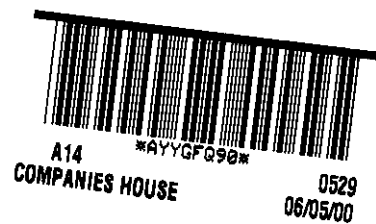


**Computing Devices Company Limited
and its subsidiary undertakings**

Consolidated financial statements
for the year ended 31 December 1999
together with directors' and auditors' reports

Registered number: 1911653



Directors' report

For the year ended 31 December 1999

The directors have pleasure in presenting their report together with the audited financial statements of the Company and its subsidiary undertakings for the year ended 31st December 1999.

Business Review and Principal Activities

The principal activities of the Group are those of designing, manufacturing, marketing and supporting electronic equipment for use both on aircraft and in ground systems applications.

All of the Group's existing business is within the Defence Industry, including several Eurofighter 2000 development programmes.

The Group continues to invest in key projects to ensure growth in future years and remains well positioned to take new opportunities which will materially broaden both its technology base and product range.

Research and Development

The Company policy is to invest in the initial design and development of new technologies and products. This approach contributes to the award of customer-funded contracts for the completion of product development.

Year 2000 Compliance

The company is well aware of the risks that businesses face if computer systems fail to cope adequately with the date change to the new millennium and regularly reviews and updates systems. It has been seeking to ensure for some time that all systems or modifications are "Year 2000 compliant", that risks have been identified and the necessary steps taken to deal with any problems arising. Appropriately skilled engineering staff have carried out an inventory of all embedded chips and the suppliers of these chips have been asked to confirm compliance. Whilst it is not possible for any organisation to give absolute assurance that Year 2000 compliance can be achieved in full, the directors are satisfied that appropriate action has been taken to minimise the risks involved.

The costs of preparation for the Year 2000 have been included within the normal activities of the departments involved. The cost of modifications to the computer systems during the year have been absorbed into our overall infrastructure upgrade project and are not separately identifiable. The cost of IT labour involved in the Y2K compliance assessment is estimated at £30,000. There have been no significant issues arising from the "millennium bug" identified to date. Further activities have continued around the group during the period and since the year end to ensure that all business critical systems are Year 2000 compliant.

Results for the year

The Group's result for the year ended 31st December 1999 was a loss of £261,000, which compared to a loss of £1,297,000, after charging exceptional items of £2,184,000, for the year ended 31st December 1998.

The directors do not recommend the payment of a dividend (1998: £nil)

Directors' report (continued)

Directors

The directors and their interests in the ordinary shares of General Dynamics Corporation are:

	Restricted fully paid shares		Options to purchase shares			
	1999	1998	1999	Exercised	Granted	1998
J E Juntilla	3,300	1,800	11,200	-	4,800	6,400
T J Brammer	1,200	700	4,300	-	1,800	2,500
D M Spiers	-	-	-	-	-	-
J Gordon	-	-	-	-	-	-

D E Scott resigned on 1 June 1999 and J Gordon was appointed on 19 March 1999. The rest of the directors served throughout the year.

No director had any material interest in any contract or arrangement subsisting during the year with the company.

Employees

The training and management of a highly skilled workforce is key to future business growth. The directors ensure that health and safety are given special attention within the Group. The Group has a general policy to encourage employment of disabled people and would if at all possible, encourage the retention of any employee who became disabled during their employment and also encourage career development by suitable training thereafter.

Political and Charitable donations

The group made no political contributions during the year. Donations to UK charities amounted to £7,624 (1998: £9,507).

Employment Involvement

It is the Group's policy to inform the employees as fully as possible of all areas of Group activity. Comprehensive communication to all employees takes place annually in addition to more frequent departmental communication meetings. The subjects covered by these formal communication channels include market forecasts, product developments, facility and benefit changes, and the Group's financial position.

Supplier Payment Policy

The Company's policy, which is also applied by the group, is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and abide by the terms of payment. Trade creditors of the company at 31st December 1999 were equivalent to 34 days' purchases, based on the average daily amount invoiced by suppliers during the year.

