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ILMOR ENGINEERING LIMITED
AND ITS SUBSIDIARY UNDERTAKING
REGISTERED NUMBER 1760288
ACCOUNTS
30 NOVEMBER 1997

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3. Auditors' report
4. Consolidated profit and loss account
5. Consolidated balance sheet
6. Company balance sheet
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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 1997.

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 group have had an improved financial year as well as success both in the Formula 1 and CART series. The group expect its business to continue to develop which will improve on its financial position at 30 November 1997.

DIVIDENDS

It is not proposed to recommend a dividend payment.

DIRECTORS

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

		Ordinary shares of £1 each	
		30.11.1997	1.12.1996
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	-	-

Dr C.A. Baubin resigned as a director on 23 December 1997.

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.

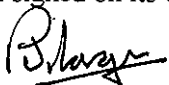
CHARITABLE DONATIONS

The company made charitable donations of £11,000 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 1997
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 fourteen.

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 1997 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 1997

ILMOR ENGINEERING LIMITED AND ITS SUBSIDIARY UNDERTAKING

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 30 November 1997

	Notes	1997 £000	1996 £000
TURNOVER	2	52,824	41,457
Cost of sales		<u>(45,697)</u>	<u>(37,039)</u>
GROSS PROFIT		7,127	4,418
Administrative expenses		<u>(4,714)</u>	<u>(3,742)</u>
OPERATING PROFIT		2,413	676
Investment income	3	<u>36</u>	<u>26</u>
		2,449	702
Interest payable	4	<u>(490)</u>	<u>(367)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX	2	1,959	335
Tax on profit on ordinary activities	6	<u>(732)</u>	<u>(266)</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAX		1,227	69
Retained profits at 30 November 1996		7,259	7,159
Exchange gain on translation		<u>39</u>	<u>31</u>
RETAINED PROFITS AT 30 NOVEMBER 1997		<u>8,525</u>	<u>7,259</u>

The group's operations are continuing.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Profit for the financial year	1,227	69
Exchange gain on translation	<u>39</u>	<u>31</u>
	<u>1,266</u>	<u>100</u>


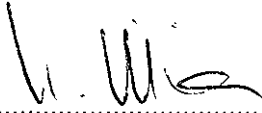
ILMOR ENGINEERING LIMITED AND ITS SUBSIDIARY UNDERTAKING

CONSOLIDATED BALANCE SHEET

30 November 1997

	Notes	£000	1997 £000	£000	1996 £000
FIXED ASSETS					
Tangible assets	7		15,685		13,716
CURRENT ASSETS					
Stocks	9	3,466		7,080	
Debtors	10	2,573		1,325	
Cash at bank and in hand		649		242	
			<u>6,688</u>	<u>8,647</u>	
CREDITORS - amounts falling due within one year	11	(9,824)		(11,598)	
NET CURRENT LIABILITIES					
			<u>(3,136)</u>		<u>(2,951)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES					
			12,549		10,765
CREDITORS - amounts falling due after more than one year	12	(3,493)		(2,886)	
PROVISIONS FOR LIABILITIES AND CHARGES					
	13	(521)		(610)	
			<u>(4,014)</u>		<u>(3,496)</u>
			<u>8,535</u>		<u>7,269</u>
CAPITAL AND RESERVES					
Called up share capital	14		10		10
Profit and loss account			8,525		7,259
SHAREHOLDERS' FUNDS					
	19		<u>8,535</u>		<u>7,269</u>

Approved by the board on 23 December 1997
and signed on its behalf by:

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


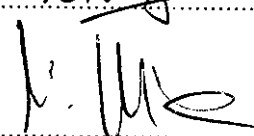
ILMOR ENGINEERING LIMITED

COMPANY BALANCE SHEET

30 November 1997

	Notes	£000	1997 £000	£000	1996 £000
FIXED ASSETS					
Tangible assets	7		15,589		13,556
Investments	8		<u>41</u>		<u>41</u>
			15,630		13,597
CURRENT ASSETS					
Stocks	9	3,466		7,080	
Debtors	10	2,848		1,876	
Cash in hand		<u>26</u>		<u>25</u>	
		6,340		8,981	
CREDITORS - amounts falling due within one year	11	<u>(9,104)</u>		<u>(11,329)</u>	
NET CURRENT LIABILITIES			<u>(2,764)</u>		<u>(2,348)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			12,866		11,249
CREDITORS - amounts falling due after more than one year	12	(4,375)		(3,686)	
PROVISIONS FOR LIABILITIES AND CHARGES	13	<u>(521)</u>		<u>(610)</u>	
			<u>(4,896)</u>		<u>(4,296)</u>
			<u>7,970</u>		<u>6,953</u>
CAPITAL AND RESERVES					
Called up share capital	14		10		10
Profit and loss account			<u>7,960</u>		<u>6,943</u>
SHAREHOLDERS' FUNDS			<u>7,970</u>		<u>6,953</u>

