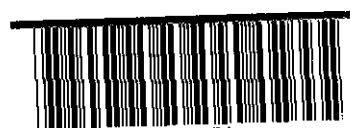


## **Power Magnetism and Electronic Systems Limited**

Accounts for the year ended 31 December 2000  
together with directors' and auditors' reports

Registered number: 2984371



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## Directors' report

For the year ended 31 December 2000

The directors present their annual report on the affairs of the company, together with the accounts and auditors' report for the year ended 31 December 2000.

### Principal activities and business review

The principal activities of the company are the manufacture and provision of high-performance electronic products and systems to defence and industrial markets worldwide. Particular competencies are in power electronics and real-time data processing.

The results of the company for the year are set out in the profit and loss account and accompanying notes.

### Directors and their interests

The directors who served during the year are shown below:

J Blogh

D L Sammons

R Sharma

D Jeffcoat (appointed 24 July 2000)

I C Yeoman (resigned 24 July 2000)

The directors who held office at the end of the financial year had no disclosable interests in the shares of the company requiring disclosure under Schedule 7 of the Companies Act 1985.

The interests of J Blogh and D Jeffcoat in the shares of the company's ultimate parent company, Ultra Electronics Holdings plc, are disclosed in the accounts of that company.

## Directors' report (continued)

### **Directors' responsibilities**

Company law requires the directors to prepare accounts 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 accounts, 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 accounts; and
- prepare the accounts 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 enable them to ensure that the accounts 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.

### **Disabled employees**

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

## Directors' report (continued)

### Employee consultation

The company places considerable value on the involvement of its employees and has a practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the company. This is achieved through formal meetings and a monthly team briefing.

### Political and charitable contributions

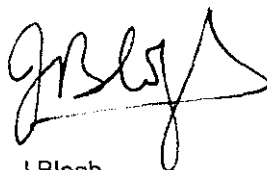
The company made charitable contributions of £437 (31 December 1999: £430) during the year.

### Auditors

The directors will place a resolution before the Annual General Meeting to reappoint Arthur Andersen as auditors for the ensuing year.

Armitage Road  
Rugeley  
Staffordshire  
WS15 1DR

By order of the Board,



J Blogh  
Director

24 October 2001

**To the shareholders of Power Magnetics and Electronic Systems Limited:**

We have audited the accounts on pages 5 to 18 which have been prepared under the historical cost convention and the accounting policies set out on pages 8 to 10.

**Respective responsibilities of directors and auditors**

As described on page 2 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 profession's ethical 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts 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 accounts 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 accounts.

**Opinion**

In our opinion the accounts give a true and fair view of the state of affairs of the company at 31 December 2000 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**Arthur Andersen**

**Chartered Accountants and Registered Auditors**

Abbots House  
Abbey Street  
Reading  
Berkshire  
RG1 3BD

24 October 2001

## Profit and loss account

For the year ended 31 December 2000

	Note	2000 £'000	1999 £'000
<b>Turnover</b>	<b>1</b>	<b>16,681</b>	<b>16,655</b>
Cost of sales		(12,752)	(15,215)
<b>Gross profit</b>		<b>3,929</b>	<b>1,440</b>
Administrative expenses		(1,985)	(2,010)
<b>Operating profit (loss)</b>		<b>1,944</b>	<b>(570)</b>
Interest payable and similar charges	5	(11)	(12)
Interest receivable		6	25
<b>Profit (loss) on ordinary activities before taxation</b>	<b>2</b>	<b>1,939</b>	<b>(557)</b>
Tax on profit (loss) on ordinary activities	6	811	46
<b>Profit (loss) for the financial year for equity shareholders</b>		<b>2,750</b>	<b>(511)</b>

A statement of movements on reserves is given in note 14.

There were no recognised gains and losses other than the profit or loss for each year as shown above.

All results derive from continuing operations.

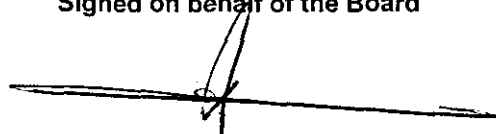
The accompanying notes are an integral part of this profit and loss account.