Directors' report (continued)

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 Group and of the profit or loss for that period. In preparing these 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, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

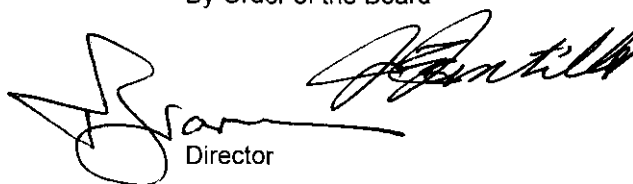
The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

Arthur Andersen have expressed their willingness to continue in office and a resolution to propose their reappointment will be made at the forthcoming Annual General Meeting.

21 Holborn Viaduct
London
EC1A 2DY

By Order of the Board



Director

12 April 2000

Auditors' report

To the Shareholders of Computing Devices Company Limited:

We have audited the financial statements on Pages 5 to 20, which have been prepared under the historical cost convention and the accounting policies set out on pages 7 and 9.

Respective responsibilities of directors and auditors

As described on page 3 the Company's directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our professional ethics guidance.

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 Group'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 affairs of the Company and the Group as at 31st December 1999 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen

Chartered Accountants and Registered Auditors

1 Surrey Street
London
WC2R 2PS

12th April 2000

Consolidated Profit and loss account

For the year ended 31 December 1999

	Notes	Year ended 31 December 1999 £'000	Before exceptional items 31 December 1998 £'000	Exceptional items 31 December 1998 £'000	Year ended 31 December 1998 £'000
Turnover	2	35,236	37,539	-	37,539
Cost of sales		(28,114)	(30,663)	(1,884)	(32,547)
Gross profit		7,122	6,876	(1,884)	4,992
Administrative expenses		(7,296)	(6,307)	(300)	(6,607)
Operating (loss)/profit		(174)	569	(2,184)	(1,615)
Other interest receivable and similar charges	4	105	137	-	137
Interest payable and similar charges	5	(185)	(248)	-	(248)
(Loss)/profit on ordinary activities before taxation	6	(254)	458	(2,184)	(1,726)
Tax on (loss)/profit on ordinary activities	8	(7)	429	-	429
Retained (loss)/profit for the year		(261)	887	(2,184)	(1,297)

Details of exceptional items charged to profit during 1998 are given in note 6.

Details of movement in reserves are shown in note 19.

The notes on pages 7 to 20 form an integral part of the financial statements.

There are no recognised gains and losses in either year other than the results for the financial year. The loss for the year arises from continuing operations.

Balance sheet

At 31 December 1999

	Notes	1999		1998	
		Group £'000	Company £'000	Group £'000	Company £'0000
Fixed assets					
Tangible fixed assets	9	7,107	7,107	6,368	6,368
Investments	10	-	-	-	-
		<u>7,107</u>	<u>7,107</u>	<u>6,368</u>	<u>6,368</u>
Current assets					
Debtors – amounts falling due in less than one year	11	16,125	16,125	19,800	19,800
Debtors – amounts falling due in more than one year	12	128	128	160	160
		<u>16,253</u>	<u>16,253</u>	<u>19,960</u>	<u>19,960</u>
Stock and work in progress	13	1,888	1,888	1,684	1,684
Cash at bank and in hand		8,280	8,280	-	-
		<u>26,421</u>	<u>26,421</u>	<u>21,644</u>	<u>21,644</u>
Current liabilities					
Creditors: Amounts falling due within one year	14	(20,337)	(22,208)	(13,720)	(15,591)
Net current assets		<u>6,084</u>	<u>4,213</u>	<u>7,924</u>	<u>6,053</u>
Total assets less current liabilities		<u>13,191</u>	<u>11,320</u>	<u>14,292</u>	<u>12,421</u>
Creditors: Amounts falling due after more than one year	15	(2,402)	(2,402)	(2,056)	2,056
Provision for liabilities and charges	17	(1,284)	(1,284)	(2,470)	(2,470)
Net assets		<u>9,505</u>	<u>7,634</u>	<u>9,766</u>	<u>7,895</u>
Capital and reserves					
Called-up share capital	18	9,262	9,262	9,262	9,262
Capital redemption reserve	19	88	88	88	88
Profit and loss account	19	155	(1,716)	416	(1,455)
		<u>9,505</u>	<u>7,634</u>	<u>9,766</u>	<u>7,895</u>
Equity shareholders' funds		<u>2,155</u>	<u>284</u>	<u>2,416</u>	<u>545</u>
Non-equity shareholders' funds		7,350	7,350	7,350	7,350
		<u>9,505</u>	<u>7,634</u>	<u>9,766</u>	<u>7,895</u>

Signed on behalf of the Board

J.E. Juntilla
Director



T. J. Brammer
Director



12th April 2000

The accompanying notes are an integral part of these financial statements.