Approved by the board on 23 December 1997
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 1997

	1997 £000	1996 £000
CASH FLOW FROM OPERATING ACTIVITIES		
Operating profit	2,413	676
Exchange differences	65	187
Depreciation	3,168	2,274
Profit on sale of fixed assets	-	(32)
Decrease (increase) in stock	3,614	(3,111)
(Increase) decrease in debtors	(1,441)	206
(Decrease) increase in creditors	<u>(2,808)</u>	<u>3,407</u>
	5,011	3,607
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
Interest receivable	36	26
Interest paid	(490)	(367)
Dividends paid	<u>-</u>	<u>(100)</u>
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	(454)	(441)
TAXATION		
Corporation tax paid	(676)	(259)
CAPITAL EXPENDITURE AND INVESTING ACTIVITIES		
Payments to acquire tangible fixed assets	(3,503)	(4,388)
Receipts from sales of tangible fixed assets	<u>28</u>	<u>53</u>
NET CASH OUTFLOW FROM CAPITAL EXPENDITURE AND INVESTING ACTIVITIES	<u>(3,475)</u>	<u>(4,335)</u>
NET CASH INFLOW (OUTFLOW) BEFORE FINANCING	406	(1,428)
FINANCING		
Capital element of hire purchase and finance lease rentals paid	<u>(662)</u>	<u>(1,189)</u>
INCREASE IN DEBT	<u>(256)</u>	<u>(2,617)</u>
Reconciliation of net cash flow to movement in net debt (note 21)		
Increase in debt in the period	(256)	(2,617)
Cash outflow from decrease in debt and lease financing	<u>662</u>	<u>1,189</u>
Change in net debt resulting from cash flows	406	(1,428)
New finance leases and hire purchase contracts	(1,662)	(2,350)
Translation difference	<u>(20)</u>	<u>(320)</u>
Movement in net debt for the period	<u>(1,276)</u>	<u>(4,098)</u>
Net debt at 30 November 1996	<u>(4,008)</u>	<u>90</u>
Net debt at 30 November 1997	<u>(5,284)</u>	<u>(4,008)</u>

NOTES TO THE ACCOUNTS

Year ended 30 November 1997

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 1997

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.

	1997	1996
	£000	£000
Profit on ordinary activities before tax is stated after charging (crediting):		
Auditors' remuneration - audit	19	18
- non-audit work	33	60
Depreciation of tangible assets - owned	1,554	1,152
- held under hire purchase contracts and finance leases	1,614	1,122
Profit on sale of fixed assets	-	(32)
Operating lease - rental of buildings	78	42
	<u> </u>	<u> </u>

3. INVESTMENT INCOME

Loan interest	9	-
Bank interest	27	26
	<u> </u>	<u> </u>
	36	26
	<u> </u>	<u> </u>

4. INTEREST PAYABLE

Bank overdraft interest	90	41
Hire purchase and finance lease interest	400	326
	<u> </u>	<u> </u>
	490	367
	<u> </u>	<u> </u>

5. DIRECTORS AND EMPLOYEES

	1997	1996
	Number	Number
The average number of persons employed by the group during the year was:		
Production	303	257
Administration	10	9
	<u> </u>	<u> </u>
	313	266
	<u> </u>	<u> </u>
Costs include:	£000	£000
Wages and salaries	10,159	8,681
Social security costs	1,006	854
Pension costs	1,101	914
	<u> </u>	<u> </u>
	12,266	10,449
	<u> </u>	<u> </u>
Included therein were directors' emoluments of and	1,835	1,443
Company pension contributions for two directors to money purchase schemes of	265	255
	<u> </u>	<u> </u>
The highest paid director received		
Emoluments of	1,273	982
and		
Pension contributions of	145	139

ILMOR ENGINEERING LIMITED AND ITS SUBSIDIARY UNDERTAKING

NOTES TO THE ACCOUNTS (continued)

