13,715,782		9,272,965
CURRENT ASSETS					
Stocks	10	7,080,462		3,969,294	
Debtors	11	1,324,610		1,403,364	
Cash at bank and in hand		242,405		2,788,151	
			<u>8,647,477</u>	<u>8,160,809</u>	
CREDITORS - amounts falling due within one year	12	(11,597,784)		(7,722,018)	
NET CURRENT ASSETS (LIABILITIES)			<u>(2,950,307)</u>		<u>438,791</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			10,765,475		9,711,756
CREDITORS - amounts falling due after more than one year	13	(2,885,687)		(2,047,312)	
PROVISIONS FOR LIABILITIES AND CHARGES	14	<u>(610,500)</u>	<u>(3,496,187)</u>	<u>(495,000)</u>	<u>(2,542,312)</u>
			<u>7,269,288</u>		<u>7,169,444</u>
CAPITAL AND RESERVES					
Called up share capital	15		10,000		10,000
Profit and loss account			<u>7,259,288</u>		<u>7,159,444</u>
SHAREHOLDERS' FUNDS	20		<u>7,269,288</u>		<u>7,169,444</u>

Approved by the board on 23 December 1996
and signed on its behalf by:

P J MORGAN	) Directors
.....	
M J ILLIEN	) Directors
.....	


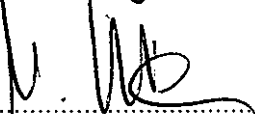
ILMOR ENGINEERING LIMITED

COMPANY BALANCE SHEET

30 November 1996

	Notes	£	1996 £	£	1995 £
FIXED ASSETS					
Tangible assets	8		13,555,748		9,048,918
Investments	9		<u>41,363</u>		<u>41,363</u>
			13,597,111		9,090,281
CURRENT ASSETS					
Stocks	10	7,080,462		3,969,294	
Debtors	11	1,875,775		2,207,684	
Cash in hand		<u>24,852</u>		<u>994,140</u>	
		8,981,089		7,171,118	
CREDITORS - amounts falling due within one year	12	<u>(11,329,051)</u>		<u>(7,379,497)</u>	
NET CURRENT LIABILITIES			<u>(2,347,962)</u>		<u>(208,379)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			11,249,149		8,881,902
CREDITORS - amounts falling due after more than one year	13	(3,685,687)		(2,047,312)	
PROVISIONS FOR LIABILITIES AND CHARGES	14	<u>(610,500)</u>	<u>(4,296,187)</u>	<u>(495,000)</u>	<u>(2,542,312)</u>
			<u>6,952,962</u>		<u>6,339,590</u>
CAPITAL AND RESERVES					
Called up share capital	15		10,000		10,000
Profit and loss account			<u>6,942,962</u>		<u>6,329,590</u>
SHAREHOLDERS' FUNDS			<u>6,952,962</u>		<u>6,339,590</u>

Approved by the board on 23 December 1996 and signed on its behalf by:

P J MORGAN	)
.....)
) Directors
M J ILLIEN	)
.....)

ILMOR ENGINEERING LIMITED AND ITS SUBSIDIARY UNDERTAKING

CONSOLIDATED CASH FLOW STATEMENT

Year ended 30 November 1996

	£	1996 £	£	1995 £
NET CASH INFLOW FROM OPERATING ACTIVITIES				
Operating profit		675,982		3,220,795
Exchange differences		186,991		(12,654)
Depreciation		2,273,841		1,498,214
Profit on sale of fixed assets		(32,053)		-
(Increase) decrease in stock		(3,111,168)		627,528
Decrease in debtors		206,442		854,966
Increase (decrease) in creditors		3,407,456		(266,302)
		<u>3,607,491</u>		<u>5,922,547</u>
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE				
Interest receivable	25,765		62,920	
Interest paid	(367,124)		(228,789)	
Dividends paid	(100,000)		-	
		<u>(441,359)</u>		<u>(165,869)</u>
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE				
		(441,359)		(165,869)
TAXATION				
Corporation tax paid		(258,835)		(359,460)
INVESTING ACTIVITIES				
Payments to acquire tangible fixed assets	(6,737,605)		(4,026,472)	
Hire purchase and finance leases on tangible fixed assets	2,349,377		2,697,661	
Receipts from sales of tangible fixed assets	53,000		-	
		<u>(4,335,228)</u>		<u>(1,328,811)</u>
NET CASH OUTFLOW FROM INVESTING ACTIVITIES				
		(4,335,228)		(1,328,811)
NET CASH INFLOW (OUTFLOW) BEFORE FINANCING				
		<u>(1,427,931)</u>		<u>4,068,407</u>
FINANCING				
Capital element of hire purchase and finance lease rentals paid	1,189,125		717,224	
		<u>1,189,125</u>		<u>717,224</u>
NET CASH OUTFLOW FROM FINANCING				
		1,189,125		717,224
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS				
		<u>(2,617,056)</u>		<u>3,351,183</u>
		<u>(1,427,931)</u>		<u>4,068,407</u>
ANALYSIS OF INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS				
Bank overdraft - (increase) decrease		(391,561)		1,258,971
Cash at bank and in hand - increase (decrease)		(2,225,495)		2,092,212
		<u>(2,617,056)</u>		<u>3,351,183</u>

