

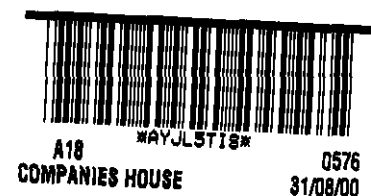
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UAV ENGINES LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1999

KERSHEN ~ FAIRFAX
Chartered Accountants



UAV ENGINES LIMITED

COMPANY INFORMATION

Director	S Shapira I Dvir J Gaspar
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 1999

The directors present their report and financial statements for the year ended 31 December 1999

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 another profitable year in 2000.

Results and dividends

The results for the year are set out on page 3. No dividend is recommended.

Directors

The following directors have held office since 1 January 1999:

S Shapira

I Dvir

O Lavie

(Resigned 3 December 1999)

J Gaspar

(Appointed 3 December 1999)

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.

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

Dvir.....

9.3.00

Director

Joseph Gaspar

UAV ENGINES LIMITED

AUDITORS' REPORT TO THE SHAREHOLDERS OF UAV ENGINES LIMITED

We have audited the financial statements on pages 3 to 11 which have been prepared under the historical cost convention and the accounting policies set out on page 5.

Respective responsibilities of directors and auditors

As described on page 1 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 1999 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

Chartered Accountants
Registered Auditor

9th March 2000

11 Kingsway
London
WC2B 6XE

UAV ENGINES LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1999

	Notes	1999 £	1998 £
Turnover	2	3,001,356	1,949,494
Cost of sales		(2,112,634)	(1,461,629)
Gross profit		<u>888,722</u>	<u>487,865</u>
Administrative expenses		(366,818)	(375,004)
Operating profit	3	<u>521,904</u>	<u>112,861</u>
Other interest receivable and similar income	4	5,674	6,063
Interest payable and similar charges	5	(19,273)	(31,630)
Profit on ordinary activities before taxation		<u>508,305</u>	<u>87,294</u>
Tax on profit on ordinary activities	6	(33,500)	(2,700)
Profit on ordinary activities after taxation	14	<u><u>474,805</u></u>	<u><u>84,594</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 1999

	Notes	1999 £	£	1998 £	£
Fixed assets					
Tangible assets	7		152,517		154,913
Current assets					
Stocks	8	640,233		803,731	
Debtors	9	366,941		323,524	
Cash at bank and in hand		211,878		62,254	
		<u>1,219,052</u>		<u>1,189,509</u>	
Creditors: amounts falling due within one year	10	(922,392)		(1,030,814)	
Net current assets			296,660		158,695
Total assets less current liabilities			<u>449,177</u>		<u>313,608</u>
Creditors: amounts falling due after more than one year	11		-		(350,000)
Provisions for liabilities and charges	12		(32,961)		(22,197)
			<u>416,216</u>		<u>(58,589)</u>
Capital and reserves					
Called up share capital	13	312,500		312,500	
Profit and loss account	14	103,716		(371,089)	
Shareholders' funds - equity interests	15	<u>416,216</u>		<u>(58,589)</u>	

The financial statements were approved by the Board on 9.3.00

Dir

Director

Joseph Caspary

Director

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1999

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 director, 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.

1.9 Warranty costs

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

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 1999

2 Turnover

During the year sales to Silver Arrow Partnership Limited, the immediate holding company were £501,000 (1998 - £361,000).

Geographical market

	Turnover	
	1999	1998
	£	£
United Kingdom	151,000	559,537
United States of America	322,000	653,935
Europe	203,000	1,622
Rest of the World	2,325,000	734,400
	<u>3,001,000</u>	<u>1,949,494</u>

3 Operating profit

	1999	1998
	£	£
Operating profit is stated after charging and after crediting:		
Exceptional profit	309,000	-
Depreciation of tangible assets	37,536	35,888
Operating lease rentals	32,282	28,350
Auditors' remuneration	8,500	8,500
	<u>387,318</u>	<u>72,738</u>

Included in sales is exceptional income of £685,000, and included in cost of sales exceptional costs of £376,000, relating to the sale of technical knowhow.

4 Other interest receivable and similar income

	1999	1998
	£	£
Bank interest	5,674	6,063
	<u>5,674</u>	<u>6,063</u>

5 Interest payable

	1999	1998
	£	£
On amounts payable to group companies	19,202	30,546
On bank loans and overdrafts	71	278
Hire purchase interest	-	806
	<u>19,273</u>	<u>31,630</u>

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 1999

6	Taxation	1999 £	1998 £
	U.K. current year taxation		
	U.K. corporation tax at 21% (1998 - 21%)	33,500	1,232
	Prior years		
	U.K. corporation tax	-	1,468
		<u>33,500</u>	<u>2,700</u>