Year ended 30 November 1997

6.	TAX ON PROFIT ON ORDINARY ACTIVITIES	1997 £000	1996 £000
	Corporation tax at 31.8% (1996 - 33%)	767	141
	Overseas tax	54	35
	Deferred tax (note 13)	(89)	90
		<u>732</u>	<u>266</u>

7.	TANGIBLE FIXED ASSETS - GROUP	Freehold land & buildings £000	Plant, fixtures & vehicles £000	Total £000
	Cost			
	At 30 November 1996	5,048	16,035	21,083
	Additions	1,486	3,679	5,165
	Disposals	(28)	(21)	(49)
	At 30 November 1997	<u>6,506</u>	<u>19,693</u>	<u>26,199</u>
	Depreciation			
	At 30 November 1996	452	6,915	7,367
	Charge for the year	169	2,999	3,168
	Disposals	(8)	(13)	(21)
	At 30 November 1997	<u>613</u>	<u>9,901</u>	<u>10,514</u>
	Net book value			
	At 30 November 1997	<u>5,893</u>	<u>9,792</u>	<u>15,685</u>
	At 30 November 1996	<u>4,596</u>	<u>9,120</u>	<u>13,716</u>

The net book value of plant, fixtures & vehicles includes £5,322,000 (1996 - £4,511,000) in respect of assets held under secured loans, hire purchase contracts and finance leases.

ILMOR ENGINEERING LIMITED AND ITS SUBSIDIARY UNDERTAKING

NOTES TO THE ACCOUNTS (continued)

Year ended 30 November 1997

7. TANGIBLE FIXED ASSETS (continued)
PARENT

	Freehold land & buildings £000	Plant, fixtures & vehicles £000	Total £000
Cost			
At 30 November 1996	5,048	15,607	20,655
Additions	1,486	3,679	5,165
Disposals	(28)	(21)	(49)
	<hr/>	<hr/>	<hr/>
At 30 November 1997	6,506	19,265	25,771
Depreciation			
At 30 November 1996	452	6,647	7,099
Charge for the year	169	2,935	3,104
Disposals	(8)	(13)	(21)
	<hr/>	<hr/>	<hr/>
At 30 November 1997	613	9,569	10,182
Net book value			
At 30 November 1997	5,893	9,696	15,589
	<hr/>	<hr/>	<hr/>
At 30 November 1996	4,596	8,960	13,556
	<hr/>	<hr/>	<hr/>

The net book value of plant, fixtures & vehicles includes £5,322,000 (1996 - £4,510,000) in respect of assets held under secured loans, hire purchase contracts and finance leases.

8. INVESTMENTS
PARENT

	£000
Investment in subsidiary undertaking, at cost	
At 30 November 1996 and 30 November 1997	41
	<hr/>

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

9. STOCKS

	1997 £000	1996 £000
Raw materials	63	142
Work in progress	1,475	1,343
Manufactured parts and finished goods	1,928	5,595
	<hr/>	<hr/>
	3,466	7,080
	<hr/>	<hr/>

ILMOR ENGINEERING LIMITED AND ITS SUBSIDIARY UNDERTAKING

NOTES TO THE ACCOUNTS (continued)

Year ended 30 November 1997

10.	DEBTORS	GROUP 1997 £000	PARENT 1997 £000	GROUP 1996 £000	PARENT 1996 £000
	Trade debtors	1,612	1,612	241	241
	Group undertaking	-	280	-	644
	Tax and social security	169	169	494	494
	Other debtors	77	72	256	256
	Prepayments and accrued income	96	96	169	77
	Loan	573	573	-	-
		<u>2,527</u>	<u>2,802</u>	<u>1,160</u>	<u>1,712</u>
	Tax	46	46	165	164
		<u>2,573</u>	<u>2,848</u>	<u>1,325</u>	<u>1,876</u>
11.	CREDITORS - amounts falling due within one year				
	Trade creditors	3,301	3,301	4,073	4,067
	Tax and social security	548	447	413	360
	Accruals	2,388	2,202	1,633	1,635
	Payments received on account	-	-	2,812	2,812
	Directors' loans	-	-	180	180
		<u>6,237</u>	<u>5,950</u>	<u>9,111</u>	<u>9,054</u>
	Obligations under hire purchase contracts, finance leases and similar contracts	1,366	1,366	973	973
	Corporation and similar tax	1,147	714	1,123	911
	Bank overdraft	1,074	1,074	391	391
		<u>9,824</u>	<u>9,104</u>	<u>11,598</u>	<u>11,329</u>

