

Registered in England and Wales Number: 1524281

RACAL MESSENGER LIMITED

Report and Financial Statements

31 March 1998

**Deloitte & Touche
Columbia Centre
Market Street
Bracknell
Berkshire
RG12 1PA**



RACAL MESSENGER LIMITED

REPORT AND FINANCIAL STATEMENTS 1998

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DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 March 1998.

PRINCIPAL ACTIVITIES

The principal activity is the development of new market areas in the field of Radio Communications and other potential fields, using Racal's extensive expertise in Network Services, Radio and Data Communications.

BUSINESS REVIEW

Sales for the year amounted to £6,145,671 (1997: £3,733,136) and most of these were export sales. The directors are confident that turnover will increase very significantly in future years.

RESULTS AND DIVIDENDS

The trading results are set out in the audited financial statements on pages 6 to 14. The directors do not recommend payment of a dividend (1997: £Nil).

YEAR 2000 COMPLIANCE

The company, along with other companies within the Racal Electronics Group, has established a Year 2000 compliance programme based upon the BSI definition of Year 2000 compliance (PD 2000-1). The programme, which has Board level responsibility, requires the identification of measurable performance milestones in each of the following areas of the company's operations:-

1. Products
2. Business Systems
3. Sites and Services
4. Suppliers

Detailed plans are being established as part of the programme that will identify risks and uncertainties associated with the year 2000 problem. At this stage of the programme it is too early to quantify the total costs likely to be incurred. Regular monitoring of progress is made by both the directors of the company and the Racal Group Year 2000 Committee set up to oversee the compliance programme.

DIRECTORS' REPORT

DIRECTORS

The directors of the company during the year were as follows:

	Date appointed	Date resigned
M.R. Richardson	31 October 1997	
S.J.L. Mountfort	1 April 1997	
G.F. Vanstone		1 April 1997
D.C. Elsbury		31 October 1997
M. Slade		
S. Roberts		
G.F. Mitchell		

DIRECTORS' SHARE INTERESTS

None of the directors had an interest in the shares of the company.

Given below are details of the interests in the ordinary shares of Racal Electronics Plc at 31 March 1998 of directors of the company at that date. The directors have no other interests in the shares of group companies other than those shown. Details of their interests at 1 April 1997 are shown in brackets.

RACAL ELECTRONICS PLC

Ordinary shares of 25p each held

M.R. Richardson	*	(*)
S.J.L. Mountfort	8,000	(11,500)
G. F. Mitchell	8,771	(7,267)
M. Slade	145	(145)
S. Roberts	5,142	(Nil)

- * The share holdings in Racal Electronics Plc of Mr. M.R. Richardson are disclosed in the annual report of Racal Electronics Plc.

Under the terms of the Racal Share Savings Plan (1990) the following directors have been granted an option to acquire the number of ordinary shares shown in Racal Electronics Plc at an option price of 198p. The option is normally exercisable between 1 April 2003 and 30 September 2003.

G.F. Mitchell	3,484
M. Slade	3,484
S. Roberts	3,484

DIRECTORS' REPORT

- A. Under the terms of the Racal Share Option Scheme 1992 the following directors have been granted an option to acquire the number of ordinary shares shown in Racal Electronics Plc at an option price of 130.5p. The option is normally exercisable between 5 October 1996 and 4 October 2002.

G.F. Mitchell	7,200
M. Slade	14,000

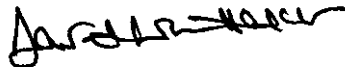
- B. Under the terms of the same scheme, the following directors have been granted Parallel Options to acquire the number of ordinary shares shown in Racal Electronics Plc at an option price of 114p. The options are normally exercisable between 8 October 1997 and 7 October 2002 provided that the earnings per share of Racal Electronics Plc has grown over a 5 year period by at least 10 percentage points more than the Index of Retail Prices has grown over the same period. This option runs in parallel and not in addition to Option A.