ILMOR ENGINEERING LIMITED AND ITS SUBSIDIARY UNDERTAKING

NOTES TO THE ACCOUNTS

Year ended 30 November 1996

1. ACCOUNTING POLICIES

Basis of accounting

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

Investment

The consolidated profit and loss account includes the results for its subsidiary undertaking which are prepared to the same date and are translated at the year end rate. The balance sheet of the subsidiary is translated into sterling at the rate ruling at the year end. Exchange differences arising on translation are dealt with through the profit and loss account.

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated at the date of each transaction. Exchange differences arising from settlement of trading indebtedness are included in operating profit.

Depreciation of tangible fixed assets

Fixed assets, other than freehold land, are being depreciated on the straight line basis, commencing in the month after acquisition, so as to write them off over their anticipated useful lives at the following annual rates:

Buildings	2% - 15%
Plant, fixtures and vehicles	15% - 50%

Stocks

Stocks are valued at the lower of cost and net realisable value with due allowance for any obsolete or slow moving items. Work in progress and finished goods include an appropriate proportion of overhead expenses.

Research and development

Development costs are written off as incurred.

Deferred tax

Deferred tax is calculated under the liability method and provision is made to the extent that it is considered probable a liability will crystallise.

Operating leases

Operating lease rentals are charged to the profit and loss account on the straight line basis over the periods of the leases.

Hire purchase contracts and finance leases

Assets held under hire purchase contracts and finance leases which confer rights and obligations similar to those attaching to owned assets are capitalised as tangible fixed assets and the corresponding liability to pay instalments is shown net of interest in the accounts as obligations under hire purchase contracts and finance leases. The interest element of the instalments is calculated on a reducing balance basis over the period of the contract.

Pension costs

The company operates a money purchase pension scheme and contributions are charged to the profit and loss account as incurred.

ILMOR ENGINEERING LIMITED AND ITS SUBSIDIARY UNDERTAKING

NOTES TO THE ACCOUNTS (continued)

Year ended 30 November 1996

2. TURNOVER AND PROFIT ON ORDINARY ACTIVITIES BEFORE TAX

Turnover and profit on ordinary activities are attributable to the principal activity of the group. The directors do not consider it in the interests of the group to give a geographical analysis of turnover.

	1996	1995
	£	£
Profit on ordinary activities before tax is stated after charging (crediting):		
Directors' emoluments as executives (note 5)	1,698,027	1,599,899
Auditors' remuneration	18,220	15,000
- audit	60,150	21,350
- non-audit work		
Depreciation of tangible assets	1,152,194	1,080,561
- owned		
- held under hire purchase contracts and finance leases	1,121,647	417,653
Profit on sale of fixed assets	(32,053)	-
Operating lease - rental of buildings	42,500	29,500

3. INVESTMENT INCOME

Bank interest	25,765	62,920
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4. INTEREST PAYABLE

Bank overdraft interest	41,040	5,168
Hire purchase and finance lease interest	326,084	213,631
Other interest	-	9,990
	<u>367,124</u>	<u>228,789</u>

5. DIRECTORS AND EMPLOYEES

The individual directors' emoluments, excluding pension contributions, included:

	1996	1995
	£	£
Chairman	460,959	453,596
Highest paid director	981,997	899,978
	Number	Number
Other directors in the range: £0 - £5,000	<u>2</u>	<u>2</u>

The average number of persons employed by the group during the year was:

