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Thales e-Security Limited

Report and Financial Statements

31 December 2002



Thales e-Security Limited

Registered No. 2518805

Directors

J Ballard
P Naybour
J Hughes
R Bartlett

Secretary

Michael Seabrook

Auditors

Ernst & Young LLP
Becket House
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London SE1 7EU

Registered Office

2, Dashwood Lang Road
The Bourne Business Park
Addlestone
Nr Weybridge
Surrey KT15 2NX

Directors' report

The directors present their annual report on the affairs of the company, together with the financial statements and auditors' report, for the year ended 31 December 2002.

Results and dividends

The audited financial statements for the year ended 31 December 2002 are set out on pages 7 to 23. The profit for the year after taxation was £6,865,975 (2001 – £3,673,050).

The directors do not recommend the payment of a dividend (2001– £nil).

Principal activities and review of the business

The principal activities of the company are the design, manufacture and sale of products and services in the areas of network security and the protection of value bearing electronic transactions. The Company operates throughout the EMEA region and globally through its affiliated companies in the USA and Hong Kong.

The subsidiary undertakings held by the company are listed in note 11 to the financial statements. Consolidated financial statements are not presented as the company takes advantage of the exemption afforded by Section 228 of the Companies Act 1985.

Thales e-Security focuses on two main business areas – network security (protecting data on communications networks) and card payment security (protecting applications used to transfer payments and other value bearing instructions between users, such as credit card users, loyalty scheme participants, or users of other banking applications).

Results for the year show a reduction in revenue of 9.8% over 2001. This reduction results from a general weakness in global markets, particularly in the financial service sector. Operating profit increased from £3,459,682 to £6,332,110 including an exceptional profit of £4,698,084 relating to the waiver of inter company balances. Excluding this factor operating profit fell to £1,634,026 as a result of increased expenditure on Research & Development to accelerate introduction of new and enhanced products.

During the year the Company purchased the entire share capital of CHR Design Ltd a small Engineering design company specialising in high assurance network security for HM Government customers. This acquisition positions the Company well to grow sales of its network security products to both HM Government and overseas governments.

During the year the Company purchased the intellectual property of a business in Sweden.

The Company remains a wholly owned subsidiary of Thales, an international group, headquartered in Paris with sales of €11.1.bn in 2002. The Company believes that, in the current market conditions, being part of a strong international group is a major advantage over many of its competitors and will give access to investment funding and markets not previously available, enhancing its future growth potential.

Whilst commercial market conditions remain difficult the Company's position in its chosen market remains good and the Company anticipates growth in 2003.

Directors' report (continued)

Directors and their interests

The directors who served during the year were as listed on page 1.

According to the register of directors' interests, no director had any beneficial interests in the shares of the company or held the right to subscribe for shares during the year.

Supplier payment policy

It is the company's normal practice to make payments to suppliers promptly provided that the supplier has performed in accordance with the relevant terms and conditions.

Creditors days at 31 December 2002, based on the aggregate of the amounts which were owed to trade creditors at that date and the aggregate of the amounts which the company was invoiced by suppliers during the year, amounted to 45 (2001 – 45).

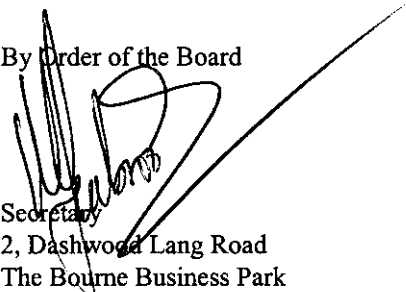
Donations

During the period to 31 December 2002 charitable donations of £1,790 (2001 – £1,100) were made.

Auditors

On 31 July 2002 Arthur Andersen resigned as auditors and Ernst & Young LLP were appointed in their place. A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

By Order of the Board



Secretary
2, Dashwood Lang Road
The Bourne Business Park
Addlestone
Nr Weybridge
Surrey KT15 2NX

Date: 23 September 2003

Statement of directors' responsibilities in respect of the financial statements

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.

- 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; and

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 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.

Independent auditors' report

to the members of Thales e-Security Limited

We have audited the company's financial statements for the year ended 31 December 2002 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet, Statement of Cash Flows, Reconciliation of Shareholders' Funds and the related notes 1 to 26. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, 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 with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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.