Notes to financial statements

For the year ended 31 December 1999

1 Accounting policies

The principal accounting policies are summarised below. These have all been applied consistently throughout the year and the preceding year.

i) Basis of Preparation and Consolidation

- a) These financial statements have been prepared in accordance with applicable Accounting Standards and under the historical cost convention.
- b) The consolidated financial statements include the financial statements of Computing Devices Company Limited and its subsidiary undertakings.
- c) The Company guarantees the liabilities of its subsidiary undertakings.
- d) Under Financial Reporting Standard 1 (revised 1996) the Company is exempt from the requirement to prepare a cash flow statement on the grounds that the Company's parent undertaking prepares a consolidated cash flow which includes the results of the company in its own published consolidated financial statements (see Note 23).
- e) The Company has not presented its own Profit and Loss Account in accordance with Section 230(4) Companies Act 1985. (see Note 19).
- f) In accordance with Financial Reporting Standard 8, no disclosure has been made in relation to the Company's transactions with other group undertakings, as it is a wholly owned subsidiary of General Dynamics Corporation whose consolidated financial statements are publicly available (see Note 23).

ii) Depreciation

Tangible fixed assets are stated at cost, net of depreciation. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost of each asset on a straight-line basis over its expected useful life, as follows:

Freehold Buildings	50 years
Leasehold Land and Buildings	Life span of lease
Plant and Machinery	4-8 years
Leasehold Plant and Machinery	3-5 years

iii) Deferred Taxation

Deferred taxation is provided using the liability method on all timing differences which are expected to reverse in the foreseeable future.

iv) Stock and work in progress

Stock and work in progress is valued at the lower of cost and net realisable value.

Notes to financial statements (continued)

1 Accounting policies (continued)

v) Long Term Contracts

Profit on long term contracts is recognised as the work is carried out if the final outcome can be assessed with reasonable certainty. The profit is calculated on a basis to reflect the proportion of work carried out at the year end. Full provision is made for losses on all contracts in the year in which they are first foreseen.

Amounts included in cost of sales for long term contracts represent all costs incurred in the year, comprising direct materials and labour plus attributable overheads based on normal levels of activity. Amounts included in turnover for long term contracts represent the sales value of work carried out, calculated as costs incurred plus attributable profit or less foreseeable losses.

vi) Short Term Contracts

On short term contracts turnover represents amounts invoiced and authorised during the accounting tax period net of VAT.

vii) Foreign Currency Translation

Transactions denominated in foreign currencies are translated at the rate of exchange on the day the transaction occurs or the contract rate if the transaction is covered by a forward exchange contract.

Assets and liabilities denominated in a foreign currency are translated at the balance sheet date at the exchange rate ruling on that day or if appropriate at a forward contract rate.

viii) Warranties

Provision is made for the estimated cost of work to be performed under warranties.

ix) Research and Development

Expenditure on research and development is written off against profits in the accounting period in which it is incurred.

x) Leasing Commitments

Assets held under finance leases and other similar contracts which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and depreciated over the shorter of the lease terms and their useful lives. The capital element of future lease obligations are recorded as liabilities, while the interest element of the rental obligations is charged to profits over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. Rentals paid under operating leases are charged to profits on a straight line basis over the term of the lease.

xi) Pensions

The Group operates a defined contribution pension scheme which also incorporates frozen 'final salary' benefits for pensioners and deferred pensioners. The scheme is funded by contributions from both employer and employees. The valuation of the preserved benefits element of the scheme is determined by independent qualified actuaries. These contributions are invested separately from the Group's assets.

Notes to financial statements (continued)

1 Accounting policies (continued)

xii) Government Grants

Capital based government grants are included within accruals and deferred income in the balance sheet and are credited to operating profit over the estimated useful economic lives of the assets to which they relate.

