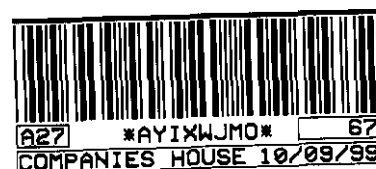


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UAV ENGINES LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 1998



KERSHEN ~ FAIRFAX
Chartered Accountants

UAV ENGINES LIMITED

COMPANY INFORMATION

Directors	S Shapira D Nirveh I Dvir
Secretary	C J Biddulph
Company number	2691211
Registered office	Lynn Lane Shenstone Lichfield Staffordshire WS14 0EA
Auditors	Kershen Fairfax 11 Kingsway London WC2B 6XE
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 1998

The directors present their report and financial statements for the year ended 31 December 1998.

Principal activities and review of the business

The Company's principal activity continues to be the design, manufacture and sale of high performance rotary engines for unmanned air vehicles.

The directors consider the results to be satisfactory and anticipate further advances in sales and profitability in the forthcoming year.

The directors are aware of the potential impact of the millennium on the company's computer systems and are committed to ensuring that this will not have an adverse effect on the company's operations. A review is under way and the company will undertake whatever measures are necessary to ensure millennium compliance.

Results and dividends

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

The directors do not recommend the payment of a dividend.

Directors

The following directors have held office since 1 January 1998:

S Shapira

D Ninveh

D W Garside

(Resigned 16 March 1998)

I Dvir

Directors' interests

None of the directors who held office at the year end, held beneficial interests in the shares of the company.

Auditors

In accordance with section 385 of the Companies Act 1985, a resolution proposing that Kershen Fairfax be reappointed as auditors of the company will be put to the Annual General Meeting.

UAV ENGINES LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1998

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.

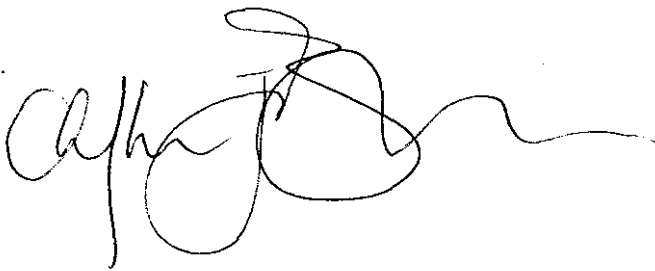
The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets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

By order of the board

.....
C J Biddulph

Secretary

25/8/99



UAV ENGINES LIMITED

AUDITORS' REPORT TO THE SHAREHOLDERS OF UAV ENGINES LIMITED

We have audited the financial statements on pages 4 to 13 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 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Kershen

Fairfax

Kershen Fairfax

25 August 1999

Chartered Accountants
Registered Auditor

11 Kingsway
London
WC2B 6XE

UAV ENGINES LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1998

	Notes	1998 £	1997 £
Turnover	2	1,949,494	1,703,444
Cost of sales		(1,461,629)	(1,089,472)
Gross profit		<u>487,865</u>	<u>613,972</u>
Administrative expenses		(375,004)	(326,001)
Operating profit	3	<u>112,861</u>	<u>287,971</u>
Other interest receivable and similar income	4	6,063	6,475
Interest payable and similar charges	5	(31,630)	(52,062)
Profit on ordinary activities before taxation		<u>87,294</u>	<u>242,384</u>
Tax on profit on ordinary activities	6	(2,700)	-
Profit on ordinary activities after taxation	14	<u><u>84,594</u></u>	<u><u>242,384</u></u>

The profit and loss account has been prepared on the basis that all operations are continuing operations.

