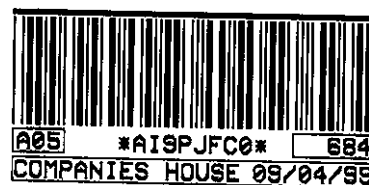


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REGISTERED NUMBER: 1067795 (England and Wales)

Abbreviated Financial Statements
for the year ended 31 December 1998
for
AVL United Kingdom Ltd



AVL United Kingdom Ltd

**Index to the Financial Statements
for the year ended 31 December 1998**

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AVL United Kingdom Ltd
Company Information
for the year ended 31 December 1998

DIRECTORS:	H O List J M Read
SECRETARY:	R. Whitby
REGISTERED OFFICE:	Century House Gadbrook Park Northwich Cheshire CW9 7TL
REGISTERED NUMBER:	1067795 (England and Wales)
AUDITORS:	Cooper Taylor Chartered Accountants Registered Auditors The Dowery Barker Street Nantwich Cheshire CW5 5TE
BANKERS:	National Westminster Bank PLC P O Box 30 The Bull Ring Northwich Cheshire CW9 5DU
SOLICITORS:	Smith Whittingham Dysart Buildings Nantwich Cheshire CW5 5DW

AVL United Kingdom Ltd

Report of the Directors for the year ended 31 December 1998

The directors present their report with the financial statements of the company for the year ended 31 December 1998.

PRINCIPAL ACTIVITIES

The principal activities of the company in the year under review were those of providing marketing and support in the United Kingdom with regard to engine engineering, consulting, test systems and instrumentation provided by AVL Verwaltungsgesellschaft mbH, the ultimate holding company.

REVIEW OF BUSINESS

The results for the year and financial position of the company are as shown in the annexed financial statements.

On 31 March 1998 the trade, assets and liabilities of the fellow United Kingdom subsidiary company, AVL Powertrain Engineering Limited, were transferred to the company. During the year the company also established an engine testing division based in Peterborough.

DIVIDENDS

No dividends will be distributed for the year ended 31 December 1998.

EVENTS SINCE THE END OF THE YEAR

Information relating to events since the end of the year is given in the notes to the financial statements.

DIRECTORS

The directors during the year under review were:

H O List
J M Read

The directors holding office at 31 December 1998 did not hold any beneficial interest in the issued share capital of the company at 1 January 1998 or 31 December 1998.

YEAR 2000 ISSUES

The directors confirm that they have reviewed the risks and uncertainties associated with Year 2000 problems. They have formulated an overall project structure and provided sufficient resource to carry out the project. Areas have been defined where year 2000 could have an impact on the company's operations. A testing and implementation strategy in these areas is currently being followed and alternative action plans will be in place for system issues that will not be addressed in time. The costs of this work, which have not been formally estimated, will be charged in the financial statements to 31 December 1999, in so far as they had not been incurred prior to 31 December 1998.

STATEMENT OF 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.

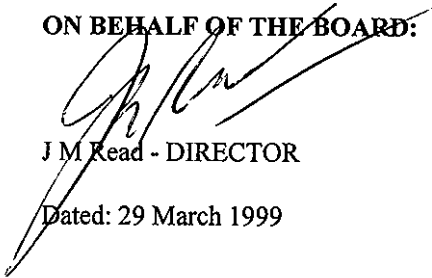
AVL United Kingdom Ltd

**Report of the Directors
for the year ended 31 December 1998**

AUDITORS

The auditors, Cooper Taylor, will be proposed for re-appointment in accordance with Section 385 of the Companies Act 1985.

