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ILMOR ENGINEERING LIMITED  
AND ITS SUBSIDIARY UNDERTAKING  
REGISTERED NUMBER 1760288  
ACCOUNTS  
30 NOVEMBER 1998

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3. Auditors' report
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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 1998.

## 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 group and of the profit or loss of the group 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 the group 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 the group 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 has had a successful year in Formula 1 with victory in both the Drivers and Constructors Championships. The group expects its business to continue to develop which should continue to improve its financial position.

## 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	
		30.11.1998	30.11.1997
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 resigned as a director on 23 December 1997.

## YEAR 2000 COMPLIANCE

The company is well advanced in the phase of assessing the risks to the business resulting from the date change to the Year 2000. Once this phase is completed the likely impact on the business will be assessed and prioritised action plans developed to deal with the key risks.

The estimated total costs of these plans have not yet been quantified but it is not believed that they will significantly affect future results.

## 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.

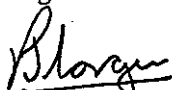
## CHARITABLE DONATIONS

The company made charitable donations of £4,339 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 5 January 1999  
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 1998 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

5 January 1999

ILMOR ENGINEERING LIMITED AND ITS SUBSIDIARY UNDERTAKING

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 30 November 1998

	Notes	1998 £000	1997 £000
TURNOVER	2	57,388	52,824
Cost of sales		<u>(47,837)</u>	<u>(45,697)</u>
GROSS PROFIT		9,551	7,127
Administrative expenses		<u>(6,420)</u>	<u>(4,714)</u>
OPERATING PROFIT		3,131	2,413
Investment income	3	<u>276</u>	<u>36</u>
		3,407	2,449
Interest payable	4	<u>(371)</u>	<u>(490)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX	2	3,036	1,959
Tax on profit on ordinary activities	6	<u>(1,065)</u>	<u>(732)</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAX		1,971	1,227
Retained profits at 30 November 1997		8,525	7,259
Exchange (loss) gain on translation		<u>(87)</u>	<u>39</u>
RETAINED PROFITS AT 30 NOVEMBER 1998		<u>10,409</u>	<u>8,525</u>

The group's operations are continuing.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Profit for the financial year	1,971	1,227
Exchange (loss) gain on translation	<u>(87)</u>	<u>39</u>
	<u>1,884</u>	<u>1,266</u>


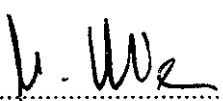
ILMOR ENGINEERING LIMITED AND ITS SUBSIDIARY UNDERTAKING

CONSOLIDATED BALANCE SHEET

30 November 1998

	Notes	£000	1998 £000	1997 £000
<b>FIXED ASSETS</b>				
Tangible assets	7		14,598	15,685
<b>CURRENT ASSETS</b>				
Stocks	9	4,301		3,466
Debtors	10	7,038		2,573
Cash at bank and in hand		4,123		649
		<u>15,462</u>		<u>6,688</u>
CREDITORS - amounts falling due within one year	11	(17,158)		(9,824)
<b>NET CURRENT LIABILITIES</b>			<u>(1,696)</u>	<u>(3,136)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			12,902	12,549
CREDITORS - amounts falling due after more than one year	12	(2,029)		(3,493)
PROVISIONS FOR LIABILITIES AND CHARGES	13	(454)		(521)
			<u>(2,483)</u>	<u>(4,014)</u>
			<u>10,419</u>	<u>8,535</u>
<b>CAPITAL AND RESERVES</b>				
Called up share capital	14		10	10
Profit and loss account			10,409	8,525
<b>SHAREHOLDERS' FUNDS</b>			<u>10,419</u>	<u>8,535</u>

Approved by the board on 5 January 1999  
and signed on its behalf by:

