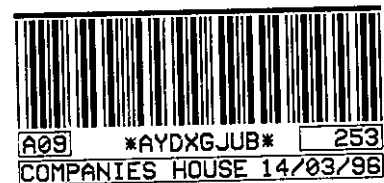


2691211

UAV Engines Limited
Directors' Report and Financial Statements
for the year ended 31 December 1995



Kershen Fairfax
Chartered Accountants

UAV Engines Limited

Company Information

Directors	S Shapira (appointed 27/12/95) E Gamzon D W Garside I Dvir (appointed 27/12/95) D Ninveh (appointed 27/12/95)
Secretary	C J Biddulph
Company Number	2691211 (England and Wales)
Registered Office	Lynn Lane Shenstone Lichfield Staffordshire WS14 0EA
Auditors	Kershen Fairfax Walkden House 10 Melton Street Euston Square London NW1 2EJ
Business Address	Lynn Lane Shenstone Lichfield Staffordshire WS14 0EA
Bankers	Lloyds Bank plc 30 High Street Coventry CV1 5RA

UAV Engines Limited

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UAV Engines Limited

Directors' Report for the year ended 31 December 1995

The directors present their report and the financial statements for the year ended 31 December 1995.

Principal Activities and Review of the Business

The Company's principal activity is the design, manufacture and sale of high performance, rotary engines for unmanned air vehicles for target and surveillance purposes.

The directors consider the results to be satisfactory given the current economic climate. A continued improvement in results is anticipated for the coming year.

Results and Dividends

The results for the year are set out on page 4.

It is proposed that the retained profit of £3,600 is transferred to reserves.

Fixed Assets

The significant changes in fixed assets during the year are explained in note 7 to the financial statements.

Directors and their Interests

The directors who served during the year and their interests in the company were as stated below.

	Class of share	Number of shares	
		1995	1994
S Shapira (appointed 27/12/95)	Ordinary shares	-	-
E Gamzon	Ordinary shares	-	-
D W Garside	Ordinary shares	32,500	32,500
I Dvir (appointed 27/12/95)	Ordinary shares	-	-
D Ninveh (appointed 27/12/95)	Ordinary shares	-	-
Y Barouchi (resigned 27/12/95)	Ordinary shares	-	-
R Ariav (resigned 27/12/95)	Ordinary shares	-	-

Auditors

Kershen Fairfax were appointed auditors to the company and in accordance with Section 385 of the Companies Act 1985, a resolution proposing that they be re-appointed will be put to the Annual General Meeting.

UAV Engines Limited

Directors' Report for the year ended 31 December 1995 (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 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.

This report was approved by the Board on

X 27/12/95 X

C J Biddulph
Secretary

X [Signature] X

UAV Engines Limited

**Auditors' Report
to the shareholders of UAV Engines Limited**

We have audited the financial statements on pages 4 to 12 which have been prepared under the historical cost convention and the accounting policies set out on page 6.

Respective responsibilities of directors and auditors

As described on page 2 the company's directors are responsible for the preparation of 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 as at 31 December 1995 and of its result for the year then ended and have been properly prepared in accordance with the provisions of the Companies Act 1985.



Kershen Fairfax

**Chartered Accountants
Registered Auditor**

Walkden House
10 Melton Street
Euston Square
London NW1 2EJ

UAV Engines Limited

Profit and Loss Account for the year ended 31 December 1995

	Notes	1995 £	15 mths to 31.12.94 £
Turnover	2	1,032,965	846,989
Cost of sales		(796,414)	(827,156)
Gross profit		<u>236,551</u>	<u>19,833</u>
Administrative expenses		(173,587)	(222,083)
Operating profit	3	<u>62,964</u>	<u>(202,250)</u>
Other interest receivable and similar income	4	1,495	333
Interest payable and similar charges	5	(60,859)	(56,726)
Profit on ordinary activities before taxation		<u>3,600</u>	<u>(258,643)</u>
Tax on profit on ordinary activities	6	-	-
Profit for the year	13	<u><u>3,600</u></u>	<u><u>(258,643)</u></u>

There are no recognised gains and losses other than those passing through the profit and loss account.