ON BEHALF OF THE BOARD:



J M Read - DIRECTOR

Dated: 29 March 1999

AVL United Kingdom Ltd

**Report of the Auditors to
AVL United Kingdom Ltd
Under Section 247B of the Companies Act 1985**

We have examined the abbreviated financial statements on pages five to seventeen, together with the full financial statements of the company for the year ended 31 December 1998 prepared under Section 226 of the Companies Act 1985.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the abbreviated financial statements in accordance with Section 246A of the Companies Act 1985. It is our responsibility to form an independent opinion as to whether the company is entitled to deliver abbreviated financial statements prepared in accordance with Section 246A(3) of the Act to the Registrar of Companies and whether the financial statements to be delivered are properly prepared in accordance with that provision and to report our opinion to you.

Basis of opinion

We have carried out the procedures we consider necessary to confirm, by reference to the financial statements, that the company is entitled to deliver abbreviated financial statements and that the abbreviated financial statements to be delivered are properly prepared. The scope of our work for the purpose of this report did not include examining or dealing with events after the date of our report on the full financial statements.

Opinion

In our opinion the company is entitled to deliver abbreviated financial statements prepared in accordance with Section 246A(3) of the Companies Act 1985, and the abbreviated financial statements on pages five to seventeen are properly prepared in accordance with that provision.



Cooper Taylor
Chartered Accountants
Registered Auditors
The Dowery
Barker Street
Nantwich Cheshire
CW5 5TE

Dated: 29 March 1999

AVL United Kingdom Ltd

Abbreviated Profit and Loss Account
for the year ended 31 December 1998

	Notes	1998		1997	
		£	£	£	£
GROSS PROFIT			3,468,767		1,887,771
Distribution costs		29,726		19,311	
Administrative expenses		3,259,945		1,818,565	
			3,289,671		1,837,876
OPERATING PROFIT	4		179,096		49,895
Interest receivable and similar income	6		20,429		11,521
			199,525		61,416
Interest payable and similar charges	7		43,551		32,899
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION			155,974		28,517
Tax on profit on ordinary activities	8		59,407		12,000
PROFIT FOR THE FINANCIAL YEAR AFTER TAXATION			96,567		16,517
Retained profit brought forward			46,713		30,196
RETAINED PROFIT CARRIED FORWARD			£143,280		£46,713

CONTINUING OPERATIONS

The company acquired the operations of AVL Powertrain Limited, a fellow subsidiary, on 1 April 1998.

TOTAL RECOGNISED GAINS AND LOSSES

The company has no recognised gains or losses other than the profits for the current and previous years.

AVL United Kingdom Ltd

Abbreviated Balance Sheet
31 December 1998

		1998		1997	
	Notes	£	£	£	£
FIXED ASSETS:					
Tangible assets	9		501,211		266,242
CURRENT ASSETS:					
Stocks	10	2,987,301		484,822	
Debtors within one year	11	4,257,885		2,968,544	
Debtors more than one year	11	41,200		-	
Cash at bank and in hand		3,920,996		162,541	
		11,207,382		3,615,907	
CREDITORS: Amounts falling due within one year	12	11,254,065		3,735,436	
NET CURRENT LIABILITIES:			(46,683)		(119,529)
TOTAL ASSETS LESS CURRENT LIABILITIES:			454,528		146,713
PROVISIONS FOR LIABILITIES AND CHARGES:	15		120,000		-
			£334,528		£146,713
CAPITAL AND RESERVES:					
Called up share capital	16		180,000		100,000
Share premium	17		11,248		-
Profit and loss account			143,280		46,713
Shareholders' funds	22		£334,528		£146,713

These abbreviated financial statements have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to medium-sized companies.