G.F. Mitchell	7,200
M. Slade	7,750

AUDITORS

A resolution for the reappointment of Deloitte & Touche as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board



D. WHITTAKER
Secretary

Date: 24.7.98
Western Road
Bracknell
Berks
RG12 1RG

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 as at the end of the financial year 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;
- state whether applicable accounting standards have been followed;
- prepare the financial statements on a 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.

**AUDITORS' REPORT TO THE MEMBERS OF
RACAL MESSENGER LIMITED**

We have audited the financial statements on pages 6 to 14 which have been prepared under the accounting policies set out on pages 8 and 9.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements 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 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. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 March 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

DELOITTE & TOUCHE
Chartered Accountants and
Registered Auditors
Columbia Centre
Market Street
Bracknell
Berkshire
RG12 1PA

24 July 1998

PROFIT AND LOSS ACCOUNT

Year ended 31 March 1998

	Note	1998 £	1997 £
TURNOVER	2	<u>6,145,671</u>	<u>3,733,136</u>
OPERATING LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	3	(353,227)	(1,974,892)
Tax on loss on ordinary activities	6	<u>91,593</u>	<u>663,296</u>
Retained loss for the year	13	<u>(261,634)</u>	<u>(1,311,596)</u>

All amounts derive from continuing operations.

There were no other recognised gains or losses other than the loss for the current and preceding years.

RACAL MESSENGER LIMITED**BALANCE SHEET**

31 March 1998

	Note	1998 £	1997 £
FIXED ASSETS			
Tangible assets	7	343,290	287,402
CURRENT ASSETS			
Stocks	8	469,884	495,154
Debtors	9	6,730,857	6,381,945
Cash at bank and in hand		<u>2,720</u>	<u>2,720</u>
		7,203,461	6,879,819
CREDITORS: amounts falling due within one year	10	<u>6,363,523</u>	<u>5,744,416</u>
NET CURRENT ASSETS		<u>839,938</u>	<u>1,135,403</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		1,183,228	1,422,805
PROVISION FOR LIABILITIES AND CHARGES	11	(<u>29,629</u>)	(<u>7,572</u>)
		<u>1,153,599</u>	<u>1,415,233</u>
CAPITAL AND RESERVES			
Called up share capital	12	5,500,000	5,500,000
Profit and loss account	13	(<u>4,346,401</u>)	(<u>4,084,767</u>)
EQUITY SHAREHOLDERS' FUNDS		<u>1,153,599</u>	<u>1,415,233</u>

These financial statements were approved by the Board of Directors on *24 July 1998*.

Signed on behalf of the Board of Directors



S. ROBERTS
Director

NOTES TO THE ACCOUNTS

Year ended 31 March 1998

1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

Basis of Accounting

The financial statements are prepared under the historical cost convention.

Turnover

Turnover represents invoiced sales by the company net of sales related taxes.

Stocks

Stocks and work in progress are valued at the lower of cost and estimated net realisable value less progress payments received. Cost includes manufacturing overheads.

Research and Development

Private venture research and development expenditure is written off in the year in which it is incurred. Uninvoiced research and development fully funded by customers is carried forward as work in progress.

Depreciation

Depreciation is provided on all tangible fixed assets at such rates as to write off the cost of those assets in equal instalments over their expected useful lives as follows:

Plant and machinery	10 years
Motor vehicles	4 years
Furniture and fittings	10 years

Deferred Taxation

Deferred taxation is provided at the anticipated tax rates on timing differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements to the extent that it is probable that a liability or asset will crystallise in the future.

Pension Costs

Pension costs, which are periodically calculated by professionally qualified actuaries, are charged against profits so that the expected cost of providing pensions is recognised during the period in which benefit is derived from the employees' services. The cost of the various pension schemes may vary from the funding dependent upon actuarial advice with any difference between pension cost and funding being treated as a provision or prepayment.

RACAL MESSENGER LIMITED**NOTES TO THE ACCOUNTS**

Year ended 31 March 1998

1. ACCOUNTING POLICIES (continued)**Leases**

Rental costs under operating leases are charged to profit and loss account in equal annual amounts over the periods of the leases.