Production	257	204
Administration	9	8
	<u>266</u>	<u>212</u>
Costs include:	£	£
Wages and salaries	8,680,684	6,013,758
Social security costs	854,391	611,709
Pension costs	914,163	727,650
	<u>10,449,238</u>	<u>7,353,117</u>

ILMOR ENGINEERING LIMITED AND ITS SUBSIDIARY UNDERTAKING

NOTES TO THE ACCOUNTS (continued)

Year ended 30 November 1996

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

	1996 £	1995 £
Corporation tax at 33%	141,000	883,850
Overseas tax	33,863	55,500
Deferred tax (note 14)	90,500	115,000
	<u>265,363</u>	<u>1,054,350</u>

7. DIVIDENDS

Final proposed - NIL (1995 - £10 per share)	-	<u>100,000</u>
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8. TANGIBLE FIXED ASSETS - GROUP

	Freehold land & buildings £	Plant, fixtures & vehicles £	Total £
Cost			
At 30 November 1995	3,272,227	11,108,114	14,380,341
Additions	1,775,989	4,961,616	6,737,605
Disposals	-	(35,487)	(35,487)
At 30 November 1996	<u>5,048,216</u>	<u>16,034,243</u>	<u>21,082,459</u>
Depreciation			
At 30 November 1995	338,536	4,768,840	5,107,376
Charge for the year	114,015	2,159,826	2,273,841
Disposals	-	(14,540)	(14,540)
At 30 November 1996	<u>452,551</u>	<u>6,914,126</u>	<u>7,366,677</u>
Net book value			
At 30 November 1996	<u>4,595,665</u>	<u>9,120,117</u>	<u>13,715,782</u>
At 30 November 1995	<u>2,933,691</u>	<u>6,339,274</u>	<u>9,272,965</u>

The net book value of plant, fixtures & vehicles includes £4,510,882 (1995 - £3,283,152) in respect of assets held under hire purchase contracts and finance leases.

ILMOR ENGINEERING LIMITED AND ITS SUBSIDIARY UNDERTAKING

NOTES TO THE ACCOUNTS (continued)

Year ended 30 November 1996

8. TANGIBLE FIXED ASSETS (continued)

PARENT

	Freehold land & buildings £	Plant, fixtures & vehicles £	Total £
Cost			
At 30 November 1995	3,272,227	10,680,376	13,952,603
Additions	1,775,989	4,961,616	6,737,605
Disposals	-	(35,487)	(35,487)
At 30 November 1996	<u>5,048,216</u>	<u>15,606,505</u>	<u>20,654,721</u>
Depreciation			
At 30 November 1995	338,536	4,565,149	4,903,685
Charge for the year	114,015	2,095,813	2,209,828
Disposals	-	(14,540)	(14,540)
At 30 November 1996	<u>452,551</u>	<u>6,646,422</u>	<u>7,098,973</u>
Net book value			
At 30 November 1996	<u>4,595,665</u>	<u>8,960,083</u>	<u>13,555,748</u>
At 30 November 1995	<u>2,933,691</u>	<u>6,115,227</u>	<u>9,048,918</u>

The net book value of plant, fixtures & vehicles includes £4,510,882 (1995 - £3,283,152) in respect of assets held under hire purchase contracts and finance leases.

9. INVESTMENTS

PARENT

Investment in subsidiary undertaking

At 30 November 1995 and 30 November 1996

£

41,363

The subsidiary undertaking, Ilmor AG, is wholly owned and is registered and operates in Switzerland and has similar activities to its parent company.

10. STOCKS

	1996 £	1995 £
Raw materials and bought in parts	142,506	190,669
Work in progress	1,342,786	1,097,541
Manufactured parts and finished goods	5,595,170	2,681,084
	<u>7,080,462</u>	<u>3,969,294</u>

ILMOR ENGINEERING LIMITED AND ITS SUBSIDIARY UNDERTAKING

NOTES TO THE ACCOUNTS (continued)