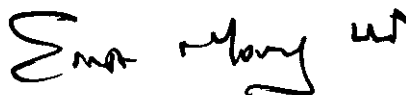
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent auditors' report

to the members of Thales e-Security Limited (continued)

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 December 2002 of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP
Registered Auditor
London

28 September 2003

Profit and loss account

for the year ended 31 December 2002

	Notes	2002 £	2001 £ (Restated)
Turnover	2	16,580,533	18,381,965
Operating profit	3	6,332,110	3,459,682
Interest receivable	4	325,304	281,751
Profit on ordinary activities before taxation		6,657,414	3,741,433
Tax credit/(charge) on profit on ordinary activities	8	208,561	(68,383)
Profit on ordinary activities after taxation		6,865,975	3,673,050
Retained profit for the year	19,20	6,865,975	3,673,050

The notes on pages 10 to 23 form part of these accounts.

Statement of total recognised gains and losses

for the year ended 31 December 2002

	2002 £	2001 £ (Restated)
Profit attributable to the members of the company	6,865,975	3,673,050
Total recognised gains and losses relating to the year	<u>6,865,975</u>	<u>3,673,050</u>
Prior year adjustment	250,397	
Total gains and losses recognised since last annual report	<u>7,116,372</u>	

The notes on pages 10 to 23 form part of these accounts.

Balance sheet

at 31 December 2002

	Notes	2002 £	2001 £ (Restated)
Fixed assets			
Intangible assets	9	296,734	–
Tangible assets	10	853,719	659,894
Investments	11	490,000	–
		<u>1,640,453</u>	<u>659,894</u>
Current assets			
Stocks	12	1,843,670	1,544,237
Debtors			
– due within one year	13	6,305,061	11,240,676
– due after one year	13	325,332	522,094
Cash at bank and in hand		9,993,002	4,589,153
		<u>18,467,065</u>	<u>17,896,160</u>
Creditors: amounts falling due within one year	14	<u>(4,302,008)</u>	<u>(6,709,739)</u>
Net current assets		<u>14,165,057</u>	<u>11,186,421</u>
Total assets less current liabilities		<u>15,805,510</u>	<u>11,846,315</u>
Creditors: amounts falling due after more than one year	15	–	(3,564,595)
Provisions for liabilities and charges	17	(932,815)	(275,000)
Net assets		<u>14,872,695</u>	<u>8,006,720</u>
Capital and reserves			
Called up share capital	18	200,095	200,095
Profit and loss account	19	14,672,600	7,806,625
Shareholders' funds	20	<u>14,872,695</u>	<u>8,006,720</u>
Shareholders' funds may be analysed as:			
Equity interests		14,672,695	7,806,720
Non-equity interests		200,000	200,000
		<u>14,872,695</u>	<u>8,006,720</u>

The financial statements were approved by the Board of Directors on 23/9/2003 and signed on its behalf by:



Director

The notes on pages 10 to 23 form part of these accounts.

Notes to the financial statements

at 31 December 2002

1. Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year except for the adoption of FRS 19 Deferred Tax referred to below.

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

In preparing the financial statements for the current year, the group has adopted FRS 19 'Deferred Tax'. The adoption of FRS 19 has resulted in a change in accounting policy for deferred tax. Deferred tax is recognised on a full provision basis in accordance with the accounting policy described below. Previously, deferred tax was provided for on a partial provisions basis, whereby provision was made on all timing differences to the extent that they were expected to reverse in the future without replacement.

This change in accounting policy has resulted in a prior year adjustment for the company. For the company, shareholders' funds have been increased by £275,597 at 1 January 2001 and the profit for the year ended 31 December 2001 has been reduced by £25,200. A deferred tax asset has been recognised of £147,901 at 31 December 2001. Profit for the company for the current year has been reduced by £161,375 as a result of the change in accounting policy.

The company has taken advantage of the exemption from preparing consolidated financial statements afforded by Section 228 of the Companies Act 1985 because it is a wholly owned subsidiary of THALES SA, which prepares consolidated financial statements which are publicly available.

Research and development

Research and Development expenditure is written off as incurred.

Intangible assets

Intellectual property is stated at cost, net of amortisation charged over the expected useful life being : 3 years.