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

ILMOR ENGINEERING LIMITED

COMPANY BALANCE SHEET

30 November 1998

	Notes	£000	1998 £000	1997 £000
<b>FIXED ASSETS</b>				
Tangible assets	7		14,566	15,589
Investments	8		<u>41</u>	<u>41</u>
			14,607	15,630
<b>CURRENT ASSETS</b>				
Stocks	9	4,301		3,466
Debtors	10	7,316		2,848
Cash in hand		<u>3,446</u>		<u>26</u>
		15,063		6,340
CREDITORS - amounts falling due within one year	11	<u>(16,637)</u>		<u>(9,104)</u>
<b>NET CURRENT LIABILITIES</b>			<u>(1,574)</u>	<u>(2,764)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			13,033	12,866
CREDITORS - amounts falling due after more than one year	12	(2,648)		(4,375)
PROVISIONS FOR LIABILITIES AND CHARGES	13	<u>(454)</u>		<u>(521)</u>
			<u>(3,102)</u>	<u>(4,896)</u>
			<u>9,931</u>	<u>7,970</u>
<b>CAPITAL AND RESERVES</b>				
Called up share capital	14		10	10
Profit and loss account			<u>9,921</u>	<u>7,960</u>
<b>SHAREHOLDERS' FUNDS</b>			<u>9,931</u>	<u>7,970</u>

Approved by the board on 5 January 1999  
and signed on its behalf by:

P J MORGAN

*P Morgan*

M J ILLIEN

*M J Illien*

) Directors

ILMOR ENGINEERING LIMITED AND ITS SUBSIDIARY UNDERTAKING

CONSOLIDATED CASH FLOW STATEMENT

Year ended 30 November 1998

	£000	1998 £000	£000	1997 £000
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>				
Operating profit		3,131		2,413
Exchange differences		(121)		65
Depreciation		3,423		3,168
(Increase) decrease in stock		(835)		3,614
(Increase) in debtors		(4,343)		(1,441)
Increase (decrease) in creditors		<u>7,800</u>		<u>(2,808)</u>
		9,055		5,011
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>				
Interest receivable	276		36	
Interest paid	<u>(371)</u>		<u>(490)</u>	
<b>NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>		(95)		(454)
<b>TAXATION</b>				
Corporation tax paid		(738)		(676)
<b>CAPITAL EXPENDITURE AND INVESTING ACTIVITIES</b>				
Payments to acquire tangible fixed assets	(2,337)		(3,503)	
Receipts from sales of tangible fixed assets	<u>1</u>		<u>28</u>	
<b>NET CASH OUTFLOW FROM CAPITAL EXPENDITURE AND INVESTING ACTIVITIES</b>		<u>(2,336)</u>		<u>(3,475)</u>
<b>NET CASH INFLOW BEFORE FINANCING</b>		5,886		406
<b>FINANCING</b>				
Capital element of hire purchase and finance lease rentals paid		<u>(1,366)</u>		<u>(662)</u>
<b>INCREASE (DECREASE) IN CASH</b>		<u>4,520</u>		<u>(256)</u>
<b>Reconciliation of net cash flow to movement in net debt (note 20)</b>				
Increase (decrease) in cash in the period		4,520		(256)
Cash outflow from decrease in debt and lease financing		<u>1,366</u>		<u>662</u>
Change in net cash resulting from cash flows		5,886		406
New finance leases and hire purchase contracts		-		(1,662)
Translation difference		<u>28</u>		<u>(20)</u>
Movement in net cash for the period		5,914		(1,276)
Net debt at 30 November 1997		<u>(5,284)</u>		<u>(4,008)</u>
Net cash (debt) at 30 November 1998		<u>630</u>		<u>(5,284)</u>

# ILMOR ENGINEERING LIMITED AND ITS SUBSIDIARY UNDERTAKING

## NOTES TO THE ACCOUNTS

Year ended 30 November 1998

### 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.

#### Turnover

Turnover represents amounts receivable for goods and services net of valued added tax.

#### 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 1998

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.

	1998	1997
	£000	£000
Profit on ordinary activities before tax is stated after charging (crediting):		
Auditors' remuneration		
- audit	21	19
- non-audit work	33	33
Depreciation of tangible assets	1,550	1,554
- owned		
- held under hire purchase contracts and finance leases	1,873	1,614
Operating lease		
- rental of buildings	53	78
- other	534	-

3. INVESTMENT INCOME

Loan interest	89	9
Bank interest	187	27
	<u>276</u>	<u>36</u>

4. INTEREST PAYABLE

Bank overdraft interest	10	90
Hire purchase and finance lease interest	359	400
Other interest	2	-
	<u>371</u>	<u>490</u>