# Balance sheet

31 December 2000

	Note	31 December 2000 £'000	31 December 1999 £'000
<b>Fixed assets</b>			
Tangible assets	7	1,610	1,616
<b>Current assets</b>			
Stocks	8	490	791
Debtors	9	9,930	6,271
Cash at bank and in hand		3,259	1,635
		13,679	8,697
<b>Creditors: amounts falling due within one year</b>	10	(10,396)	(6,511)
<b>Net current assets</b>		3,283	2,186
<b>Total assets less current liabilities</b>		4,893	3,802
<b>Creditors: amounts falling due after more than one year</b>	11	(68)	(106)
<b>Provisions for liabilities and charges</b>	12	(806)	(2,427)
<b>Net assets</b>		4,019	1,269
<b>Capital and reserves</b>			
Called-up share capital	13	1,835	1,835
Share premium account	14	5,979	5,979
Dividend accumulation reserve	14	1,096	1,096
Profit and loss account	14	(4,891)	(7,641)
<b>Shareholders' funds</b>		4,019	1,269
<b>Shareholders' funds analysed as:</b>			
Equity		4,019	(4,212)
Non-equity		-	5,481
		4,019	1,269

Signed on behalf of the Board



D L Sammons  
Director

24 October 2001

The accompanying notes are an integral part of this balance sheet.

## Reconciliation of movements in shareholders' funds

For the year ended 31 December 2000

	2000 £'000	1999 £'000
<b>Profit (loss) for the financial year</b>	2,750	(511)
Issue of new shares	-	2,600
<b>Net addition to shareholders' funds</b>	2,750	2,089
Opening shareholders' funds (deficit)	1,269	(820)
<b>Closing shareholders' funds</b>	4,019	1,269



## Statement of accounting policies

For the year ended 31 December 2000

### Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, is set out below.

### Basis of accounting

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

### Cash flow statement

The company has taken advantage of the exemptions available in Financial Reporting Standard No 1 (Revised) – Cash Flow Statements – and has not presented a cash flow statement as the accounts of the ultimate parent company are available to the public.

### Fixed assets and depreciation

Depreciation is provided by the company to write-off the cost or valuation less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	40 years
Plant, machinery, equipment and vehicles	3 – 10 years

No depreciation is provided on freehold land.

### Goodwill

Goodwill arising on acquisitions in the year ended 31 December 1997 and earlier periods amounted to £600,000 and was written off to reserves in accordance with the accounting standard then in force. As permitted by Financial Reporting Standard 10 ("FRS 10"), the goodwill previously written off to reserves has not been reinstated in the balance sheet. On disposal or closure of a previously acquired business, the attributable amount of goodwill previously written off to reserves is included in determining the profit or loss on disposal. Goodwill arising on future acquisitions will be accounted for in line with FRS 10.

### Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date (or, where appropriate, at the rate of exchange in a related forward exchange contract). Any gain or loss arising from a change in the exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

## Statement of accounting policies (continued)

### **Leases**

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as operating leases and the rental charges are charged to the profit and loss account on a straight-line basis over the life of the lease.

### **Pension and other post-retirement benefits**

On 31 March 1999 the company ceased to make contribution to the Power Magnetics and Electronics Systems Limited Retirement and Death Benefits Scheme and its employees were invited to join the Ultra Electronics Pensions Scheme (a final salary scheme operated by the company's parent company). The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period.

### **Research and development expenditure**

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

### **Stocks**

Stocks are stated at the lower of cost and net realisable value. In determining the cost of raw materials, consumables and goods purchased for resale, the weighted average purchase price is used. For work in progress and finished goods manufactured by the company, cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

### **Long-term contracts**

The amount of profit attributable to the stage of completion of a long-term contract is recognised when the outcome of the contract can be foreseen with reasonable certainty. Turnover for such contracts is stated at cost appropriate to their stage of completion plus attributable profits, less amounts recognised in previous years. Provision is made for any losses which are foreseen.

Contract work-in-progress is stated at costs incurred, less those transferred to the profit and loss account, after deducting foreseeable losses and payments on account not included within turnover.

Amounts recoverable on contracts are included in debtors and represent turnover recognised in excess of payments on account.

## Statement of accounting policies (continued)

### **Taxation**

UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred taxation is provided using the liability method only to the extent that timing differences are expected to reverse in the future without being replaced, except that the deferred tax effects of timing differences arising from pensions are always provided in full, if material.

### **Turnover**

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers during the period.

