

OXLEY DEVELOPMENTS COMPANY LIMITED

DIRECTORS' REPORT AND ACCOUNTS

30 SEPTEMBER 1998

SIGNED COPY

REGISTERED NUMBER : 376071



OXLEY DEVELOPMENTS COMPANY LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 30 SEPTEMBER 1998

The directors present their report and accounts for the year ended 30 September 1998.

DIRECTORS AND THEIR INTERESTS

The directors during the year were:

Mrs A S Oxley
G S Edwards
M N Atkinson
T Armistead
D R Norrie
Lord T M Jopling (resigned 30 November 1998)
Dr T G Bushell (appointed 23 January 1998)
R L Brook (appointed 13 August 1998)

Interests of directors in the shares of Oxley Group plc are disclosed in the accounts of that company.

RESULTS AND DIVIDENDS

The results for the year are set out in the attached profit and loss account.

The directors do not recommend the payment of a dividend for the year.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The company's activities consist of the design, development and manufacture of components, systems and technologies for the electronics industry. During the year, the company's turnover was affected by the UK manufacturing recession and a decline in exports. Certain defence contracts were also delayed.

In response, the company significantly reduced operating costs and restructured certain activities whilst maintaining its core technical capability and its major research and development programmes.

The result for the year was thus a substantial loss which included the costs of restructuring. However, since the end of the year, significant MOD contracts have been received and with the reduced operating costs, future results are expected to be significantly improved.

RESEARCH AND DEVELOPMENT

The company continues to undertake research and development related to the company's existing product range.

FIXED ASSETS

Changes in fixed assets appear in Notes 5 and 6 to the accounts.

CHARITABLE AND POLITICAL DONATIONS

The company made charitable donations during the year amounting to £2,281 (1997 - £12,940).

OXLEY DEVELOPMENTS COMPANY LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 30 SEPTEMBER 1998 (CONTINUED)

YEAR 2000

The company has completed a full assessment of the Year 2000 impact on the business. Due to the nature of the Year 2000 issue, there can be no certainty that the company's systems, or those of suppliers, customers or any other third party, are or will be Year 2000 compliant and consequently that the company will not be materially affected. However, the directors believe that the majority of the changes required to systems, software and hardware have been completed. Further costs will be incurred in completing the remaining necessary changes, but are not expected to be material. In addition key suppliers and customers have been contacted to confirm their readiness for the Year 2000.

EMPLOYMENT OF DISABLED PERSONS

It is the company's policy to offer equal opportunity to disabled persons applying for vacancies, having regard to the aptitudes and abilities in relation to the jobs for which they apply.

As far as possible, arrangements are made to continue the employment of those employees who have become disabled persons during the course of their employment with the company. In all instances consideration will be given to arranging appropriate training facilities or providing special aids where necessary. It is the company's policy to provide disabled persons with the same opportunities for training, career development and promotion that are available to all employees within the limitation of their aptitude and abilities.

EMPLOYEE INVOLVEMENT

The importance of employee communication and participation is recognised by the company, subject to the constraints of commercial confidentiality. Because the premises occupied by the company are in close proximity and of modest size, this policy is achieved by the frequent presence of members of senior management in the company's offices and production areas, which provides a direct contact with all employees.

STATEMENT OF 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 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
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- 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.

OXLEY DEVELOPMENTS COMPANY LIMITED

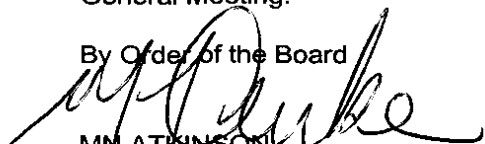
DIRECTORS' REPORT FOR THE YEAR ENDED 30 SEPTEMBER 1998 (CONTINUED)

AUDITORS

Consequent upon the merger of Price Waterhouse and Coopers & Lybrand on 1 July 1998, the directors have appointed the successor firm, PricewaterhouseCoopers as auditors.

A resolution to re-appoint PricewaterhouseCoopers will be proposed at the forthcoming Annual General Meeting.

By Order of the Board

A handwritten signature in black ink, appearing to read 'M. Atkinson', written over the printed name.

