



ARTHURANDERSEN

Power Magnetics and Electronic Systems Limited

Accounts for the year ended 31 December 1999
together with directors' and auditors' reports

Registered number: 2984371



Directors' report

For the year ended 31 December 1999

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 1999.

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.

Dividends

There were no dividends in the year (1998: £227,000).

Directors and their interests

The directors who served during the year are shown below:

J Blogh

I C Yeoman

D L Sammons

A M Evans (resigned 17 May 1999)

R Sharma (appointed 20 May 1999)

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 I C Yeoman 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.

Year 2000

During the course of the year the company completed its assessment of the company's Year 2000 readiness. The directors do not consider the costs incurred in completing their assessment to be material. As at the date of this report, the directors are not aware of any significant adverse impact of the Year 2000 date change on the company.

Political and charitable contributions

The company made charitable contributions of £430 (31 December 1998: £1,084) 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,

D. Jeffcoat

Secretary

24/11/2000

To the shareholders of Power Magnetics and Electronic Systems Limited:

We have audited the accounts on pages 5 to 21 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

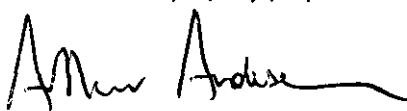
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by 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 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

Abbots House
Abbey Street
Reading
Berkshire
RG1 3BD

24 | 10 | 2000

Profit and loss account

For the year ended 31 December 1999

		Continuing operations	
		Year ended 31 December 1999	Nine months ended 31 December 1998
	Note	£'000	£'000
Turnover	1	16,655	6,059
Cost of sales		(15,215)	(7,669)
Gross profit		1,440	(1,610)
Administrative expenses		(2,010)	(2,210)
Operating loss		(570)	(3,820)
Interest payable and similar charges	5	(12)	(209)
Interest receivable		25	-
Loss on ordinary activities before taxation	2	(557)	(4,029)
Tax on loss on ordinary activities	6	46	26
Loss for the financial period		(511)	(4,003)
Dividends	7	-	(227)
Loss for the financial period for equity shareholders		(511)	(4,230)

A statement of movements on reserves is given in note 15.

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

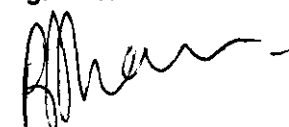
The accompanying notes are an integral part of this profit and loss account.

Balance sheet

As at 31 December 1999

	Note	31 December 1999 £'000	31 December 1998 £'000
Fixed assets			
Tangible assets	8	1,616	1,747
Current assets			
Stocks	9	791	2,182
Debtors	10	6,271	2,641
Cash at bank and in hand		1,635	278
		<u>8,697</u>	<u>5,101</u>
Creditors: amounts falling due within one year	11	<u>(6,511)</u>	<u>(5,879)</u>
Net current assets (liabilities)		<u>2,186</u>	<u>(778)</u>
Total assets less current liabilities		<u>3,802</u>	<u>969</u>
Creditors: amounts falling due after more than one year	12	(106)	(148)
Provisions for liabilities and charges	13	<u>(2,427)</u>	<u>(1,641)</u>
Net assets (liabilities)		<u>1,269</u>	<u>(820)</u>
Capital and reserves			
Called-up share capital	14	1,835	535
Share premium account	15	5,979	4,679
Dividend accumulation reserve	15	1,096	1,096
Profit and loss account	15	<u>(7,641)</u>	<u>(7,130)</u>
Shareholders' funds (deficit)		<u>1,269</u>	<u>(820)</u>
Shareholders' funds (deficit) analysed as:			
Equity		(4,212)	(6,301)
Non-equity		5,481	5,481
		<u>1,269</u>	<u>(820)</u>

Signed on behalf of the Board



Director

24 / 10 / 2000

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

Reconciliation of movements in shareholders' funds

For the year ended 31 December 1999

	Year ended 31 December 1999 £'000	Nine months ended 31 December 1998 £'000
Loss for the financial period	(511)	(4,003)
Dividends	-	(227)
	<u>(511)</u>	<u>(4,230)</u>
Issue of new shares	2,600	-
Profit appropriations transferred to dividend accumulation reserve	-	227
	<u>2,089</u>	<u>(4,003)</u>
Net addition to (deduction from) shareholders' funds		
Opening shareholders' (deficit) funds	(820)	3,183
	<u>(820)</u>	<u>3,183</u>
Closing shareholders' funds (deficit)	<u>1,269</u>	<u>(820)</u>