Year ended 30 November 1996

11. DEBTORS	GROUP	PARENT	GROUP	PARENT
	1996	1996	1995	1995
	£	£	£	£
Trade debtors	241,246	241,246	496,660	499,719
Group undertaking	-	643,975	-	807,616
Tax and social security	494,223	494,223	476,082	476,082
Other debtors	255,744	255,744	327,459	327,459
Prepayments and accrued income	168,643	77,082	67,232	67,182
	<u>1,159,856</u>	<u>1,712,270</u>	<u>1,367,433</u>	<u>2,178,058</u>
Tax	164,754	163,505	35,931	29,626
	<u>1,324,610</u>	<u>1,875,775</u>	<u>1,403,364</u>	<u>2,207,684</u>
12. CREDITORS - amounts falling due within one year				
Trade creditors	4,072,429	4,067,020	4,308,458	4,301,043
Tax and social security	412,792	360,076	307,440	302,268
Accruals	1,632,897	1,634,684	1,236,211	1,222,285
Payments received on account	2,812,000	2,812,000	-	-
Directors' loans	180,000	180,000	-	-
	<u>9,110,118</u>	<u>9,053,780</u>	<u>5,852,109</u>	<u>5,825,596</u>
Obligations under hire purchase contracts and finance leases	972,903	972,903	651,026	651,026
Corporation and similar tax	1,123,202	910,807	1,118,883	802,875
Bank overdraft	391,561	391,561	-	-
Proposed dividend	-	-	100,000	100,000
	<u>11,597,784</u>	<u>11,329,051</u>	<u>7,772,018</u>	<u>7,379,497</u>

The bank overdraft is secured by a mortgage over the land and buildings.

13. CREDITORS - amounts falling due after more than one year	GROUP	PARENT	GROUP	PARENT
	1996	1996	1995	1995
	£	£	£	£
Loan from subsidiary undertaking	-	800,000	-	-
Obligations under hire purchase contracts and finance leases	2,885,687	2,885,687	2,047,312	2,047,312
	<u>2,885,687</u>	<u>3,685,687</u>	<u>2,047,312</u>	<u>2,047,312</u>

The loan from subsidiary undertaking is repayable within one to two years.

14. PROVISIONS FOR LIABILITIES AND CHARGES	1996	1995
	£	£
Deferred tax		
At 30 November 1995	520,000	405,000
Charge for the year	90,500	115,000
	<u>610,500</u>	<u>520,000</u>
At 30 November 1996	610,500	520,000
Less: advance corporation tax recoverable	-	25,000
	<u>610,500</u>	<u>495,000</u>

The deferred tax provision at 33% comprises the excess of capital allowances over depreciation charged.

ILMOR ENGINEERING LIMITED AND ITS SUBSIDIARY UNDERTAKING

NOTES TO THE ACCOUNTS (continued)

Year ended 30 November 1996

15.	CALLED UP SHARE CAPITAL	1996	1995
		£	£
	Authorised, allotted and fully paid:		
	Ordinary shares of £1 each	10,000	10,000

16. DIRECTORS' INTERESTS IN TRANSACTIONS DURING THE YEAR

By virtue of shareholding:	Sales by	Purchases
	group	by group
Mr R S Penske was interested in:	£	£
Penske Racing Inc.	-	39
Messrs P J Morgan, M J Illien and R S Penske were interested in:		
Ilmor Engineering Inc.	1,422,529	2,409,530

17. PROFIT FOR THE FINANCIAL YEAR

The company has not presented its own profit and loss account, as permitted by Section 230 of the Companies Act 1985. The profit for the financial year included in the accounts of the company amounted to £613,372 (1995 - £1,486,424).

18.	FUTURE CAPITAL EXPENDITURE	1996	1995
	Capital expenditure on fixed assets authorised by the directors at the	£	£
	year end but not provided for in the accounts was as follows:		
	Contracts placed	2,781,514	3,815,156

19. FINANCIAL COMMITMENTS

There are obligations under operating leases to pay rentals during the next year which expire:

	1996	1996	1995	1995
	Land and	Other	Land and	Other
	buildings		buildings	
	£	£	£	£
Within one year	-	11,410	2,661	5,833
Between one and five years	16,000	-	-	5,577
Over 5 years	26,500	-	26,500	-
	<u>42,500</u>	<u>11,410</u>	<u>29,161</u>	<u>11,410</u>

20.	RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS	1996	1995
		£	£
	Profit for the year	69,260	2,000,576
	Dividends	-	(100,000)
	Exchange gain on translation	30,584	35,757
		<u>99,844</u>	<u>1,936,333</u>
	Shareholders' funds at 30 November 1995	7,169,444	5,233,111
		<u>7,269,288</u>	<u>7,169,444</u>
	Shareholders' funds at 30 November 1996		