Tangible fixed assets

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, other than investment properties and freehold land, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Short term leaseholds	–	the term of the lease
Plant, machinery, furniture and vehicles	–	3-15 years

The carrying value of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes materials, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate. Uninvoiced research and development fully funded by customers is carried forward as work in progress.

Notes to the financial statements

at 31 December 2002

1. Accounting policies (continued)

Taxation

Current tax, including UK corporation tax and foreign 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 tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exceptions:

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustment) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;
- provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable; and
- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.
- Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Turnover

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales related taxes.

Pension costs

The company participates in a group defined benefit scheme which is funded, with the assets of the scheme held separately from those of the group, in separate trustee administered funds. The Company accounts for pensions in accordance with SSAP 24.

The company's contributions are affected by the deficit in the scheme however it is not possible to identify the company's share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis. Therefore in accordance with FRS17 multi-employer exemption, for the purposes of the FRS 17 disclosures the scheme is accounted for as if it were a defined contributions scheme.

The latest available information about the existence of the deficit in the scheme and the implications of that deficit for the company are detailed in the notes to the accounts.

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Notes to the financial statements

at 31 December 2002

1. Accounting policies (continued)

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate. 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, if appropriate, at the forward contract rate. All exchange differences are included in the profit and loss account.

Leases

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

Cash flow statements

In accordance with Financial Reporting Standard No.1 (Revised), the company is exempt from preparing a cash flow statement as its ultimate parent undertaking, Thales SA, has included a cash flow statement in its financial statements which are publicly available.

2. Segment information

Classes of business:

In the directors' opinion there was only one class of business during the year, namely industrial electronics.

	2002	2001
	£	£
Geographical analysis of turnover:		
United Kingdom	9,597,661	10,226,766
Other European countries	3,563,458	4,394,777
Africa	549,771	745,320
The Americas	225,359	474,609
Asia and Australasia	2,644,284	2,540,493
	<u>16,580,533</u>	<u>18,381,965</u>

Notes to the financial statements

at 31 December 2002

3. Operating profit

	2002 £	2001 £
Turnover	16,580,533	18,381,965
Cost of sales	(5,243,789)	(5,663,488)
Gross profit	11,336,744	12,718,477
Selling and distribution	(7,979,001)	(6,906,090)
Administrative expenses	(1,723,717)	(1,757,186)
Exceptional items	4,698,084	(595,519)
Operating profit	6,332,110	3,459,682

All income derives from continuing operations in both the current year and the prior period.

Administrative expenses include £nil (2001 – £168,895) in respect of an exceptional bad debt charge arising in continuing operations.

Operating Exceptional Items:

During the year, certain intercompany balances totalling £4,698,084 have been waived. The waived have been credited to the profit and loss account as exceptional items.

4. Interest receivable

	2002 £	2001 £
Interest receivable and similar income	325,304	281,751

5. Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	2002 £	2001 £
Depreciation and amounts written off owned tangible fixed assets:	257,084	209,022
Operating lease rentals:		
– other	401,471	362,181
Auditors' remuneration for audit services – prior auditors	–	18,200
Auditors' remuneration for audit services – current auditors	18,900	–

Notes to the financial statements

at 31 December 2002

6. Directors' remuneration

	2002	2001
	£	£
Emoluments	377,173	375,547
Company pension contributions	250,150	101,043

The above amounts do not include any gains made on the exercise of share options or the value of any shares or share options received under long-term incentive schemes. None of the directors exercised share options in the year (2001 – £nil) and no shares were received by any of the directors or are receivable at the year end under long term incentive schemes, (2001 – none).

Pensions

The number of directors who were members of pension schemes was as follows:

	2002	2001
	No.	No.
Defined benefit schemes	4	5

Highest paid director

The above amounts for remuneration includes the following in respect of the highest paid director:

	2002	2001
	£	£
Emoluments	190,108	162,889

The accrued pension entitlement under the company's defined benefit scheme of the highest paid director at 31 December 2002 was £6,604 (2001 – £3,973).