2 Turnover

Turnover has been wholly derived from the continuing operation of design, production and support of avionic and associated electronic equipment. The analysis of turnover by geographical area is as follows:

	1999 £'000	1998 £'000
United Kingdom	18,015	16,180
Europe	13,616	14,054
North America	2,713	6,332
Rest of World	892	973
	<u>35,236</u>	<u>37,539</u>

3 Staff number and costs

	1999 Number	1998 Number
Administration	118	106
Production	371	363
	<u>489</u>	<u>469</u>

The aggregate payroll cost of these employees is as follows:

	1999 £'000	1998 £'000
Wages and salaries	12,791	12,068
Social security costs	1,303	1,106
Pension contributions and expenses	522	577
	<u>14,616</u>	<u>13,751</u>

Wages and salaries include redundancy costs of £67,497 (1998: £91,254)

Notes to financial statements (continued)

4 Other interest receivable and similar income

	1999 £'000	1998 £'000
Bank interest	104	136
Staff loan interest	1	1
	<u>105</u>	<u>137</u>

5 Interest payable and similar charges

	31 December 1999 £'000	31 December 1998 £'000
Bank loans and overdrafts	27	232
Interest on finance leases	158	16
	<u>185</u>	<u>248</u>

6 (Loss)/profit on ordinary activities before taxation

	1999 £'000	1998 £'000
After charging:		
Operating leases		
Land and buildings	146	148
Other	33	32
Research and development	456	515
Equipment rental	3	11
Depreciation of owned fixed assets	1,029	1,725
Depreciation of leased assets	650	83
Auditors' remuneration		
- for audit services	53	60
- for other services	135	117
Exceptional items		
- Eurofighter contracts	-	1,634
- stock write-off	-	250
- Research and development	-	300
After crediting:		
Government grants	(16)	(16)

Notes to financial statements (continued)

7 Directors emoluments

	1999 £'000	1998 £'000
Directors' emoluments as directors	<u>210</u>	<u>201</u>
Company contributions to money purchase Pension schemes	<u>6</u>	<u>10</u>

No directors exercised share options in the period (1998: nil)

Pensions

The number of directors who were members of pension schemes was as follows:

	1999 number	1998 number
Money purchase scheme	<u>1</u>	<u>1</u>

Highest paid director

The above amounts for remuneration include the following in respect of the highest paid director:

	1999 £'000	1998 £'000
Emoluments	106	118
Company contributions to money purchase scheme	<u>6</u>	<u>10</u>
	<u>112</u>	<u>128</u>

No director had a direct or indirect interest in any transaction arrangement or agreement which in the opinion of the other directors requires disclosure.

Notes to financial statements (continued)

8 Tax on (loss)/profits on ordinary activities

The charge/(credit) for taxation comprises:

	1999 £'000	1998 £'000
UK corporation tax at 30.25% (1998: 31.0%)	-	-
Overseas taxation	7	(53)
Double tax relief	-	-
UK income tax paid	-	1
Deferred tax charge	-	(377)
	<u>7</u>	<u>(429)</u>

9 Tangible assets

Group and company

	<u>Long leasehold land and buildings</u> £'000	<u>Short leasehold land and buildings</u> £'000	<u>Plant machinery and motor vehicles</u> £'000	<u>Totals</u> £'000
Cost				
At 1 January 1999	2,234	261	11,683	14,178
Additions	40	-	2,378	2,418
Disposals	-	-	(1,944)	(1,944)
At 31 December 1999	<u>2,274</u>	<u>261</u>	<u>12,117</u>	<u>14,652</u>
Depreciation				
At 1 January 1999	788	32	6,900	7,810
Charge for year	45	30	1,604	1,679
Depreciation on disposals	-	-	(1,944)	(1,944)
At 31 December 1999	<u>833</u>	<u>62</u>	<u>6,650</u>	<u>7,545</u>
Net book value				
At 31 December 1999	<u>1,441</u>	<u>199</u>	<u>5,467</u>	<u>7,107</u>
At 31 December 1998	<u>1,446</u>	<u>229</u>	<u>4,693</u>	<u>6,368</u>

The net book value of plant and machinery and motor vehicles above of £5,467,241 (1998: £4,692,789) includes a net book value of £3,172,373 (1998: £2,560,653) together with an associated depreciation charge of £733,093 (1998: £83,417) in respect of assets held under finance lease.

Notes to financial statements (continued)

10 Investments

Company: interest in subsidiary undertakings	Shares £'000	Loans £'000	Total £'000
Cost			
At 1 January 1999 and 31 December 1999	950	4,500	5,450
Provisions			
At 1 January 1999 and 31 December 1999	950	4,500	5,450
Net book value			
At 1 January 1999 and 31 December 1999	-	-	-

The company's subsidiary undertakings Computing Devices Hastings Limited and Computing Devices Eastbourne Limited, are incorporated in Great Britain and registered in England and Wales. As at 31 December 1999, both subsidiaries were non-trading.