ON BEHALF OF THE BOARD:

J M Read - DIRECTOR

Approved by the Board on 29 March 1999

AVL United Kingdom Ltd

Cash Flow Statement
for the year ended 31 December 1998

	Notes	1998		1997	
		£	£	£	£
Net cash inflow from operating activities	1		1,006,697		1,594,994
Returns on investments and servicing of finance	2		(23,080)		(21,378)
Taxation			(11,007)		(10,897)
Capital expenditure	2		(409,080)		(172,419)
			563,530		1,390,300
Financing	2		2,504,862		(1,933,907)
Increase/(Decrease) in cash in the period			<u>£3,068,392</u>		<u>£(543,607)</u>
Reconciliation of net cash flow to movement in net funds	3				
Increase/(Decrease) in cash in the period			3,068,392		(543,607)
Cash outflow from decrease in debt and lease financing			-		12,119
Change in net funds resulting from cash flows			<u>3,068,392</u>		<u>(531,488)</u>
Movement in net funds in the period			3,068,392		(531,488)
Net funds at 1 January 1998			<u>162,541</u>		<u>694,029</u>
Net funds at 31 December 1998			<u>£3,230,933</u>		<u>£162,541</u>

The notes form part of these financial statements

AVL United Kingdom Ltd

Notes to the Cash Flow Statement
for the year ended 31 December 1998

1. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	1998 £	1997 £
Operating profit	179,096	49,895
Depreciation charges	173,936	110,957
Loss on sale of fixed assets	175	186
Profit on sale of fixed assets	-	(2,750)
Increase in pension provision	120,000	-
Increase in stocks	(2,502,479)	(46,388)
(Increase)/Decrease in debtors	(159,339)	1,916,150
Increase/(Decrease) in creditors	3,195,308	(433,056)
Net cash inflow from operating activities	1,006,697	1,594,994

2. ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT

	1998 £	1997 £
Returns on investments and servicing of finance		
Interest received	20,471	11,521
Interest paid	(40,540)	(29,933)
Interest element of hire purchase or finance lease rentals payments	(3,011)	(2,966)
Net cash outflow for returns on investments and servicing of finance	(23,080)	(21,378)
Capital expenditure		
Purchase of tangible fixed assets	(409,080)	(175,254)
Sale of tangible fixed assets	-	2,835
Net cash outflow for capital expenditure	(409,080)	(172,419)
Financing		
Increase / (decrease) in group borrowings	2,323,614	(1,921,243)
Loan advances/ (repayments) in year	90,000	(545)
Capital element of hire purchase and finance lease rentals payments	-	(12,119)
Cash receipt re share issue	91,248	-
Net cash inflow/(outflow) from financing	2,504,862	(1,933,907)

The notes form part of these financial statements

AVL United Kingdom Ltd

**Notes to the Cash Flow Statement
for the year ended 31 December 1998**

3. ANALYSIS OF CHANGES IN NET FUNDS

	At 1.1.98	Cash flow	At 31.12.98
	£	£	£
Net cash:			
Cash at bank and in hand	162,541	3,758,455	3,920,996
Bank overdrafts	-	(690,063)	(690,063)
	<hr/>	<hr/>	<hr/>
	162,541	3,068,392	3,230,933
	<hr/>	<hr/>	<hr/>
 Total	 162,541	 3,068,392	 3,230,933
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Analysed in Balance Sheet			
 Cash at bank and in hand	 162,541		 3,920,996
Bank overdrafts	-		(690,063)
	<hr/>		<hr/>
	162,541		3,230,933
	<hr/> <hr/>		<hr/> <hr/>

4. AQUISITIONS

The company acquired the trade, assets and liabilities of AVL Powertrain Limited , a fellow subsidiary, on 31 March 1998. A summary of the fair value of the assets and liabilities acquired is given in the table below.

Fixed assets	68,674
Stock	18,534
Debtors and prepayments	132,176
Cash at bank	126,806
Creditors	(164,942)
Loans from ultimate holding company	(90,000)
	<hr/>
	91,248
	<hr/> <hr/>
 Consideration paid	 91,248
	<hr/> <hr/>

AVL United Kingdom Ltd

Notes to the Abbreviated Financial Statements
for the year ended 31 December 1998

1. ACCOUNTING POLICIES

Basis of preparing the financial statements

The group has indicated that it will continue to support the company for a period of at least twelve months from the date of signing these financial statements. On this basis, the directors consider it appropriate to prepare the financial statements on a going concern basis.