2. TURNOVER

In the directors' opinion there was only one class of business during the year, namely radio communications.

	1998 £	1997 £
Turnover	<u>6,145,671</u>	<u>3,733,136</u>
	£ 000's	£ 000's
Geographical analysis of turnover:		
United Kingdom	1,353	600
Other European countries	2,611	1,008
Africa	69	2,114
The Americas	<u>2,113</u>	<u>12</u>
	<u>6,146</u>	<u>3,734</u>

3. OPERATING LOSS

	1998 £	1997 £
Turnover	6,145,671	3,733,136
Cost of sales	<u>(4,395,220)</u>	<u>(3,537,621)</u>
Gross profit	1,750,451	195,515
Selling and distribution costs	1,286,140	1,443,713
Administrative expenses	<u>817,538</u>	<u>726,694</u>
	<u>(2,103,678)</u>	<u>(2,170,407)</u>
Operating loss	<u>(353,227)</u>	<u>(1,974,892)</u>

Operating loss has been arrived at after charging:

Directors' emoluments (note 4)	179,363	165,310
Auditors' remuneration and expenses		
- Audit fees	5,000	2,000
Depreciation of tangible fixed assets	88,283	92,459
Payments under operating leases	<u>44,553</u>	<u>2,864</u>

RACAL MESSENGER LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 March 1998

4. DIRECTORS' EMOLUMENTS

	1998 £	1997 £
Directors' emoluments		
Fees	-	-
Other emoluments	135,812	137,635
Pension contributions	<u>43,551</u>	<u>27,675</u>
	<u>179,363</u>	<u>165,310</u>
	No.	No.
Number of directors who:		
- are members of a defined benefit pension scheme	4	4
- exercised share options	-	-

5. EMPLOYEES

	1998 £	1997 £
Employee costs during the year:		
Wages and salaries	1,193,646	773,591
Social security costs	105,774	74,386
Other pension costs	<u>140,089</u>	<u>68,924</u>
	<u>1,439,509</u>	<u>916,901</u>
Average number of persons employed:	No.	No.
Indirect	<u>38</u>	<u>22</u>

The company participates in a number of pension schemes, operated by the Racal Electronics group, which cover the majority of its directors and employees. The schemes are defined benefit arrangements and are operated on a pre-funded basis.

Actuarial assessments covering expenses and contributions are carried out by independent qualified actuaries.

At 31 March 1998, a prepayment of £86,862 is included in prepayments due in more than one year (1997: £22,946). This represents the excess of the amounts funded over the accumulated pension costs.

NOTES TO THE ACCOUNTS

Year ended 31 March 1998

5. EMPLOYEES (continued)

The last valuation of the schemes was carried out at 1 April 1995 and the results of these valuations and details of the main actuarial assumptions adopted for this purpose are given in the accounts of Racal Electronics Plc, the ultimate parent company.

6. TAX ON LOSS ON ORDINARY ACTIVITIES

	1998 £	1997 £
Corporation tax at 31% (1997 :33%)	(113,068)	(663,023)
Deferred taxation	<u>22,516</u>	<u>(273)</u>
	(90,552)	(663,296)
Adjustment in respect of prior years	<u>(1,041)</u>	<u>-</u>
	<u>(91,593)</u>	<u>(663,296)</u>

The tax credit has been decreased by £15,503 (1997 £59,377) as a result of the deferred tax charge for the year exceeding the expected movement. This excess has arisen as the result of the anticipated future reversals.