5. DIRECTORS AND EMPLOYEES

	1998	1997
	Number	Number
The average number of persons employed by the group during the year was:		
Production	319	303
Administration	10	10
	<u>329</u>	<u>313</u>
Costs include:	£000	£000
Wages and salaries	12,867	10,159
Social security costs	1,275	1,006
Pension costs	1,348	1,101
	<u>15,490</u>	<u>12,266</u>
Included therein were directors' emoluments of and Company pension contributions for two directors to money purchase schemes of	2,682	2,148
	377	265
The highest paid director received Emoluments of and Pension contributions of	1,914	1,586
	201	145

ILMOR ENGINEERING LIMITED AND ITS SUBSIDIARY UNDERTAKING

NOTES TO THE ACCOUNTS (continued)

Year ended 30 November 1998

6.	TAX ON PROFIT ON ORDINARY ACTIVITIES	1998 £000	1997 £000
	Corporation tax	1,081	767
	Overseas tax	51	54
	Deferred tax (note 13)	(67)	(89)
		<u>1,065</u>	<u>732</u>

7.	TANGIBLE FIXED ASSETS - GROUP	Freehold land & buildings £000	Plant, fixtures & vehicles £000	Total £000
	Cost			
	At 30 November 1997	6,506	19,693	26,199
	Additions	281	2,056	2,337
	Disposals	-	(45)	(45)
	At 30 November 1998	<u>6,787</u>	<u>21,704</u>	<u>28,491</u>
	Depreciation			
	At 30 November 1997	613	9,901	10,514
	Charge for the year	191	3,232	3,423
	Disposals	-	(44)	(44)
	At 30 November 1998	<u>804</u>	<u>13,089</u>	<u>13,893</u>
	Net book value			
	At 30 November 1998	<u>5,983</u>	<u>8,615</u>	<u>14,598</u>
	At 30 November 1997	<u>5,893</u>	<u>9,792</u>	<u>15,685</u>

The net book value of plant, fixtures & vehicles includes £3,298,000 (1997 - £5,257,000) 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 1998

7. TANGIBLE FIXED ASSETS (continued)			
PARENT	Freehold land & buildings £000	Plant, fixtures & vehicles £000	Total £000
Cost			
At 30 November 1997	6,506	19,265	25,771
Additions	281	2,056	2,337
Disposals	-	(45)	(45)
	<u>6,787</u>	<u>21,276</u>	<u>28,063</u>
At 30 November 1998			
Depreciation			
At 30 November 1997	613	9,569	10,182
Charge for the year	191	3,168	3,359
Disposals	-	(44)	(44)
	<u>804</u>	<u>12,693</u>	<u>13,497</u>
At 30 November 1998			
Net book value			
At 30 November 1998	<u>5,983</u>	<u>8,583</u>	<u>14,566</u>
At 30 November 1997	<u>5,893</u>	<u>9,696</u>	<u>15,589</u>

The net book value of plant, fixtures & vehicles includes £3,298,000 (1997 - £5,257,000) 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 1997 and 30 November 1998	<u>41</u>

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	1998 £000	1997 £000
Raw materials	259	63
Work in progress	1,218	1,475
Manufactured parts and finished goods	2,824	1,928
	<u>4,301</u>	<u>3,466</u>