## Notes to the accounts

For the year ended 31 December 2000

### 1 Analysis of turnover by geographical market

	2000 £'000	1999 £'000
United Kingdom	12,031	10,911
Europe	2,582	4,345
North America	3	29
Asia	2,062	1,048
Rest of World	3	322
	<u>16,681</u>	<u>16,655</u>

In accordance with Schedule 4, paragraph 55(5) of the Companies Act 1985 the directors have chosen not to disclose an analysis of turnover and profit on ordinary activities before taxation by activity since they believe that the disclosure of such information would not be in the interests of the company.

### 2 Profit (loss) on ordinary activities before taxation

Profit (loss) on ordinary activities before taxation is stated after charging

	2000 £'000	1999 £'000
Auditors' remuneration – for audit services	15	20
Depreciation and other amounts written off tangible fixed assets – owned	208	233
Hire of plant and machinery – rentals payable under operating leases	208	205
Research and development expenditure	<u>346</u>	<u>313</u>

## Notes to the accounts (continued)

### 3 Remuneration of directors

	Year ended 31 December 2000 £'000	Year ended 31 December 1999 £'000
Directors' emoluments	210	170
Company contributions to money purchase pension schemes	-	2
Other emoluments (including pension contributions)	14	-
	<u>224</u>	<u>172</u>

Amounts receivable under the emoluments of the highest paid Director were £105,687 (1999: £69,300) and his accrued pension at 31 December 2000 was £6,825 (1999: £ nil).

All of the Directors were members of the Ultra Electronics pension scheme at 31 December 2000.

The company operates a Long Term Incentive Plan for Directors. Ordinary Shares in the company's holding company, Ultra Electronics Holdings plc, worth up to 100% of basic salary can be awarded each year depending on the performance of Ultra Electronics Holdings plc over a three year period. Details of potential awards are given below:

	2000 £'000	1999 £'000	1998 £'000
Number of shares awarded	7,955	-	-
Potential award value based on Ultra Electronics Holdings plc's share price of 413.5p on 31 December 2000.	<u>32,984</u>	<u>-</u>	<u>-</u>
		Number of directors	
		2000	1999
Retirement benefits are accruing to the following number of directors under money purchase schemes		<u>-</u>	<u>1</u>

## Notes to the accounts (continued)

### 4 Staff numbers and costs

The average monthly number of persons employed by the company (including directors) during the year, was as follows:

	2000 Number	1999 Number
Administration	36	31
Marketing	17	21
Engineering	63	93
Manufacturing	81	79
	<u>197</u>	<u>224</u>

The aggregate payroll costs were as follows:

	2000 £'000	1999 £'000
Wages and salaries	4,576	4,898
Social security costs	369	399
Other pension costs	323	322
	<u>5,268</u>	<u>5,619</u>

### 5 Interest payable and similar charges

	2000 £'000	1999 £'000
On other loans	<u>11</u>	<u>12</u>

### 6 Taxation

The tax credit for the year comprises:

	2000 £'000	1999 £'000
UK corporation tax	3	4
Irrecoverable advance corporation tax written off	(4)	-
Utilisation of tax losses in the year	(810)	(50)
	<u>(811)</u>	<u>(46)</u>

# Notes to the accounts (continued)

## 7 Tangible fixed assets

	Freehold land and buildings £'000	Plant, machinery and office equipment £'000	Total £'000
<b>Cost or valuation</b>			
Beginning of year	1,500	1,874	3,374
Additions	-	203	203
Disposals	-	(175)	(175)
End of year	1,500	1,902	3,402
<b>Depreciation</b>			
Beginning of year	419	1,339	1,758
Charge	17	191	208
Disposals	-	(174)	(174)
End of year	436	1,356	1,792
<b>Net book value</b>			
Beginning of year	1,081	535	1,616
End of year	1,064	546	1,610

The gross book value of freehold land and buildings includes £700,000 (1999: £700,000) of depreciable assets.

Included within the net book value of fixed assets are amounts of £99,000 (1999: £126,000) held under finance leases.