7. TANGIBLE FIXED ASSETS

	Plant, machinery, furniture and vehicles £
Cost	
At 1 April 1997	399,312
Additions	<u>144,171</u>
At 31 March 1998	<u>543,483</u>
Depreciation	
At 1 April 1997	111,910
Charge for the year	<u>88,283</u>
At 31 March 1998	<u>200,193</u>
Net book value	
At 31 March 1998	<u>343,290</u>
At 31 March 1997	<u>287,402</u>

8. STOCKS

	1998 £	1997 £
Finished Goods	<u>469,884</u>	<u>495,154</u>
	<u>469,884</u>	<u>495,154</u>

RACAL MESSENGER LIMITED**NOTES TO THE ACCOUNTS**

Year ended 31 March 1998

9. DEBTORS

	1998 £	1997 £
Amounts due within one year:		
Trade debtors	3,364,733	2,493,634
Amounts owed by group undertakings		
- ultimate parent company	3,000,000	3,000,000
Corporation tax recoverable	113,068	663,023
Prepayments and accrued income	<u>166,194</u>	<u>202,342</u>
	<u>6,643,995</u>	<u>6,358,999</u>
Amounts due after more than one year:		
Prepayments and accrued income	<u>86,862</u>	<u>22,946</u>

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1998 £	1997 £
Amounts owed to group undertakings		
- fellow subsidiaries	5,491,236	5,301,323
Other taxes and social security costs	160,011	42,156
Accruals and deferred income	548,756	400,937
Advance receipts	58,520	-
Commission Accounts	<u>105,000</u>	<u>-</u>
	<u>6,363,523</u>	<u>5,744,416</u>

11. PROVISION FOR LIABILITIES AND CHARGES**Deferred taxation**

The amount of deferred taxation provided in the financial statements and the potential amounts not provided are:

	Amount provided 1998 £	Potential liability 1998 £	Amount provided 1997 £	Potential liability 1997 £
Capital Allowances in excess of depreciation	15,102	15,102	-	14,790
Other timing differences	<u>14,527</u>	<u>14,527</u>	<u>7,572</u>	<u>7,572</u>
	<u>29,629</u>	<u>29,629</u>	<u>7,572</u>	<u>22,362</u>

Deferred taxation movement in the year:

	£
At 1 April 1997	7,572
Current year charge	22,516
Adjustment in respect of prior years	(459)
At 31 March 1998	<u>29,629</u>

NOTES TO THE ACCOUNTS

Year ended 31 March 1998

12. CALLED UP SHARE CAPITAL

	1998	1997
	£	£
Authorised, allotted and fully paid: 5,500,000 ordinary shares of £1 each	<u>5,500,000</u>	<u>5,500,000</u>

13. PROFIT AND LOSS ACCOUNT

	£
Retained losses 1 April 1997	(4,084,767)
Retained loss for the year	(<u>261,634</u>)
Retained losses 31 March 1998	<u>(4,346,401)</u>

14. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1998	1997
	£	£
Loss for the financial year	(261,634)	(1,311,596)
New share capital subscribed	<u>-</u>	<u>2,000,000</u>
Net (reduction in)/ addition to shareholders' funds	(261,634)	688,404
Opening shareholders' funds	<u>1,415,233</u>	<u>726,829</u>
Closing shareholders' funds	<u>1,153,599</u>	<u>1,415,233</u>

15. CONTINGENT LIABILITIES

There were cross guarantees to secure fellow subsidiaries' overdrafts and group banking facilities under a 'mass' bank account arrangement.

16. FINANCIAL COMMITMENTS

At 31 March 1998 the company was committed to making the following payments during the next year in respect of operating leases:

	Land and buildings	Other assets	Land and buildings	Other assets
	1998	1998	1997	1997
	£	£	£	£
Payable on operating leases that expire within one year	-	16,998	-	4,447
Payable on operating leases that expire between two and five years	<u>-</u>	<u>27,555</u>	<u>-</u>	<u>95,870</u>
	<u>-</u>	<u>44,553</u>	<u>-</u>	<u>100,317</u>

RACAL MESSENGER LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 March 1998

17. ULTIMATE PARENT COMPANY

The ultimate parent company is Racal Electronics Plc, a company incorporated in Great Britain. Copies of the group financial statements of Racal Electronics Plc are available from Western Road, Bracknell, Berkshire RG12 1RG.

18. RELATED PARTY TRANSACTIONS

In accordance with Financial Reporting Standard No 8 "Related Party Disclosures" transactions with other undertakings within, and investee related parties of, the Racal Electronics Plc group have not been disclosed in these financial statements.