Accounting convention

The financial statements have been prepared under the historical cost convention.

Turnover

Turnover represents net invoiced sales of goods and services, excluding value added tax. Amounts invoiced on contracts which are not sufficiently complete to recognise turnover or profit thereon at the year end are shown as payments on account within creditors: amounts falling due within one year.

Tangible fixed assets

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life.

Plant and machinery	- 25% on cost
Office equipment and fixtures	- 10% on cost and 25% on cost
Motor vehicles	- 25% on cost

Stocks

Stock and work in progress are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items.

Cost includes all direct expenditure and an appropriate proportion of fixed and variable overheads.

Provision is made for any foreseeable losses on contracts included in work in progress.

Deferred taxation

Provision is made at current rates for taxation deferred in respect of all material timing differences except to the extent that, in the opinion of the directors, there is reasonable probability that the liability will not arise in the foreseeable future.

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of transaction. Exchange differences are taken into account in arriving at the operating result.

Hire purchase and leasing commitments

Assets obtained under hire purchase contracts or finance leases are capitalised in the balance sheet. Those held under hire purchase contracts are depreciated over their estimated useful lives. Those held under finance leases are depreciated over their estimated useful lives or the lease term, whichever is the shorter.

The interest element of these obligations is charged to the profit and loss account over the relevant period. The capital element of the future payments is treated as a liability.

Rentals paid under operating leases are charged to the profit and loss account as incurred.

AVL United Kingdom Ltd

**Notes to the Abbreviated Financial Statements
for the year ended 31 December 1998**

1. ACCOUNTING POLICIES - continued

Pensions

The company operates a defined contribution pension scheme for Mr J M Read a company director. Although this scheme is a defined contribution scheme the company has agreed to provide the director with benefits based on final pensionable pay. The assets of the scheme are separately held from those of the company, being invested with an insurance company. Contributions are paid so as to spread the cost over the director's working life with the company reviewing annually the level of contributions required to ensure full funding at retirement. Provision is made for any shortfall between the contributions required and the contributions paid in the year.

Pensions - employees

The company makes contributions to personal pension schemes in respect of a number of employees. The amounts charged against profits represents the contributions payable in respect of the year.

2. ANALYSIS OF OPERATIONS

	Continuing	1998 Acquisitions	Total
	£	£	£
Cost of sales	<u>6,625,870</u>	<u>438,458</u>	<u>7,064,328</u>
Gross profit	<u>3,003,087</u>	<u>465,680</u>	<u>3,468,767</u>
Net operating expenses:			
Distribution costs	29,726	-	29,726
Administrative expenses	<u>2,656,524</u>	<u>603,421</u>	<u>3,259,945</u>
	<u>2,686,250</u>	<u>603,421</u>	<u>3,289,671</u>

	Continuing	1997 Acquisitions	Total
	£	£	£
Cost of sales	<u>4,722,077</u>	<u>-</u>	<u>4,722,077</u>
Gross profit	<u>1,887,771</u>	<u>-</u>	<u>1,887,771</u>
Net operating expenses:			
Distribution costs	19,311	-	19,311
Administrative expenses	<u>1,818,565</u>	<u>-</u>	<u>1,818,565</u>
	<u>1,837,876</u>	<u>-</u>	<u>1,837,876</u>

3. STAFF COSTS

	1998	1997
	£	£
Wages and salaries	1,490,367	946,939
Social security costs	157,535	99,100
Other pension costs	199,755	37,150
	<u>1,847,657</u>	<u>1,083,189</u>

AVL United Kingdom Ltd

**Notes to the Abbreviated Financial Statements
for the year ended 31 December 1998**

3. STAFF COSTS - continued

The average monthly number of employees during the year was as follows:

	1998	1997
Sales ,service and administration	<u>49</u>	<u>33</u>

4. OPERATING PROFIT

The operating profit is stated after charging/(crediting):