UAV Engines Limited

Balance Sheet
as at 31 December 1995

	Notes	1995 £	£	1994 £	£
Fixed Assets					
Tangible assets	7		133,206		136,547
Current Assets					
Stocks	8	195,441		149,001	
Debtors	9	266,228		198,176	
Cash at bank and in hand		29,632		52,909	
		<u>491,301</u>		<u>400,086</u>	
Creditors: amounts falling due within one year	10	(286,255)		(201,982)	
Net Current Assets			<u>205,046</u>		<u>198,104</u>
Total Assets Less Current Liabilities			<u>338,252</u>		<u>334,651</u>
Creditors: amounts falling due after more than one year	11		(750,000)		(750,000)
Provision for Liabilities and Charges			<u>(6,684)</u>		<u>(6,683)</u>
			<u>£(418,432)</u>		<u>£(422,032)</u>
Capital and Reserves					
Called up share capital	12		312,500		312,500
Profit and loss account	13		(730,932)		(734,532)
Shareholders' Funds	14		<u>£(418,432)</u>		<u>£(422,032)</u>

The financial statements were approved by the Board on 27/12/95

Director

Chris Long

Director

PWG Smith

2 directors to sign

UAV Engines Limited

Notes to the Financial Statements for the year ended 31 December 1995

1. Accounting Policies

1.1 Accounting convention

The financial statements are prepared under the historical cost convention and include the results of the company's operations as indicated in the directors' report, all of which are continuing.

The company has taken advantage of the exemption in Financial Reporting Standard No 1 from the requirement to produce a cashflow statement on the grounds that it is a small company.

1.2 Turnover

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties, except in respect of long term contracts where turnover represents the sales value of work done in the year.

1.3 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Computer equipment	-	20% Straight line
Plant and machinery	-	10% Straight line
Fixtures, fittings and equipment	-	6% Straight line
Motor vehicles	-	15% Straight line

1.4 Leasing

Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

1.5 Stock and work in progress

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

1.6 Long term contracts

Amounts recoverable on long term contracts, which are included in debtors are stated at the net sales value of the work done after provision for contingencies and anticipated future losses on contracts, less amounts received as progress payments on account.

1.7 Pensions

The pension costs charged in the financial statements represent the contributions paid by the company during the year to individuals' personal pension plans.

UAV Engines Limited

Notes to the Financial Statements for the year ended 31 December 1995

1.8 Deferred taxation

Provision is made for deferred taxation using the liability method to take account of timing differences between the incidence of income and expenditure for taxation and accounting purposes except to the extent that the directors consider that a liability to taxation is unlikely to crystallise.

1.9 Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the accounting date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to profit and loss account.

1.10 Going Concern

The accounts have been prepared on a going concern basis. Although the balance sheet shows the company to be technically insolvent, indications are that it is now trading at a profit, and the sales orders book for 1996 is healthy. The parent company has agreed to continue the existing £750,000 loan for a minimum of one year, and the company will therefore have the requisite financial support to continue trading. The directors are therefore of the opinion that the going concern basis is appropriate.

2. Turnover

The total turnover of the company for the year represents amounts to third parties, except in respect of long term contracts where turnover represents the sales value of work done in the year, including estimates in respect of amounts not invoiced. Turnover in respect of total contract value is calculated as that proportion of total contract value which costs incurred to date bear to total expected costs for that contract.

	Turnover	
	1995	15 mths to 31.12.94
	£	£
Geographical market		
United Kingdom	178,557	364,205
United States of America	60,858	93,169
Western Europe	47,271	8,470
Rest of the World	746,279	381,145
	<hr/>	<hr/>
	£1,032,965	£ 846,989
	<hr/>	<hr/>

UAV Engines Limited

Notes to the Financial Statements for the year ended 31 December 1995

3. Operating Profit

	1995	15 mths to 31.12.95
	£	£
Operating profit is stated after charging:		
Depreciation of tangible assets	15,478	34,900
Hire of plant and machinery	1,458	-
Operating lease rentals		
- Land and buildings	23,775	23,775
Auditors' remuneration	7,655	11,372
	<u> </u>	<u> </u>

4. Other Interest Receivable and Similar Income

	1995	15 mths to 31.12.95
	£	£
Bank interest received	1,495	333
	<u> </u>	<u> </u>

5. Interest Payable

	1995	1994
	£	£
On amounts payable to group companies	60,835	56,725
On bank loans and overdrafts	24	1
	<u> </u>	<u> </u>
	£ 60,859	£ 56,726
	<u> </u>	<u> </u>

6. Taxation

At the balance sheet date the company had tax losses in the sum of £546,659.