Statement of accounting policies

For the year ended 31 December 1999

Accounting policies

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

Basis of accounting

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

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 with 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

During the period to 31 March 1999 the company operated a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. 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 with 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

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

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 1999

1 Analysis of turnover by geographical market

	Year ended 31 December 1999 £'000	Period ended 31 December 1998 £'000
United Kingdom	10,911	4,121
Europe	4,345	553
North America	29	9
Asia	1,048	1,116
Rest of World	322	260
	<u>16,655</u>	<u>6,059</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 Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging

	Year ended 31 December 1999 £'000	Period ended 31 December 1998 £'000
Auditors' remuneration - audit	20	18
Depreciation and other amounts written off tangible fixed assets – owned	233	517
Hire of plant and machinery – rentals payable under operating leases	205	115
Research and development expenditure	<u>313</u>	<u>191</u>

Notes to the accounts (continued)

3 Remuneration of directors

	Year ended 31 December 1999	Nine months ended 31 December 1998
	£'000	£'000
Directors' emoluments	170	174
Company contributions to money purchase pension schemes	<u>2</u>	<u>5</u>

The aggregate emoluments of the highest paid director were £69,300 (1998: £94,184) and company pension contributions of £nil (1998: £nil) were made to a money purchase scheme on his behalf.

	Number of directors	
	Year ended 31 December 1999	Nine months ended 31 December 1998
Retirement benefits are accruing to the following number of directors under money purchase schemes	<u>1</u>	<u>1</u>

4 Staff numbers and costs

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

	Year ended 31 December 1999	Nine months ended 31 December 1998
	Number	Number
Administration	31	42
Marketing	21	28
Engineering	93	124
Manufacturing	<u>79</u>	<u>83</u>
	<u>224</u>	<u>277</u>

Statement of accounting policies (continued)

4 Staff numbers and costs (continued)

The aggregate payroll costs were as follows:

	Year ended 31 December 1999	Nine months ended 31 December 1998
	Number	Number
Wages and salaries	4,898	4,107
Social security costs	399	372
Other pension costs	322	229
	<u>5,619</u>	<u>4,708</u>

5 Interest payable and similar charges

	Year ended 31 December 1999	Nine months ended 31 December 1998
	£'000	£'000
On bank loans and overdrafts	-	66
On other loans	12	143
	<u>12</u>	<u>209</u>

6 Taxation

The tax credit for the period comprises:

	Year ended 31 December 1999	Nine months ended 31 December 1998
	£'000	£'000
Corporation tax	4	-
Irrecoverable advance corporation tax written off	-	1
Utilisation of tax losses in the period	(50)	(27)
	<u>(46)</u>	<u>(26)</u>

Statement of accounting policies (continued)

7 Dividends and other appropriations

	Year ended 31 December 1999 £'000	Nine months ended 31 December 1998 £'000
Non-equity shares		
Profit appropriation in respect of cumulative preference dividends	-	227

8 Tangible fixed assets

	Freehold land and buildings £'000	Plant, machinery and office equipment £'000	Motor vehicles £'000	Total £'000
Cost or valuation				
Beginning of year	1,500	1,834	15	3,349
Additions	-	128	-	128
Disposals	-	(88)	(15)	(103)
End of year	1,500	1,874	-	3,374
Depreciation				
Beginning of year	402	1,185	15	1,602
Charge	17	216	-	233
Disposals	-	(62)	(15)	(77)
End of year	419	1,339	-	1,758
Net book value				
Beginning of year	1,098	649	-	1,747
End of year	1,081	535	-	1,616

The gross book value of freehold land and buildings includes £700,000 (1998: £700,000) of depreciable assets.