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

UAV ENGINES LIMITED

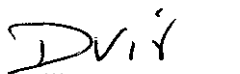
BALANCE SHEET AS AT 31 DECEMBER 1998

	Notes	1998 £	£	1997 £	£
Fixed assets					
Tangible assets	7		154,913		131,429
Current assets					
Stocks	8	803,731		766,531	
Debtors	9	323,526		440,898	
Cash at bank and in hand		62,254		84,440	
		<u>1,189,511</u>		<u>1,291,869</u>	
Creditors: amounts falling due within one year	10	<u>(1,030,814)</u>		<u>(1,209,795)</u>	
Net current assets			158,697		82,074
Total assets less current liabilities			<u>313,610</u>		<u>213,503</u>
Creditors: amounts falling due after more than one year	11		(350,000)		(350,000)
Provisions for liabilities and charges	12		<u>(22,197)</u>		<u>(6,684)</u>
			<u>(58,587)</u>		<u>(143,181)</u>
Capital and reserves					
Called up share capital	13	312,500		312,500	
Profit and loss account	14	(371,087)		(455,681)	
Shareholders' funds - equity interests	15	<u>(58,587)</u>		<u>(143,181)</u>	

The financial statements were approved by the Board on 25/8/99



Director



Director

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1998

1 Accounting policies

1.1 Accounting convention

The financial statements are prepared under the historical cost convention.

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 represents amounts receivable for goods and services invoiced net of VAT.

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	33.3% Straight Line
Plant and machinery	10% Straight line
Fixtures, fittings & equipment	10% Straight line
Motor vehicles	20% Straight line

1.4 Leasing and hire purchase commitments

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible assets and depreciated over the shorter of the lease term and their useful lives. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods.

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. Work in progress includes an appropriate proportion of labour and related overhead costs.

1.6 Pensions

The pension costs charged in the financial statements represent the contributions payable by the company during the year to money purchase pension schemes.

1.7 Deferred taxation

Deferred taxation is provided at appropriate rates on all timing differences using the liability method only to the extent that, in the opinion of the directors, there is a reasonable probability that a liability or asset will crystallise in the foreseeable future.

1.8 Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet 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.

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1998

1.9 Going Concern

The accounts have been prepared on a going concern basis. Although the balance sheet shows the company to be technically insolvent, it is now trading at a profit, and the sales orders book for 1999 is healthy. Financial support from the parent company is continuing in the form of a £350,000 loan, and the company will therefore have the requisite financial support to continue trading. The parent company has indicated that it does not intend to seek repayment of the loan in the forthcoming year. The directors are therefore of the opinion that the going concern basis is appropriate.

1.10 Warranty costs

Provision is made for the estimated future cost of carrying out warranty work on engines previously sold and still under warranty.

2 Turnover

Geographical market

	Turnover	
	1998	1997
	£	£
United Kingdom	203,210	84,500
United States of America	653,935	810,500
Western Europe	1,622	16,000
Rest of the World	1,090,727	792,444
	<u>1,949,494</u>	<u>1,703,444</u>

During the year sales to Silver Arrow Partnership Limited, the immediate holding company were £361,372

3 Operating profit

	1998	1997
	£	£
Operating profit is stated after charging:		
Depreciation of tangible assets	35,888	18,774
Operating lease rentals	27,040	26,000
Auditors' remuneration	8,500	8,500
	<u></u>	<u></u>

4 Other interest receivable and similar income

	1998	1997
	£	£
Bank interest	<u>6,063</u>	<u>6,475</u>

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1998

5	Interest payable	1998	1997
		£	£
	On amounts payable to group companies	30,546	50,878
	On bank loans and overdrafts	278	35
	Hire purchase interest	806	1,149
		<u>31,630</u>	<u>52,062</u>
		<u><u>31,630</u></u>	<u><u>52,062</u></u>
6	Taxation	1998	1997
		£	£
	U.K. current year taxation		
	U.K. corporation tax at 21% (1997 - 21%)	1,232	-
	Prior years		
	U.K. Corporation tax	1,468	-
		<u>2,700</u>	<u>-</u>
		<u><u>2,700</u></u>	<u><u>-</u></u>