M. ATKINSON
Secretary

18 June 1999

AUDITORS' REPORT TO THE SHAREHOLDERS OF OXLEY DEVELOPMENTS COMPANY LIMITED

We have audited the accounts on pages 5 to 14 which have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and the accounting policies set out on pages 7 and 8.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described on page 2 the accounts. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the directors' report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

Basis of audit 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 accounts give a true and fair view of the state of the company's affairs as at 30 September 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PRICEWATERHOUSECOOPERS
Chartered Accountants
and Registered Auditors

18 June 1999

PricewaterhouseCoopers is the successor partnership to the UK firms of Price Waterhouse and Coopers & Lybrand. The principal place of business of PricewaterhouseCoopers and its associate partnerships, and of Coopers & Lybrand, is 1 Embankment Place, London WC2N 6NN. The principal place of business of Price Waterhouse is Southwark Towers, 32 London Bridge Street, London SE1 9SY. Lists of the partners' names are available for inspection at those places.

All partners in the associate partnerships are authorised to conduct business as agents of, and all contracts for services to clients are with, PricewaterhouseCoopers. PricewaterhouseCoopers is authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business.

PricewaterhouseCoopers is a member of PricewaterhouseCoopers International Limited, a company limited by guarantee registered in England and Wales.

OXLEY DEVELOPMENTS COMPANY LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30 SEPTEMBER 1998

	<u>1998</u>	<u>1997</u>
TURNOVER (Note 2)	8,225,635	9,585,507
Cost of sales	<u>(4,184,815)</u>	<u>(4,134,849)</u>
GROSS PROFIT	4,040,820	5,450,658
Distribution costs	(634,954)	(594,486)
Administrative expenses	<u>(4,423,063)</u>	<u>(4,392,895)</u>
OPERATING (LOSS)/PROFIT (Note 3)	(1,017,197)	463,277
Interest payable on loans wholly repayable within 5 years	(25,264)	(13,426)
Interest receivable	<u>7,590</u>	<u>8,390</u>
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	(1,034,871)	458,241
Tax credit/(charge) (Note 4)	<u>354,510</u>	<u>(160,479)</u>
(LOSS)/PROFIT FOR THE FINANCIAL YEAR	(680,361)	297,762
RETAINED PROFITS BROUGHT FORWARD	<u>990,156</u>	<u>692,394</u>
RETAINED PROFITS CARRIED FORWARD	<u>£309,795</u>	<u>£990,156</u>

Notes

- (a) The notes on pages 7 to 14 form part of these accounts.
- (b) Movements disclosed in the profit and loss account represent all of the changes in shareholders' funds for the year. All realised gains and losses are dealt with in the profit and loss account.
- (c) The turnover and loss on ordinary activities all derive from continuing activities.

OXLEY DEVELOPMENTS COMPANY LIMITED

BALANCE SHEET AT 30 SEPTEMBER 1998

	<u>1998</u>	<u>1997</u>
FIXED ASSETS		
Intangible assets (Note 5)	1	1
Tangible assets (Note 6)	<u>1,498,101</u>	<u>1,597,165</u>
	<u>1,498,102</u>	<u>1,597,166</u>
CURRENT ASSETS		
Stocks (Note 7)	1,728,466	1,373,004
Debtors (Note 8)	3,139,986	4,084,252
Bank and cash balances	<u>167,484</u>	<u>208,681</u>
	5,035,936	5,665,937
CREDITORS (amounts falling due within one year) (Note 9)	<u>(2,612,594)</u>	<u>(2,555,142)</u>
NET CURRENT ASSETS	<u>2,423,342</u>	<u>3,110,795</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	3,921,444	4,707,961
CREDITORS (amounts falling due after more than one year) (Note 10)	(71,687)	(66,843)
PROVISIONS FOR LIABILITIES AND CHARGES		
Deferred taxation (Note 11)	<u>(27,000)</u>	<u>(138,000)</u>
	<u>£3,822,757</u>	<u>£4,503,118</u>
CAPITAL AND RESERVES		
Called up share capital (Note 12)	3,100,451	3,100,451
Revaluation reserve	412,511	412,511
Profit and loss account	<u>309,795</u>	<u>990,156</u>
Equity Shareholders' Funds	<u>£3,822,757</u>	<u>£4,503,118</u>

APPROVED BY THE BOARD ON 18 JUNE 1999

GS Edwards

DIRECTOR

The notes on pages 7 to 14 form part of these accounts.