## 8 Stocks

	2000 £'000	1999 £'000
Raw materials and consumables	158	113
Work in progress	315	678
Finished goods and goods for resale	17	-
	490	791

## Notes to the accounts (continued)

### 8 Stocks (continued)

Work in progress includes the following amounts in respect of long-term contracts:

	2000 £'000	1999 £'000
Costs, net of foreseeable losses	343	965
Less payments on account	(28)	(287)
	<u>315</u>	<u>678</u>

### 9 Debtors

	2000 £'000	1999 £'000
Trade debtors	3,449	2,880
Amounts recoverable on contracts	4,983	3,131
Amounts receivable from subsidiary undertakings	1,182	-
Other debtors	214	208
Prepayments and accrued income	102	52
	<u>9,930</u>	<u>6,271</u>

### 10 Creditors: amounts falling due within one year

	2000 £'000	1999 £'000
Amounts payable to parent undertakings	800	127
Finance lease commitments	46	42
Payments received on account	4,924	1,972
Trade creditors	931	1,935
Other taxes and social security	588	697
Accruals and deferred income	3,107	1,738
	<u>10,396</u>	<u>6,511</u>

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

	2000 £'000	1999 £'000
Finance lease commitments	<u>68</u>	<u>106</u>



# Notes to the accounts (continued)

## 12 Provisions for liabilities and charges

	2000 £'000	1999 £'000
Warranty provisions	531	477
Provisions against estimated future losses on long term contracts	275	1,950
	<u>806</u>	<u>2,427</u>

### *Provision against estimated future losses on long-term contracts*

	£'000
At beginning of year	1,950
Utilised during the year	(1,004)
Released during the year	(671)
At end of year	<u>275</u>

### *Warranty provisions*

	£'000
At beginning of year	477
Utilised during the year	(34)
Charge for the year	88
At end of year	<u>531</u>

### *Deferred taxation*

The amounts provided for deferred taxation (assets) and liabilities and the amounts not provided are set out below.

	2000		1999	
	Provided £'000	Unprovided £'000	Provided £'000	Unprovided £'000
Differences between accumulated depreciation and amortisation and capital allowances	-	60	-	(27)
Other timing differences	-	(199)	-	(700)
	<u>-</u>	<u>(139)</u>	<u>-</u>	<u>(727)</u>

## Notes to the accounts (continued)

### 13 Called-up share capital

	2000 £'000	1999 £'000
<i>Authorised</i>		
4,650,000 preference shares of 1p each	-	47
725,000 'A' ordinary shares of 50p each	-	362
2,875,000 ordinary shares of 50p each	-	1,437
28,334 deferred ordinary shares of 50p each	-	14
1,860,667 ordinary shares of £1 each	1,860	-
	<u>1,860</u>	<u>1,860</u>
	2000 £'000	1999 £'000
<i>Allotted, called-up and fully paid</i>		
4,650,000 preference shares of 1p each	-	47
675,000 'A' ordinary shares of 50p each	-	337
2,875,000 ordinary shares of 50p each	-	1,437
28,334 deferred ordinary shares of 50p each	-	14
1,835,000 ordinary shares of £1 each	1,835	-
	<u>1,835</u>	<u>1,835</u>

On 5 September 2000, all existing authorised shares were consolidated and divided into 1,860,667 ordinary shares of £1 each.

### 14 Reserves

	Share premium account £'000	Dividend accumulation reserve £'000	Profit and loss account £'000
At beginning of year	5,979	1,096	(7,641)
Profit for the year	-	-	2,750
At end of year	<u>5,979</u>	<u>1,096</u>	<u>(4,891)</u>

### 15 Contingencies

The company has given bonds and guarantees to its bankers as security for advance payments and contract performance. The outstanding liabilities at 31 December 2000 amounted to £1,993,988 (1999: £2,119,000).

## Notes to the accounts (continued)

### 16 Commitments

(a) Capital commitments at the end of the financial year for which no provision has been made, are as follows:

	2000 £'000	1999 £'000
Contracted	<u>21</u>	<u>23</u>

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

	2000 £'000	1999 £'000
Operating leases which expire:		
- within one year	43	28
- between one and two years	61	61
- between two and five years	64	108
	<u>168</u>	<u>197</u>

### 17 Pension scheme

From 1 April 1999 the company has participated in the operation of the Ultra Electronics Pension Scheme (a final salary scheme operated by the company's parent company). Company contributions to this scheme for the year ended 31 December 2000 amounted to £323,335 (1999: £228,000).

### 18 Related party transactions

Advantage has been taken of the exemption in FRS 8 concerning Related Party Disclosures.

### 19 Ultimate parent undertaking

The ultimate parent undertaking of the company is Ultra Electronics Holdings plc, which is incorporated in Great Britain, and registered in England and Wales. The largest group in which the results of the company are consolidated is that headed by Ultra Electronics Holdings plc, and copies of these accounts are available from that company's registered address.