Statement of accounting policies (continued)

9 Stocks

	31 December 1999 £'000	31 December 1998 £'000
Raw materials and consumables	113	40
Work in progress	678	2,114
Finished goods and goods for resale	-	28
	<u>791</u>	<u>2,182</u>

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

	31 December 1999 £'000	31 December 1998 £'000
Costs, net of foreseeable losses	965	2,839
Less payments on account	(287)	(725)
	<u>678</u>	<u>2,114</u>

10 Debtors

	31 December 1999 £'000	31 December 1998 £'000
Amounts falling due within one year		
Trade debtors	2,880	1,664
Amounts recoverable on contracts	3,131	788
Deferred taxation	-	27
Other debtors	208	49
Prepayments and accrued income	52	113
	<u>6,271</u>	<u>2,641</u>

Statement of accounting policies (continued)

11 Creditors: amounts falling due within one year

	31 December 1999 £'000	31 December 1998 £'000
Finance lease commitments	42	42
Loans and overdrafts	127	3,327
Payments received on account	1,972	120
Trade creditors	1,935	1,348
Other taxes and social security	697	369
Accruals and deferred income	1,740	673
	<u>6,511</u>	<u>5,879</u>

12 Creditors: amounts falling due after more than one year

	31 December 1999 £'000	31 December 1998 £'000
Finance lease commitments	<u>106</u>	<u>148</u>

13 Provisions for liabilities and charges

	31 December 1999 £'000	31 December 1998 £'000
Warranty provisions	477	285
Provisions against estimated future losses on long term contracts	1,950	1,349
Provision for building fabric removal	-	7
	<u>2,427</u>	<u>1,641</u>

Statement of accounting policies (continued)

13 Provisions for liabilities and charges (continued)

Provision against estimated future losses on long term contracts

	31 December 1999 £'000
At beginning of year	1,349
Utilised during the year	(47)
Charged for the year	648
At end of year	<u>1,950</u>

Warranty provisions

	£'000
At beginning of year	285
Utilised during the year	(168)
Charged for the year	360
At end of year	<u>477</u>

Deferred taxation

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

	31 December 1999		31 December 1998	
	Provided £'000	Unprovided £'000	Provided £'000	Unprovided £'000
Differences between accumulated depreciation and amortisation and capital allowances	-	(27)	-	13
Other timing differences	-	(700)	-	(1,200)
	<u>-</u>	<u>(727)</u>	<u>-</u>	<u>(1,187)</u>

14 Called-up share capital

	31 December 1999 £'000	31 December 1998 £'000
<i>Authorised</i>		
4,650,000 preference shares of 1p each	47	47
725,000 'A' ordinary shares of 50p each	362	362
2,875,000 (1998 : 275,000) ordinary shares of 50p each	1,437	137
28,334 deferred ordinary shares of 50p each	14	14
	<u>1,860</u>	<u>560</u>

Statement of accounting policies (continued)

14 Called-up share capital (continued)

	31 December 1999 £'000	31 December 1998 £'000
<i>Allotted, called up and fully paid</i>		
4,650,000 preference shares of 1p each	47	47
675,000 'A' ordinary shares of 50p each	337	337
2,875,000 (1998: 275,000) ordinary shares of 50p each	1,437	137
28,334 deferred ordinary shares of 50p each	14	14
	<u>1,835</u>	<u>535</u>

During the course of the year the company increased its authorised ordinary shares from 275,000 to 2,875,000 and subsequently issued 2,600,000 ordinary 50p shares at par to recapitalise the company.

Preference shares

4,650,000 preference shares were issued for £1 each.

The shares carry the right to a fixed cumulative preferential net cash dividend of 9.75 pence per annum on each share, but carry no voting rights. The shares are redeemable as follows:

	Number of shares redeemable
31 March 2002	700,000
31 March 2003	1,200,000
31 March 2004	1,350,000
31 March 2005	<u>1,400,000</u>

Payment for each preference share redeemed will be £1 plus any arrears of the preference dividends calculated to the date of redemption.

On a return of assets on liquidation, capital reduction or otherwise, the assets of the company remaining after the payment of its liabilities must be first applied in paying the holders of the preference shares £1 per share plus any arrears of the preference dividends to the date of the return of capital.

'A' ordinary shares

675,000 'A' ordinary shares were issued for £1 each.