OXLEY DEVELOPMENTS COMPANY LIMITED

NOTES TO THE ACCOUNTS - 30 SEPTEMBER 1998

1 ACCOUNTING POLICIES

(1) Accounting convention

The accounts have been prepared under the historical cost convention, as modified by a revaluation of certain fixed assets, and in accordance with applicable Accounting Standards.

(2) Intangible assets

Purchased know-how has been amortised in equal instalments over a period of up to five years.

(3) Tangible assets

Tangible assets, with the exception of leasehold properties and motor vehicles, were revalued by the directors at 30 September 1976 at their gross replacement cost, by the use of price indices published by the Government Statistical Service. Additions since 30 September 1976 are stated at cost less regional development grants receivable.

Depreciation, which is provided on a straight line basis, except on motor vehicles, is calculated to write off the gross replacement cost or, in the case of additions since 30 September 1976, the cost less regional development grants receivable, of each class of asset over their estimated useful lives which are:-

Plant and machinery	- 10 years
Fixtures and fittings	- 5 to 10 years

It is the company policy to maintain its properties in a state of good repair. In the case of freehold buildings, it is considered by the directors that the residual values and lives of these are such that their depreciation would not be significant and since 1991 therefore no depreciation is provided on these properties.

Motor vehicles are depreciated on a reducing balance basis at a rate of 25% per annum.

Short leasehold property is depreciated over the 7 year life of the lease.

(4) Stocks

The basis of valuation of stocks is the lower of cost and estimated net realisable value. Cost includes direct materials, direct labour and applicable overheads.

(5) Deferred taxation

Deferred taxation represents the effect of the allocation for taxation purposes of income and expenditure, including depreciation, to periods different from those used for accounting purposes and is calculated under the liability method. Provision is made to the extent that these timing differences are expected to reverse in the foreseeable future.

(6) Turnover

Turnover represents the total amount receivable (excluding value added tax) for goods and services supplied to customers in the ordinary course of business.

OXLEY DEVELOPMENTS COMPANY LIMITED

NOTES TO THE ACCOUNTS - 30 SEPTEMBER 1998 (CONTINUED)

1 ACCOUNTING POLICIES (CONTINUED)

(7) Interest receivable

Interest receivable is not accrued; it is credited to profit and loss account when received.

(8) Research and development expenditure

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

(9) Overseas currencies

Assets and liabilities in foreign currencies are expressed in sterling at the rate of exchange ruling at the end of the financial year.

(10) Leased assets

Fixed assets acquired under finance leasing contracts are recorded in the balance sheet as tangible assets at their equivalent capital value and are depreciated over the useful life of the asset. The corresponding liability is recorded as a creditor and the interest element of the finance charge is charged to the profit and loss account over the primary lease period.

(11) Pensions

Employees of the company who satisfy the age and service related criteria are eligible for membership of a group personal pension scheme under which the contributions of the employer and employee are based on a percentage of salary.

(12) Cash flows

A statement of group cash flows has been included in the consolidated accounts presented by the parent undertaking, Oxley Group plc. Accordingly no statement is presented within these accounts.

(13) Government grants

Government grants of a revenue nature are credited to the profit and loss account on a receivable basis.

(14) Related party transactions

Under Financial Reporting Standard No. 8 the company is exempt from disclosing related party transactions as more than 90% of the voting rights are controlled by the immediate parent undertaking, Oxley Group plc.

Details of transactions between Oxley Group plc and related parties are included in that company's consolidation financial statements.

OXLEY DEVELOPMENTS COMPANY LIMITED

NOTES TO THE ACCOUNTS - 30 SEPTEMBER 1998 (CONTINUED)

2 TURNOVER

An analysis of turnover by geographical market is as follows:

	<u>1998</u>	<u>1997</u>
United Kingdom	5,278,784	7,397,786
United States of America and Canada	1,595,927	1,261,858
Africa	399,367	45,765
Europe	818,093	798,530
Australia	20,118	28,678
Asia	<u>113,346</u>	<u>52,890</u>
	<u>£8,225,635</u>	<u>£9,585,507</u>

3 OPERATING (LOSS)/PROFIT

(a) This is stated after charging;