7. Staff costs

	2002	2001
	£	£
Their aggregate remuneration comprised:		
Wages and salaries	5,111,847	4,250,377
Social security costs	481,572	413,618
Other pension costs (see note 23)	926,216	339,538
	6,519,635	5,003,533

Notes to the financial statements

at 31 December 2002

7. Staff costs (continued)

The monthly number of employees during the year was as follows:

	2002 No.	2001 No.
Distribution and engineering	91	64
Sales and marketing	21	21
Administration	10	10
	<u>122</u>	<u>95</u>

8. Tax on profit on ordinary activities

(a) Analysis of tax credit/(charge) in the period

	2002 £	2001 £
<i>Current tax:</i>		
UK corporation tax on profit for the period	—	—
<i>Total current tax</i>	—	—
<i>Deferred tax</i>		
Origination and reversal of timing differences credit/(charge)	208,561	(68,383)
<i>Tax on profit on ordinary activities</i>	<u>208,561</u>	<u>(68,383)</u>

Notes to the financial statements

at 31 December 2002

8. Tax on profit on ordinary activities (continued)

(b) Factors affecting current tax credit/(charge)

	2002 £	2001 £
Profit on ordinary activities before taxation	6,657,414	3,741,433
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2001 – 30%)	1,997,224	1,122,430
<i>Effects of:</i>		
Expenses not deductible for tax purposes	14,856	15,000
Other timing differences	262,673	(43,183)
Capital allowances in excess of depreciation	(54,112)	(25,200)
Loss received for no consideration	(2,220,641)	(1,069,047)
<i>Current tax charge for the period</i>	–	–

(c) Factors that may affect future tax charges

As a UK resident company in the Thales Group the Company is eligible to surrender group relief to, or claim group relief from, other Thales plc Group companies. These claims or surrenders may be made with or without charge.

9. Intangible fixed assets

	<i>Intellectual property</i> £	<i>Total</i> £
Cost or valuation:		
At 1 January 2002	–	–
Additions	356,081	356,081
At 31 December 2002	356,081	356,081
Amortisation:		
At 1 January 2002	–	–
Charge for the year	59,347	59,347
At 31 December 2002	59,347	59,347
Net book value:		
At 31 December 2002	296,734	296,734
At 1 January 2002	–	–

Notes to the financial statements

at 31 December 2002

10. Tangible fixed assets

	<i>Short leasehold land and buildings £</i>	<i>Plant and machinery, furniture vehicles £</i>	<i>Total £</i>
Cost or valuation:			
At 1 January 2002	180,575	1,445,055	1,625,630
Additions	3,333	463,270	466,603
Disposals	–	(306,224)	(306,224)
At 31 December 2002	183,908	1,602,101	1,786,009
Depreciation:			
At 1 January 2002	66,349	899,387	965,736
Charge for the year	13,286	243,798	257,084
Disposals	–	(290,530)	(290,530)
At 31 December 2002	79,635	852,655	932,290
Net book value:			
At 31 December 2002	104,273	749,446	853,719
At 1 January 2002	114,226	546,668	659,894

11. Investments

Subsidiary undertakings

Consolidated financial statements have not been prepared as Thales e-Security is itself a wholly-owned subsidiary. Consequently these financial statements present information about the company rather than the group. Fixed asset investments are carried at cost less any provision for impairment value.

The company has investments in the following subsidiary undertakings, all of which are incorporated in the United Kingdom.

	<i>Holding</i>	<i>%</i>
Airtech Computer Security Limited	17,130,820 5p ordinary	100
Airtech Syncresys Limited	2,000 5p ordinary	
Software Forge Limited	21,500 £1 ordinary	100
Racal Asia Limited	7,807,884 \$10 HK ordinary	100
CHR Design Limited	283,038 £ ordinary and 125,000 £1 preference	100
Subsidiary undertakings of Software Forge Limited		
The Hardware Forge Limited	99 £1 ordinary	100
Subsidiary undertakings of Airtech Computer Security Limited		
Computer Security Limited	52 £1 ordinary	100
Airtech Security Limited	2 £1 ordinary	100

Notes to the financial statements

at 31 December 2002

11. Investments (continued)

With the exception of CHR Design Limited, the above companies are dormant. The principal activity of CHR Design Limited is of electrics design, software design and development in the information technology and security fields.