UAV Engines Limited

Notes to the Financial Statements
for the year ended 31 December 1995

7. Tangible Assets

	Computer Plant and Fixtures, Motor equipment machinery fittings & vehicles equipment				Total
	£	£	£	£	£
Cost					
At 1 January 1995	3,408	53,227	132,451	4,200	193,286
Additions	2,386	7,153	2,598	-	12,137
	<u>5,794</u>	<u>60,380</u>	<u>135,049</u>	<u>4,200</u>	<u>205,423</u>
Depreciation					
At 1 January 1995	167	8,525	46,684	1,363	56,739
Charge for year	1,070	5,769	8,009	630	15,478
	<u>1,237</u>	<u>14,294</u>	<u>54,693</u>	<u>1,993</u>	<u>72,217</u>
Net book values					
At 31 December 1995	<u>£ 4,557</u>	<u>£ 46,086</u>	<u>£ 80,356</u>	<u>£ 2,207</u>	<u>£ 133,206</u>
At 31 December 1994	<u>£ -</u>	<u>£ 44,702</u>	<u>£ 89,008</u>	<u>£ 2,837</u>	<u>£ 136,547</u>

8. Stocks and Work in Progress

	1995 £	1994 £
Raw materials and consumables	198,518	125,977
Work in progress	12,923	23,024
Stock provision	(16,000)	-
	<u>195,441</u>	<u>149,001</u>

9. Debtors

	1995 £	1994 £
Trade debtors	88,462	154,690
Amounts recoverable on long term contracts	98,404	25,310
Amounts owed by group undertaking	33,503	-
Other debtors	33,401	7,110
Prepayments and accrued income	12,458	11,066
	<u>£ 266,228</u>	<u>£ 198,176</u>

UAV Engines Limited

Notes to the Financial Statements for the year ended 31 December 1995

10. Creditors: amounts falling due within one year

	1995	1994
	£	£
Trade creditors	192,317	156,731
Taxes and social security costs	9,966	5,763
Accruals and deferred income	83,972	39,488
	<u>£ 286,255</u>	<u>£ 201,982</u>

11. Creditors: amounts falling due after more than one year

	1995	1994
Loans		
Repayable after one year	<u>750,000</u>	<u>750,000</u>

The loan is from the immediate parent company. The principal sum of the loan is repayable in the event of default or an insolvency. The principal will not be recoverable within the first year of the loan. Interest is chargeable at 1.5% over base rates and is payable quarterly. The loan is secured over the company's assets by way of a fixed and floating charge.

12. Share Capital

	1995	1994
	£	£
Authorised		
312,500 Ordinary shares of £1 each	<u>312,500</u>	<u>312,500</u>
Allotted, called up and fully paid		
312,500 Ordinary shares of £1 each	<u>312,500</u>	<u>312,500</u>

13. Profit And Loss Account

	1995	15 mths to 31.12.94
	£	£
Accumulated losses at 1 January 1995	(734,532)	(475,889)
Retained profit for the year	3,600	(258,643)
Accumulated losses at 31 December 1995	<u>£(730,932)</u>	<u>£(734,532)</u>

UAV Engines Limited

Notes to the Financial Statements for the year ended 31 December 1995

14. Reconciliation of Movements in Shareholders' Funds

	1995 £	15 mths to 31.12.94 £
Profit for the financial year	3,600	(258,643)
Proceeds of issue of shares	-	62,500
Net addition to shareholders' funds	3,600	(196,143)
Opening shareholders' funds	(422,032)	(225,889)
Closing shareholders' funds	<u>£(418,432)</u>	<u>£(422,032)</u>

15. Financial Commitments

At 31 December 1995 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings	
	1995 £	1994 £
Expiry date:		
Between two and five years	25,000	23,775
	<u>£ 25,000</u>	<u>£ 23,775</u>

16. Directors' Emoluments

	1995 £	15 mths to 31.12.94 £
Remuneration	46,892	71,873
The highest-paid director	<u>£ 41,690</u>	<u>£ 46,061</u>

Other directors' emoluments (excluding pension contributions) were in the following ranges:

	Number	Number
£Nil - £5,000	<u>5</u>	<u>5</u>

UAV Engines Limited

Notes to the Financial Statements for the year ended 31 December 1995

17. Employees

Number of employees

The average weekly number of employees (including directors) during the year was:

	1995 Number	1994 Number
Administration	4	4
Manufacturing	11	7
	<u>15</u>	<u>11</u>

Employment costs

	£	£
Wages and salaries	252,384	199,403
Social security costs	25,622	26,525
Other pension costs	7,579	530
	<u>£ 285,585</u>	<u>£ 226,458</u>

18. Immediate Parent Company

The immediate parent company is Silver Arrow Limited Partnership, registered in Israel.