	1998 £	1997 £
Hire of plant and machinery	102,189	83,430
Rent	138,014	65,092
Depreciation - owned assets	173,936	92,851
Depreciation - assets on hire purchase contracts or finance leases	-	18,105
Loss/(Profit) on disposal of fixed assets	175	(2,564)
Auditors' remuneration	12,000	10,000
Foreign exchange differences	<u>(100,600)</u>	<u>(15,531)</u>
Directors' emoluments	<u>67,097</u>	<u>60,857</u>

5. EXCEPTIONAL ITEMS

Included in administrative expenses is an exceptional provision for pensions charged in the year of £120,000. A deferred tax credit of £37,200 relating to this provision is included within the tax charge for the year.

6. INTEREST RECEIVABLE AND SIMILAR INCOME

	1998 £	1997 £
Deposit account interest	<u>20,429</u>	<u>11,521</u>

7. INTEREST PAYABLE AND SIMILAR CHARGES

	1998 £	1997 £
Bank interest	1,178	11
Bank loan interest	26,961	29,922
Interest payable to ultimate holding company	12,401	-
Leasing charges	<u>3,011</u>	<u>2,966</u>
	<u>43,551</u>	<u>32,899</u>

AVL United Kingdom Ltd

Notes to the Abbreviated Financial Statements
for the year ended 31 December 1998

8. TAXATION

The tax charge on the profit on ordinary activities for the year was as follows:

	1998 £	1997 £
UK corporation tax	101,600	12,000
(Under) / over provision in earlier years	(993)	-
Deferred taxation	(41,200)	-
	<u>59,407</u>	<u>12,000</u>

UK corporation tax has been charged at 31% (1997 - 31%).

9. TANGIBLE FIXED ASSETS

	Plant and machinery	Office equipment and fixtures	Motor vehicles	Totals
	£	£	£	£
COST:				
At 1 January 1998	123,344	492,168	-	615,512
Additions	123,519	269,008	16,553	409,080
Disposals	-	(6,427)	-	(6,427)
At 31 December 1998	<u>246,863</u>	<u>754,749</u>	<u>16,553</u>	<u>1,018,165</u>
DEPRECIATION:				
At 1 January 1998	84,354	264,916	-	349,270
Charge for year	31,186	133,345	9,405	173,936
Eliminated on disposals	-	(6,252)	-	(6,252)
At 31 December 1998	<u>115,540</u>	<u>392,009</u>	<u>9,405</u>	<u>516,954</u>
NET BOOK VALUE:				
At 31 December 1998	<u>131,323</u>	<u>362,740</u>	<u>7,148</u>	<u>501,211</u>
At 31 December 1997	<u>38,990</u>	<u>227,252</u>	-	<u>266,242</u>

10. STOCKS

	1998 £	1997 £
Stock	366,288	225,678
Work in progress	2,621,013	259,144
	<u>2,987,301</u>	<u>484,822</u>

There is no material difference between the carrying value of stocks and their replacement values.

AVL United Kingdom Ltd

Notes to the Abbreviated Financial Statements
for the year ended 31 December 1998

11. DEBTORS

	1998 £	1997 £
Amounts falling due within one year:		
Trade debtors	2,827,083	2,699,516
Other debtors	26,479	23,887
Prepayments & accrued income	50,714	21,534
Amounts due from group companies	1,353,609	223,607
	<u>4,257,885</u>	<u>2,968,544</u>
Amounts falling due after more than one year:		
Deferred tax asset	<u>41,200</u>	-
Aggregate amounts	<u>4,299,085</u>	<u>2,968,544</u>

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1998 £	1997 £
Bank loans and overdrafts (see note 13)	690,063	-
San Paolo Bank Loan (see note 13)	350,000	350,000
Loan from holding company (see note 13)	90,000	-
Trade creditors	119,340	98,429
Other creditors	7,486	8,333
V.A.T.	672,083	367,053
Social security & other taxes	62,667	35,954
Amounts due to group companies	6,213,827	2,760,211
Payments on account	2,772,504	-
Taxation	101,600	12,000
Accruals & deferred income	174,495	103,456
	<u>11,254,065</u>	<u>3,735,436</u>