Computer Devices Company Limited owns 100.00% of the ordinary share capital of each of the companies.

11 Debtors: Amounts falling due within one year

	1999 £'000	1998 £'000
<u>Group and company</u>		
Amounts recoverable on contracts	4,188	8,399
Trade debtors	11,405	10,687
Other debtors	28	469
Prepayments	504	245
	<u>16,125</u>	<u>19,800</u>

12 Debtors: Amounts falling due after more than one year

	1999 £'000	1998 £'000
<u>Group and company</u>		
Other debtors	<u>128</u>	<u>160</u>

Notes to financial statements (continued)

13 Stock and work in progress

<u>Group and company</u>	1999 £'000	1998 £'000
Raw materials and consumables	111	118
Long term contract balances	1,777	1,566
	<u>1,888</u>	<u>1,684</u>
Long term contract balances represent		
Net cost less foreseeable loss	2,641	1,872
Applicable payments on account	(864)	(306)
	<u>1,777</u>	<u>1,566</u>

14 Creditors: Amounts falling due within one year

<u>Group</u>	1999 £'000	1998 £'000
Obligations under finance leases (Note 16)	770	505
Bank overdraft (secured)	-	802
Payments on account on long term contracts	14,758	7,565
Trade creditors	2,281	1,980
Amounts owed to parent undertaking	381	892
Other creditors including taxation and social security	403	579
Accruals	1,744	1,397
	<u>20,337</u>	<u>13,720</u>

<u>Company</u>	1999 £'000	1998 £'000
Obligations under finance leases (Note 16)	770	505
Bank overdraft (secured)	-	802
Payments on account on long term contracts	14,758	7,565
Trade creditors	2,281	1,980
Amounts owed to parent undertaking	1,871	1,871
Amounts owed to parent undertaking	381	892
Other creditors including taxation and social security	403	579
Accruals	1,744	1,397
	<u>22,208</u>	<u>15,591</u>

Notes to financial statements (continued)

14 Creditors: Amounts falling due within one year (continued)

Other creditors including taxation and social security comprise:

<u>Group and company</u>	1999 £'000	1998 £'000
UK corporation tax	-	-
Social security	160	147
Other taxes	243	432
	<u>403</u>	<u>579</u>

15 Creditors: Amounts falling due after more than one year

<u>Group and company</u>	1999 £'000	1998 £'000
--------------------------	---------------	---------------

Obligations under finance leases (note 16)	<u>2,402</u>	<u>2,056</u>
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16 Obligations under finance leases

<u>Group and company</u>	1999 £'000	1998 £'000
--------------------------	---------------	---------------

Maturity of these amounts is as follows:

Amounts payable		
Within one year	770	505
In second to fifth inclusive	2,372	1,942
Over five years	30	114
	<u>3,172</u>	<u>2,561</u>

Notes to financial statements (continued)

17 Provision for liabilities and charges

<u>Group and company</u>	Taxation including deferred taxation £'000	Long term contract provisions £'000	Total £'000
At beginning of year	-	2,470	2,470
Created during the year	-	733	733
Utilised during the year	-	(1,919)	(1,919)
At end of year	-	1,284	1,284

The amounts provided for deferred taxation and the amounts not provided are set out below:

	1999		1998	
<u>Group</u>	Provided £'000	Unprovided £'000	Provided £'000	Unprovided £'000
Difference between accumulated depreciation and				
Capital allowances	-	53	-	183
Other timing differences	-	(372)	-	(481)
	-	(319)	-	(298)
<u>Company</u>				
Difference between accumulated depreciation and				
capital allowances	-	53	-	183
Other timing differences	-	(372)	-	(481)
	-	(319)	-	(298)

Notes to financial statements (continued)

18 Share capital

The share capital of the company is organised in two classes. Ordinary Shares of £0.50p each and redeemable Preference Shares of £0.50p each.

	1999		1998	
	Number of shares	£'000	Number of shares	£'000
Authorised				
- Ordinary	4,000	2,000	4,000	2,000
- Redeemable Preference	36,000	18,000	36,000	18,000
	<u>40,000</u>	<u>20,000</u>	<u>40,000</u>	<u>20,000</u>
Allotted, called up and fully paid				
- Ordinary	3,824	1,912	3,824	1,912
- Redeemable Preference	14,700	7,350	14,700	7,350
	<u>18,524</u>	<u>9,262</u>	<u>18,254</u>	<u>9,262</u>

The 14,700,000 50p redeemable preference shares are required to be repurchased at Par by the company no later than 31 December 2006.