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1998

7 Tangible fixed assets

	Computer equipment	Plant and machinery	Fixtures, fittings & equipment	Motor vehicles	Total
	£	£	£	£	£
Cost					
At 1 January 1998	22,514	62,743	151,043	1,750	238,050
Additions	6,643	27,952	1,545	24,500	60,640
Disposals	-	-	-	(1,750)	(1,750)
At 31 December 1998	29,157	90,695	152,588	24,500	296,940
Depreciation					
At 1 January 1998	7,720	26,773	71,646	482	106,621
On disposals	-	-	-	(482)	(482)
Charge for the year	8,641	9,053	14,944	3,250	35,888
At 31 December 1998	16,361	35,826	86,590	3,250	142,027
Net book value					
At 31 December 1998	12,796	54,869	65,998	21,250	154,913
At 31 December 1997	14,794	35,970	79,397	1,268	131,429

Included above are assets held under finance leases or hire purchase contracts as follows:

	Plant and machinery £
Net book values	
At 31 December 1998	-
At 31 December 1997	6,167
Depreciation charge for the year	
31 December 1998	-
31 December 1997	3,917

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1998

8	Stocks and work in progress	1998	1997
		£	£
	Raw materials and consumables	585,185	474,988
	Work in progress	218,546	243,839
	Finished goods and goods for resale	-	47,704
		<u>803,731</u>	<u>766,531</u>
9	Debtors	1998	1997
		£	£
	Trade debtors	185,563	259,018
	Amounts recoverable on research contracts	14,901	56,524
	Amounts owed by parent undertaking	77,236	24,241
	Other debtors	21,061	46,580
	Prepayments and accrued income	24,765	54,535
		<u>323,526</u>	<u>440,898</u>
10	Creditors: amounts falling due within one year	1998	1997
		£	£
	Payments received on account	786,167	828,338
	Net obligations under finance lease and hire purchase contracts	-	414
	Trade creditors	160,636	305,391
	Corporation tax	2,700	-
	Other taxes and social security costs	10,635	10,928
	Other creditors	-	7,808
	Accruals and deferred income	70,676	56,916
		<u>1,030,814</u>	<u>1,209,795</u>

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1998

11 Creditors: amounts falling due after more than one year	1998 £	1997 £
Loan	350,000	350,000
Analysis of loans		
Wholly repayable within five years	350,000	350,000
	350,000	350,000
Loan maturity analysis		
Between two and five years	350,000	350,000

The loan is from the immediate parent company and is repayable on demand or in the event of default or insolvency. 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 Provisions for liabilities and charges

	£
Warranty provision at 1 January 1998	6,684
Further provision in year	15,513
Warranty provision at 31 December 1998	22,197

13 Share capital	1998 £	1997 £
Authorised		
312,500 of £ 1 each	312,500	312,500
Allotted, called up and fully paid		
312,500 of £ 1 each	312,500	312,500

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1998

14 Statement of movements on profit and loss account

	Profit and loss account £
Balance at 1 January 1998	(455,681)
Retained profit for the year	84,594
Balance at 31 December 1998	(371,087)

15 Reconciliation of movements in shareholders' funds

	1998 £	1997 £
Profit for the financial year	84,594	242,384
Opening shareholders' funds	(143,181)	(385,565)
Closing shareholders' funds	(58,587)	(143,181)

16 Financial commitments

At 31 December 1998 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings	
	1998 £	1997 £
Expiry date:		
Within one year	-	26,000
Between two and five years	28,100	-
	28,100	26,000

17 Directors' emoluments

	1998 £	1997 £
Emoluments for qualifying services	11,772	42,331
Company pension contributions to money purchase schemes	302	5,358
	12,074	47,689

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1998

18 Employees

Number of employees

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

	1998 Number	1997 Number
Administration	11	10
Manufacturing	10	9
	<u>21</u>	<u>19</u>

Employment costs

	£	£
Wages and salaries	401,800	312,683
Social security costs	39,820	30,572
Other pension costs	14,202	7,858
	<u>455,822</u>	<u>351,113</u>

19 Control

The immediate parent is Silver Arrow Limited Partnership, registered in Israel. The ultimate holding companies are Federman and Elbit Systems Ltd, companies incorporated in the United States of America.