7	Tangible fixed assets	Computer equipment £	Plant and machinery £	Fixtures, fittings & equipment £	Motor vehicles £	Total £
	Cost					
	At 1 January 1999	29,157	90,695	152,588	24,500	296,940
	Additions	26,172	4,553	15,360	-	46,085
	Disposals	(14,266)	-	-	-	(14,266)
	At 31 December 1999	<u>41,063</u>	<u>95,248</u>	<u>167,948</u>	<u>24,500</u>	<u>328,759</u>
	Depreciation					
	At 1 January 1999	16,361	35,826	86,590	3,250	142,027
	On disposals	(3,321)	-	-	-	(3,321)
	Charge for the year	7,848	9,269	15,519	4,900	37,536
	At 31 December 1999	<u>20,888</u>	<u>45,095</u>	<u>102,109</u>	<u>8,150</u>	<u>176,242</u>
	Net book value					
	At 31 December 1999	<u>20,175</u>	<u>50,153</u>	<u>65,839</u>	<u>16,350</u>	<u>152,517</u>
	At 31 December 1998	<u>12,796</u>	<u>54,869</u>	<u>65,998</u>	<u>21,250</u>	<u>154,913</u>

8	Stocks and work in progress	1999 £	1998 £
	Raw materials and consumables	437,025	585,185
	Work in progress	203,208	218,546
		<u>640,233</u>	<u>803,731</u>

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 1999

9 Debtors	1999 £	1998 £
Trade debtors	281,513	185,561
Amounts recoverable on long term contracts	9,665	14,901
Amounts owed by parent undertaking	21,715	77,236
Other debtors	43,420	21,061
Prepayments and accrued income	10,628	24,765
	<u>366,941</u>	<u>323,524</u>
10 Creditors: amounts falling due within one year	1999 £	1998 £
Payments received on account	377,547	786,167
Trade creditors	316,825	160,636
Corporation tax	33,500	2,700
Other taxes and social security costs	9,460	10,635
Other creditors	15,331	-
Accruals and deferred income	169,729	70,676
	<u>922,392</u>	<u>1,030,814</u>
11 Creditors: amounts falling due after more than one year	1999 £	1998 £
Other loans	-	350,000
	<u>-</u>	<u>350,000</u>
Analysis of loans		
Wholly repayable within five years	-	350,000
	<u>-</u>	<u>350,000</u>
Loan maturity analysis		
Between two and five years	-	350,000
	<u>-</u>	<u>350,000</u>

The loan was from the parent company and carried interest at a commercial rate. It was repaid during the year.

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 1999

12 Provisions for liabilities and charges

	Warranty provision £
Balance at 1 January 1999	22,197
Warranty cost incurred in the year	(8,742)
Unused provision reversed in the year	(13,455)
Additional provision in the year	32,961
	<hr/>
Balance at 31 December 1999	32,961
	<hr/>

A provision of £32,961 has been recognised for expected warranty claims on engines sold during the year. It is expected that most of this expenditure will be incurred during the next financial year. The provision is a best estimate based on engines sales in the last year.

13 Share capital

	1999 £	1998 £
Authorised		
312,500 Ordinary shares of £ 1 each	312,500	312,500
	<hr/>	<hr/>
Allotted, called up and fully paid		
312,500 Ordinary shares of £ 1 each	312,500	312,500
	<hr/>	<hr/>

14 Statement of movements on profit and loss account

	Profit and loss account £
Balance at 1 January 1999	(371,089)
Retained profit for the year	474,805
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Balance at 31 December 1999	103,716
	<hr/>

15 Reconciliation of movements in shareholders' funds

	1999 £	1998 £
Profit for the financial year	474,805	84,594
Opening shareholders' funds	(58,589)	(143,183)
	<hr/>	<hr/>
Closing shareholders' funds	416,216	(58,589)
	<hr/>	<hr/>

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 1999

16 Financial commitments

At 31 December 1999 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings	
	1999	1998
	£	£
Expiry date:		
Within one year	29,250	-
Between two and five years	-	28,100
	<u>29,250</u>	<u>28,100</u>

17 Directors' emoluments

	1999	1998
	£	£
Emoluments for qualifying services	-	11,772
Company pension contributions to money purchase schemes	-	302
	<u>-</u>	<u>12,074</u>

18 Employees

Number of employees

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

	1999	1998
	Number	Number
Administration	14	15
Manufacturing	7	8
	<u>21</u>	<u>23</u>

Employment costs

	£	£
Wages and salaries	401,040	401,800
Social security costs	39,296	39,820
Other pension costs	12,376	14,202
	<u>452,712</u>	<u>455,822</u>

UAV ENGINES LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 1999

19 Control

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

20 Post balance sheet events

In December 1999, a fire severely damaged test cells which the company uses to test its engines. The company will be restricted in its capacity to test engines until the cells are rebuilt, which will result in delivery delays, though there is not expected to be any loss of sales orders. The company's insurers have accepted liability and it is anticipated that all direct and consequential losses will be covered by insurance.