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

12.	CREDITORS - amounts falling due after more than one year	GROUP 1997 £000	PARENT 1997 £000	GROUP 1996 £000	PARENT 1996 £000
	Loan from subsidiary undertaking	-	882	-	800
	Obligations under hire purchase contracts, finance leases and similar contracts	3,493	3,493	2,886	2,886
		<u>3,493</u>	<u>4,375</u>	<u>2,886</u>	<u>3,686</u>
	Financing payable:				
	Within 1-2 years	1,464	1,464	973	973
	Within 2-5 years	2,029	2,029	1,913	1,913
		<u>3,493</u>	<u>3,493</u>	<u>2,886</u>	<u>2,886</u>

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

ILMOR ENGINEERING LIMITED AND ITS SUBSIDIARY UNDERTAKING

NOTES TO THE ACCOUNTS (continued)

Year ended 30 November 1997

13.	PROVISIONS FOR LIABILITIES AND CHARGES	1997	1996
	Deferred tax	£000	£000
	At 30 November 1996	610	520
	(Credit) charge for the year	(89)	90
		<hr/>	<hr/>
	At 30 November 1997	521	610

The deferred tax provision at 31% (1996 - 33%) comprises the excess of capital allowances over depreciation charged.

14.	CALLED UP SHARE CAPITAL	1997	1996
		£000	£000
	Authorised, allotted and fully paid:		
	Ordinary shares of £1 each	10	10
		<hr/>	<hr/>

15.	RELATED PARTY TRANSACTIONS		Other amounts		
		Loans	owed to (by)	Sales by	Purchases
	By virtue of shareholding:	by group	group	group	by group
		£000	£000	£000	£000
	Mr R S Penske was interested in:				
	Penske Racing Inc.	-	-	2	-
	Messrs P J Morgan, M J Illien and				
	R S Penske were interested in:				
	Ilmor Engineering Inc	572	(363)	4,297	4,969
	Daimler-Benz UK plc were interested in:				
	Daimler-Benz AG Group	-	866	48,456	-
	Messrs P J Morgan and M J Illien were				
	interested in:				
	Ilmor Directors' Pension Fund - rent	-	-	-	36

16. 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 £1,107,000 (1996 - £613,000).

17.	FUTURE CAPITAL EXPENDITURE	1997	1996
	Capital expenditure on fixed assets authorised by the directors at the	£000	£000
	year end but not provided for in the accounts was as follows:		
	Contracts placed	212	2,782
		<hr/>	<hr/>

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

	1997	1997	1996	1996
	Land and	Other	Land and	Other
	buildings	£000	buildings	£000
	£000	£000	£000	£000
Within one year	-	-	-	11
Between one and five years	-	-	16	-
Over 5 years	48	-	26	-
	<hr/>	<hr/>	<hr/>	<hr/>
	48	-	42	11
	<hr/>	<hr/>	<hr/>	<hr/>

ILMOR ENGINEERING LIMITED

NOTES TO THE ACCOUNTS (continued)

Year ended 30 November 1997

19.	RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS	1997 £000	1996 £000
	Profit for the year	1,227	69
	Exchange gain on translation	39	31
		<u>1,266</u>	<u>100</u>
	Shareholders' funds at 30 November 1996	7,269	7,169
		<u>8,535</u>	<u>7,269</u>
	Shareholders' funds at 30 November 1997		

20. CASH FLOW STATEMENT

	30 Nov 1996 £000	Cash flow £000	Other non-cash movements £000	Exchange adjustments £000	30 Nov 1997 £000
Analysis of net debt					
Cash at bank and in hand	242	426	-	(20)	649
Overdrafts	(391)	(683)	-	-	(1,074)
	<u>(149)</u>	<u>(256)</u>	<u>-</u>	<u>(20)</u>	<u>(425)</u>
Finance lease and hire purchase obligations	(3,859)	662	(1,662)	-	(4,859)
	<u>(4,008)</u>	<u>406</u>	<u>(1,662)</u>	<u>(20)</u>	<u>(5,284)</u>

Major non-cash transactions

During the period the group entered into finance leases and hire purchase agreements in respect of assets with a total capital value at inception of £1,662,000.