The nominal value of the preference shares will be repaid in preference to other classes of shares on a winding up of the company. In such an instance following repayment of the issued share capital, the holders of the redeemable preference shares will have no further rights to participate in surplus assets of the company.

Holders of the redeemable preference shares on a poll shall have one vote for every share held but only on a resolution for the winding-up of the company, a resolution approving the purchase by the company of any of its own shares, or a reduction of capital of the company or on a resolution affecting the special rights and privileges attached to the preference shares. If the vote is on a show of hands, every holder present in person shall have one vote.

Notes to financial statements (continued)

19 Reconciliation of movements in shareholders' funds

Group

	Share capital £'000	Capital redemption reserve £'000	Profit and loss account £'000
At 1 January 1999	9,262	88	416
Loss for the financial year	-	-	(261)
At 31 December 1999	<u>9,262</u>	<u>88</u>	<u>155</u>

Company

At 1 January 1999	9,262	88	(1,455)
Loss for the financial year	-	-	(261)
At 31 December 1999	<u>9,262</u>	<u>88</u>	<u>(1,716)</u>

20 Capital commitments

Group and company

i) Capital commitments at the end of the financial year for which no provision has been made.

	1999 £'000	1998 £'000
Contracted	323	228
Authorised but not contracted	<u>139</u>	<u>720</u>

ii) Annual commitments under non-cancellable operating leases are as follows:

	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Other operating leases which expire:				
Within one year	10	6	24	-
In the second to fifth years inclusive	20	16	-	33
Over five years	<u>119</u>	<u>-</u>	<u>119</u>	<u>-</u>
	<u>149</u>	<u>22</u>	<u>143</u>	<u>33</u>

Notes to financial statements (continued)

21 Contingent liabilities

	1999 £'000	1998 £'000
Group and company		
Group VAT registration	500	200
Performance guarantees	2,422	4,432
Carnets	<u>303</u>	<u>3</u>

The company has guaranteed the overdraft of its subsidiaries, the amount outstanding at the year end was £nil (1998: £802,000).

Products previously supplied by Computing Devices Company Limited and currently under development rely on computer software and hardware which has the potential to suffer from the Year 2000 problem. Any potential problems may result in remedial costs to be incurred by Computing Devices Company Limited. A high level review and risk assessment has been performed with respect to the potential impact of Year 2000 problems on products and infrastructure. The results indicate a low instance of potential Year 2000 issues. Where instances have been identified they are categorised as "low risk" with the exception of one product. In that case resources have been allocated internally to carry out redesign. On the basis of this assessment, as at 31 December 1999, the Directors consider that costs to complete, and hence profit recognition, on current development contracts need not be adjusted for any remedial costs. Similarly, the Directors consider that no provisions are required in respect of remedial costs of redesigning legacy products.

22 Pensions

The group operates a defined contribution benefits pension scheme which also incorporates frozen "final salary" for pensioners and deferred pensioners. The scheme was introduced from 6 April 1997 at which time members ceased to secure benefits on a final salary basis and were given the option to transfer their benefits to the defined contribution section of the scheme. The assets of the scheme are held separately from those of the group, being invested with an external fund manager. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the Group. The most recent interim actuarial valuation of the final salary liabilities was carried out at 1 November 1997. It was assumed that the investment returns would be 8.75% p.a. compound and that the increases in pensions in payment would be 3% of GMP's accrued after 6 April 1988. The valuation showed that the market value of the assets relating to final salary liabilities was £3,780,995 and that the actuarial value of those assets represented 118% of the liabilities. The pension cost for the year ended 31 December 1999 was £522,000 (1998: £577,000) (see Note 3).

The expenses of the scheme are borne by the Group.

Notes to financial statements (continued)

23 Ultimate parent company

The Company is a 100% subsidiary undertaking of General Dynamics Corporation, which is the ultimate parent company registered in USA.

The largest and smallest group in which the results of the Company are consolidated is that headed by General Dynamics Corporation, incorporated in USA. The consolidated accounts of the group are available to the public and may be obtained from 3190 Fairview Park Drive, Falls Church, VA22042, USA.