Two warrants, each for £25,000 'A' ordinary shares of 50p each, were also approved on 15 December 1994. These give the holder the right to subscribe for 25,000 'A' ordinary shares at a price of £1 per share. They were formally executed on 18 April 1996.

Statement of accounting policies (continued)

14 Called-up share capital (continued)

The shares carry the rights to cumulative preferential net cash dividends as follows, payable after all preference dividends have been paid:

(i) Participating dividend

Dividend payable to the 'A' ordinary shares as a class:

Period	Dividend payable
To 31 March 1999	12.5% of net profit for the company for the financial year
From 1 April 1999	15% of net profit for the company for the financial year

(ii) Compensatory dividend

Dividend payable on each 'A' ordinary share equal to any excess in net directors' remuneration over £435,000 (index-linked) divided by the number of ordinary shares held by relevant directors in issue on the last day of the relevant financial period.

They also carry the right to an equal dividend to that paid subsequently to each ordinary shareholder (pari passu as if they constituted one class of share), but only after each ordinary shareholder has been paid a dividend on each share of an amount up to but not exceeding the participating dividend paid on each 'A' ordinary share for the financial period.

On any return of assets, the assets of the company remaining after the preference shareholders have been paid must then be applied in paying the holders of the 'A' ordinary shares £1 per share plus any arrears of the dividends on the 'A' ordinary shares to the date of the return of capital.

The holders of the 'A' ordinary shares may at any time convert the whole of their 'A' ordinary shares into a like number of ordinary shares, at which point the ordinary shares resulting from the conversion will rank pari passu in all respects with the other ordinary shares in the capital of the company.

Ordinary shares

The shares rank for dividends as recommended by the directors only after:

(i) all preference dividends, participating dividends and compensatory dividends in respect of the relevant financial period and all previous financial periods have been paid in full;

(ii) all preference shares which have fallen due for redemption have been redeemed.

On any return of assets, the assets of the company remaining after the 'A' ordinary shareholders have been paid must then be applied in paying the holders of the ordinary shares £1 per share plus an amount equal to all dividends properly declared but not paid. Any remaining assets will be distributed amongst the 'A' ordinary shares and the ordinary shares (pari passu as if they constituted one class of share) in proportion to the amounts paid up on those shares.

Statement of accounting policies (continued)

14 Called-up share capital (continued)

Deferred ordinary shares

28,334 deferred ordinary shares were issued for an aggregate consideration of £19,616.

The deferred shares carry no rights whatsoever (whether in respect of dividends, voting or otherwise) except that each deferred share will be entitled to receive 1 pence on a return of capital but only after every 'A' ordinary share has received £1,000.

15 Reserves

	Share premium account £'000	Dividend accumulation reserve £'000	Profit and loss account £'000
At beginning of year	4,679	1,096	(7,130)
Share premium arising on issue of ordinary shares	1,300	-	-
Loss for the year	-	-	(511)
At end of year	<u>5,979</u>	<u>1,096</u>	<u>(7,641)</u>

16 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 1999 amounted to £2,119,000 (1998: £2,311,000).

Statement of accounting policies (continued)

17 Commitments

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

	31 December 1999 £'000	31 December 1998 £'000
Contracted	<u>23</u>	<u>48</u>

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

	31 December 1999 £'000	31 December 1998 £'000
Operating leases which expire:		
In less than one year	28	55
In the first to second year inclusive	61	25
In the second to fifth years inclusive	108	65
	<u>197</u>	<u>145</u>

18 Pension scheme

During the period to 31 March 1999 the company operated the Power Magnetics and Electronics Systems Limited Retirement and Death Benefits Scheme. Company contributions to this scheme for the three months ended 31 March 1999 amounted to £74,000 (1998: £229,000). In addition the company paid £12,000 (1998: £49,000) in respect of insurance premiums to cover death in service benefits.

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 nine months ended 31 December 1999 amounted to £228,000 (1998: nil).

19 FRS 8

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

20 Ultimate parent undertaking

The ultimate parent undertaking of the company is Ultra Electronics Holdings plc, which is registered in England and Wales. The only group of undertakings for which group financial statements have been drawn up is that headed by Ultra Electronics Holdings plc, copies of which may be obtained from Companies House.