ILMOR ENGINEERING LIMITED AND ITS SUBSIDIARY UNDERTAKING

NOTES TO THE ACCOUNTS (continued)  
Year ended 30 November 1998

10. DEBTORS	GROUP 1998 £000	PARENT 1998 £000	GROUP 1997 £000	PARENT 1997 £000
Trade debtors	1,886	1,886	1,612	1,612
Group undertaking	-	297	-	280
Tax and social security	481	481	169	169
Other debtors	495	476	77	72
Prepayments and accrued income	470	470	96	96
Loan	3,573	3,573	573	573
	<u>6,905</u>	<u>7,183</u>	<u>2,527</u>	<u>2,802</u>
Tax	133	133	46	46
	<u>7,038</u>	<u>7,316</u>	<u>2,573</u>	<u>2,848</u>
11. CREDITORS - amounts falling due within one year				
Trade creditors	5,757	5,757	3,301	3,301
Tax and social security	738	688	548	447
Accruals	3,723	3,758	2,388	2,202
Payments received on account	3,828	3,828	-	-
Other creditors	17	-	-	-
	<u>14,063</u>	<u>14,031</u>	<u>6,237</u>	<u>5,950</u>
Obligations under hire purchase contracts, finance leases and similar contracts	1,464	1,464	1,366	1,366
Corporation and similar tax	1,631	1,142	1,147	714
Bank overdraft	-	-	1,074	1,074
	<u>17,158</u>	<u>16,637</u>	<u>9,824</u>	<u>9,104</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 1998 £000	PARENT 1998 £000	GROUP 1997 £000	PARENT 1997 £000
Loan from subsidiary undertaking	-	619	-	882
Obligations under hire purchase contracts, finance leases and similar contracts	2,029	2,029	3,493	3,493
	<u>2,029</u>	<u>2,648</u>	<u>3,493</u>	<u>4,375</u>
Financing payable:				
Within 1-2 years	1,231	1,231	1,464	1,464
Within 2-5 years	798	798	2,029	2,029
	<u>2,029</u>	<u>2,029</u>	<u>3,493</u>	<u>3,493</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 1998

13.	<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	1998	1997
	Deferred tax	£000	£000
	At 30 November 1997	521	610
	Credit for the year	(67)	(89)
		<u>454</u>	<u>521</u>
	At 30 November 1998		

The deferred tax provision at 31% (1997 - 31%) comprises the excess of capital allowances over depreciation charged.

14.	<b>CALLED UP SHARE CAPITAL</b>		
	Authorised, allotted and fully paid:		
	Ordinary shares of £1 each	<u>10</u>	<u>10</u>

15.	<b>RELATED PARTY TRANSACTIONS</b>				
		Loans	Other	Sales by	Purchases
	By virtue of shareholding:	by group	amounts	group	by group
		£000	owed to (by)	£000	£000
			group		
			£000		
	Mr R S Penske was interested in:				
	Penske Racing Inc.	-	(128)	461	300
	Messrs P J Morgan, M J Illien, R S				
	Penske and Daimler-Chrysler UK plc were				
	interested in:				
	Ilmor Engineering Inc	3,573	(713)	7,116	5,626
	Daimler-Chrysler UK plc were interested in:				
	Daimler-Chrysler AG Group	-	(3,310)	46,431	-
	Messrs P J Morgan and M J Illien were				
	interested in:				
	Ilmor Directors' Pension Fund - rent	-	29	-	53

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 £1,961,000 (1997 - £1,017,000).

17.	<b>FUTURE CAPITAL EXPENDITURE</b>	1998	1997
	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	<u>1,169</u>	<u>212</u>

18.	<b>FINANCIAL COMMITMENTS</b>				
	There are obligations under operating leases to pay rentals during the next year which expire:				
		1998	1998	1997	1997
		Land and	Other	Land and	Other
		buildings	£000	buildings	£000
		£000	£000	£000	£000
	Over 5 years	<u>50</u>	<u>199</u>	<u>48</u>	<u>-</u>

The parent company has guaranteed lease rentals on behalf of the subsidiary company for the lease of an aircraft. The annual commitment is as shown above.

ILMOR ENGINEERING LIMITED

NOTES TO THE ACCOUNTS (continued)  
Year ended 30 November 1998

19.	RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS	1998 £000	1997 £000
	Profit for the year	1,971	1,227
	Exchange (loss) gain on translation	(87)	39
		<hr/>	<hr/>
	Shareholders' funds at 30 November 1997	1,884	1,266
		<hr/>	<hr/>
	Shareholders' funds at 30 November 1998	8,535	7,269
		<hr/>	<hr/>
		10,419	8,535
		<hr/>	<hr/>

20. CASH FLOW STATEMENT

	30 Nov 1997 £000	Cash flow £000	Exchange adjustments £000	30 Nov 1998 £000
Analysis of net debt				
Cash at bank and in hand	649	3,446	28	4,123
Overdrafts	(1,074)	1,074	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	(425)	4,520	28	4,123
Finance lease and hire purchase obligations	(4,859)	1,366	-	(3,493)
	<hr/>	<hr/>	<hr/>	<hr/>
	(5,284)	5,886	28	630
	<hr/>	<hr/>	<hr/>	<hr/>

21. PENSION SCHEME

The company contributes to various money purchase pension schemes. The charge for the year was £1,348,000 and contributions of £186,118 were prepaid.