	<u>1998</u> £	<u>1997</u> £
Directors' emoluments (including pension contributions)	280,925	284,407
Auditors' remuneration - for audit services	20,000	20,000
- for other services	17,000	22,160
Depreciation and amortisation	351,757	338,747
Hire of plant and machinery	<u>17,330</u>	<u>19,645</u>

(b) Directors' emoluments

	<u>1998</u>	<u>1997</u>
Directors' emoluments (excluding pension contributions)	275,606	278,973
Pension contributions	<u>5,319</u>	<u>5,434</u>
	<u>£280,925</u>	<u>£284,407</u>

The emoluments (excluding pension contributions) of the highest paid director were £72,936 (1997 - £76,238).

The pension contributions of the highest paid director were £1,678 (1997-£1,378).

OXLEY DEVELOPMENTS COMPANY LIMITED

NOTES TO THE ACCOUNTS - 30 SEPTEMBER 1998 (CONTINUED)

3 OPERATING (LOSS)/PROFIT (CONTINUED)

(c) Staff costs

	<u>1998</u>	<u>1997</u>
Wages and salaries	3,576,176	3,491,029
Social security costs	259,400	304,438
Other pension costs	<u>156,703</u>	<u>135,335</u>
	<u>£3,992,279</u>	<u>£3,930,802</u>
Average weekly number of employees:		
Office and management	85	78
Manufacturing	<u>190</u>	<u>210</u>
	275	288
	<u>=====</u>	<u>=====</u>

4 TAX ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES

Tax (credit)/charge on the result for the year:	<u>1998</u>	<u>1997</u>
UK corporation tax at 31% (1997-33%)	(199,000)	197,605
Deferred taxation (Note 11)	<u>(117,000)</u>	<u>(9,302)</u>
	(316,000)	188,303
In respect of prior years:		
Deferred taxation (Note 11)	6,000	(5,698)
UK corporation tax	<u>(44,510)</u>	<u>(22,126)</u>
	<u>£(354,510)</u>	<u>£160,479</u>
	<u>=====</u>	<u>=====</u>

5 INTANGIBLE ASSETS
Know how

Cost	
At 30 September 1997	110,000
Additions	<u>-</u>
At 30 September 1998	110,000
Depreciation	
At 30 September 1997	109,999
Charge for the year	<u>-</u>
At 30 September 1998	109,999
Net book amount	
At 30 September 1998	<u>£1</u>
	<u>=====</u>
At 30 September 1997	<u>£1</u>
	<u>=====</u>

OXLEY DEVELOPMENTS COMPANY LIMITED

NOTES TO THE ACCOUNTS - 30 SEPTEMBER 1998 (CONTINUED)

6 TANGIBLE ASSETS

	<u>Freehold Property</u>	<u>Short Leasehold Property</u>	<u>Plant and Machinery</u>	<u>Fixtures and Fittings</u>	<u>Motor Vehicles</u>	<u>Total</u>
Cost or valuation						
At 30 September 1997	125,103	44,020	3,071,583	2,090,200	76,337	5,407,243
Additions	-	1,900	102,545	260,148	-	364,593
Disposals	(110,000)	(45,920)	-	-	-	(155,920)
At 30 September 1998	15,103	-	3,174,128	2,350,348	76,337	5,615,916
Includes assets valued in 1976	-	-	422,968	83,640	-	506,608
Depreciation						
At 30 September 1997	15,102	44,020	2,296,920	1,401,861	52,175	3,810,078
Charge for the year	-	-	162,926	182,783	6,048	351,757
Disposals	-	(44,020)	-	-	-	(44,020)
At 30 September 1998	15,102	-	2,459,846	1,584,644	58,223	4,117,815
Net book amount						
At 30 September 1998	£1	£-	£714,282	£765,704	£18,114	£1,498,101
At 30 September 1997	£110,001	£-	£774,663	£688,339	£24,162	£1,597,165

Assets included at a valuation would have been included on a historical cost basis at:

	<u>Plant and Machinery</u> £	<u>Fixtures and Fittings</u> £
Cost		
At 30 September 1998	177,552	40,453
At 30 September 1997	<u>177,552</u>	<u>40,453</u>
Aggregate depreciation		
At 30 September 1998	177,552	40,453
At 30 September 1997	<u>177,552</u>	<u>40,453</u>

Assets held under HP agreements had a net book value at 30 September 1998 of £223,021 (1997 - £128,863).