13. LOANS AND OVERDRAFTS

An analysis of the maturity of loans and overdrafts is given below:

	1998 £	1997 £
Amounts falling due within one year or on demand:		
Bank overdrafts	690,063	-
San Paolo Bank Loan	350,000	350,000
Loan from holding company	90,000	-
	<u>1,130,063</u>	<u>350,000</u>

AVL United Kingdom Ltd

Notes to the Abbreviated Financial Statements
for the year ended 31 December 1998

14. OBLIGATIONS UNDER LEASING AGREEMENTS

The following payments are committed to be paid within one year:

	Operating leases			
	Land and buildings		Other	
	1998 £	1997 £	1998 £	1997 £
Expiring:				
Within one year	-	-	17,047	3,725
Between one and five years	46,000	-	94,316	69,792
In more than five years	68,894	58,894	-	-
	<u>114,894</u>	<u>58,894</u>	<u>111,363</u>	<u>73,517</u>

15. PROVISIONS FOR LIABILITIES AND CHARGES

	1998 £	1997 £
Pension provisions	<u>120,000</u>	<u>-</u>
		Pensions £
Charge for year		<u>120,000</u>
Balance at 31 December 1998		<u>120,000</u>

The amount for which no provision has been made in respect of deferred taxation, is as follows:

	1998 £	1997 £
Capital allowances in advance of depreciation	-	6,393
	<u>-</u>	<u>6,393</u>

16. CALLED UP SHARE CAPITAL

Authorised:				
Number:	Class:	Nominal value:	1998 £	1997 £
100,000	Ordinary	£1	<u>100,000</u>	<u>100,000</u>
Allotted, issued and fully paid:				
Number:	Class:	Nominal value:	1998 £	1997 £
100,000	Ordinary	£1	<u>180,000</u>	<u>100,000</u>

80,000 Ordinary shares of £1 each were allotted as fully paid at a premium of 1.1406 per share during the year.

AVL United Kingdom Ltd

**Notes to the Abbreviated Financial Statements
for the year ended 31 December 1998**

17. SHARE PREMIUM

	1998	1997
	£	£
Ordinary share issue in year	<u>11,248</u>	<u>-</u>

18. ULTIMATE PARENT COMPANY

The share capital is owned by AVL UK Holdings Limited, a company registered in England and Wales. The ultimate holding company is AVL Verwaltungsgesellschaft mbH, a company registered in Austria.

19. CONTINGENT LIABILITIES

The company has entered into a guarantee dated 27 July 1984 to HM Customs & Excise to the value of £20,000 with recourse.

The company has open forward currency contracts of £2,330,378 these have a value of £2,309,822 at the rates of exchange ruling at the balance sheet date.

20. CAPITAL COMMITMENTS

	1998	1997
	£	£
Contracted but not provided for in the financial statements	<u>170,871</u>	<u>15,393</u>

21. POST BALANCE SHEET EVENTS

On 11 March 1999 a decision was taken to merge Powertrain activities onto a single site. This will involve the transfer of staff and facilities. The costs associated with this reorganisation have not been formally estimated but are likely to be in excess of £150,000. These costs will be charged in the financial statements for the year ending 31 December 1999.

22. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1998	1997
	£	£
Profit for the financial year	96,567	16,517
Issue of equity shares	<u>91,248</u>	<u>-</u>
NET ADDITION TO SHAREHOLDERS' FUNDS	187,815	16,517
Opening shareholders' funds	<u>146,713</u>	<u>130,196</u>
CLOSING SHAREHOLDERS' FUNDS	<u>334,528</u>	<u>146,713</u>
Equity interests	<u>334,528</u>	<u>146,713</u>