OXLEY DEVELOPMENTS COMPANY LIMITED

NOTES TO THE ACCOUNTS - 30 SEPTEMBER 1998 (CONTINUED)

7 STOCKS

	<u>1998</u>	<u>1997</u>
Raw materials and consumables	741,285	680,798
Work in progress	724,130	592,969
Finished goods	<u>263,051</u>	<u>99,237</u>
	<u>£1,728,466</u>	<u>£1,373,004</u>

The replacement cost of stocks did not materially differ from the book amounts at 30 September 1998 or 1997.

8 DEBTORS

	<u>1998</u>	<u>1997</u>
Trade debtors	1,432,379	2,752,336
Amounts owed by group undertakings	1,137,588	1,005,351
Other debtors	20,926	23,273
Prepayments and accrued income	284,967	276,807
Taxation recoverable	<u>264,126</u>	<u>26,485</u>
	<u>£3,139,986</u>	<u>£4,084,252</u>

9 CREDITORS (amounts falling due within one year)

	<u>1998</u>	<u>1997</u>
Bank loans and overdrafts (secured)	963,112	378,069
Trade creditors	615,609	589,090
Amounts owed to parent undertaking	225,000	225,000
Amounts owed to group undertakings	181,512	206,285
Loans (see below)	9,110	119,110
Accruals and deferred income	553,859	717,778
Taxation and social security	5,260	262,803
HP creditor	<u>59,132</u>	<u>57,007</u>
	<u>£2,612,594</u>	<u>£2,555,142</u>

The loan of £9,110 is repayable on demand and is unsecured. The loan is interest free.

OXLEY DEVELOPMENTS COMPANY LIMITED

NOTES TO THE ACCOUNTS - 30 SEPTEMBER 1998 (CONTINUED)

10 CREDITORS (amounts falling due after more than one year)

	<u>1998</u>	<u>1997</u>
HP creditor	£71,687	£66,843
	<u> </u>	<u> </u>

11 PROVISIONS FOR LIABILITIES AND CHARGES

Deferred taxation (Note 1(5))

	<u>1998</u>	<u>1997</u>
Balance at beginning of the year	138,000	153,000
Charge/(Release) for year (Note 4)	(111,000)	(15,000)
Balance at end of the year	£27,000	£138,000
	<u> </u>	<u> </u>

The full potential liability has been provided for and comprises:

Accelerated capital allowances	156,000	148,000
Other timing differences	(29,000)	(10,000)
Losses	(100,000)	-
	£27,000	£138,000
	<u> </u>	<u> </u>

12 SHARE CAPITAL

	<u>1998</u>	<u>1997</u>
Authorised		
31,004,510 Ordinary shares of 10p each	£3,100,451	£3,100,451
	<u> </u>	<u> </u>
Allotted, called up and fully paid		
31,004,510 Ordinary shares of 10p each	£3,100,451	£3,100,451
	<u> </u>	<u> </u>

13 PENSION COMMITMENTS

Employees of the company who satisfy the age and service related criteria are eligible for membership of a group personal pension scheme under which the contributions of the employer and employee are based on a percentage of salary. Details of premiums paid appear in Note 3 (c).

OXLEY DEVELOPMENTS COMPANY LIMITED

NOTES TO THE ACCOUNTS - 30 SEPTEMBER 1998 (CONTINUED)

14 CAPITAL COMMITMENTS

	<u>1998</u>	<u>1997</u>
Orders authorised by the Board and placed with suppliers	£-	£-
	<u> </u>	<u> </u>

15 CONTINGENT LIABILITIES

An unlimited multilateral company guarantee exists between some group companies over certain bank accounts.

16 ULTIMATE PARENT UNDERTAKING

The directors regard Oxley International Inc, a company incorporated in Panama, as the company's ultimate parent undertaking.

The company's immediate parent undertaking is Oxley Group plc which is incorporated in the United Kingdom. Oxley Group plc is the parent undertaking of the largest and smallest group which consolidates these accounts, and of which the company is a member.

Copies of the group accounts may be obtained from Oxley Group plc, Priory Park, Ulverston, Cumbria, England, LA12 9QG.