	<i>Shares in group undertakings Total £</i>
Cost:	
At 1 January 2002	6,894,519
Additions	490,000
At 31 December 2002	<u>7,384,519</u>
Amounts written off:	
At 1 January 2002	6,894,519
Written off	—
At 31 December 2002	<u>6,894,519</u>
Net book value:	
At 31 December 2002	<u>490,000</u>
At 31 December 2001	<u>—</u>

During the year the Company purchased the entire share capital of CHR Design Limited for cash consideration of £490,000.

12. Stocks

	<i>2002 £</i>	<i>2001 £</i>
Raw materials and consumables	1,079,202	682,099
Work-in-progress	153,994	284,294
Finished goods and goods for resale	610,474	577,844
	<u>1,843,670</u>	<u>1,544,237</u>

There is no material difference between the balance sheet value of stocks and their replacement cost.

Notes to the financial statements

at 31 December 2002

13. Debtors

	2002 £	2001 £ (Restated)
Amounts falling due within one year:		
Trade debtors	2,863,050	3,435,462
Amounts owed by group undertakings	2,122,568	7,084,337
Other debtors	21,929	439,467
Prepayments and accrued income	941,052	133,509
Deferred tax asset (note 16)	356,462	147,901
	<u>6,305,061</u>	<u>11,240,676</u>
Amounts falling due after more than one year:		
Pension prepayments – defined benefit schemes	325,332	522,094
	<u>6,630,393</u>	<u>11,762,770</u>

14. Creditors: amounts falling due within one year

	2002 £	2001 £
Trade creditors	1,224,638	1,837,207
Amounts owed to group undertakings	106,787	2,284,874
UK corporation tax	–	2,191
Other taxes and social security costs	148,288	462,506
Accruals and deferred income	2,822,295	2,122,961
	<u>4,302,008</u>	<u>6,709,739</u>

15. Creditors: amounts falling due after more than one year

	2002 £	2001 £
Amounts owed to group undertakings	–	3,564,595
	<u>–</u>	<u>3,564,595</u>

Notes to the financial statements

at 31 December 2002

16. Deferred tax

	2002 £
Deferred tax asset/(liability) as at 1 January 2002	(102,496)
Prior year adjustment	250,397
Revised deferred tax asset/(liability) as at 1 January 2002	147,901
Profit and loss account	208,561
Deferred tax asset/(liability) as at 31 December 2002	356,462

Details of deferred tax asset/(liability) are:

	2002 £	2001 £ (Restated)
Accelerated capital allowances	115,788	169,899
Other timing differences	240,674	(21,998)
	356,462	147,901

17. Provisions for liabilities and charges

	<i>Post-sale rectification and support costs £</i>
At 1 January 2002	275,000
Charged to profit and loss account	657,815
At 31 December 2002	932,815

The provision for post-sale rectification and support costs relates to anticipated costs to be borne by the company in respect of rectification and support of products already delivered to customers.

Notes to the financial statements

at 31 December 2002

18. Share capital

	2002	2001
	£	£
<i>Authorised, called up and fully paid</i>		
1,900 ordinary shares of 5p each	95	95
	<u> </u>	<u> </u>
<i>Authorised, called up, allotted and fully paid</i>	£	£
200,000 cumulative redeemable preference shares of £1 each	200,000	200,000
	<u> </u>	<u> </u>

The cumulative preference shares of £1 each entitle the holder to the right to a return of capital plus accrued dividends at either a winding up or a repayment of capital. The preference shares entitle the holders to receive a fixed cumulative dividend of 0.1 pence per annum payable on 1 January. The preference shares do not entitle the holders to any further rights or other participation in the profits or assets of the company nor do they carry any voting rights.

19. Reserves

	<i>Profit and loss account</i>
	£
At 31 December as previously stated	7,556,228
Prior year adjustment	250,397
At 31 December 2001 as restated	7,806,625
Retained profit for the year	6,865,975
	<u> </u>
At 31 December 2002	14,672,600
	<u> </u>

20. Reconciliation of movements in shareholders' funds

	2002	2001
	£	£
Profit for the financial period	6,865,975	3,673,050
Opening shareholders' funds as previously stated	7,756,323	4,058,073
Prior year adjustments	250,397	275,597
	<u> </u>	<u> </u>
Opening shareholders' funds as restated	8,006,720	4,333,670
	<u> </u>	<u> </u>
Closing shareholders' funds	14,872,695	8,006,720
	<u> </u>	<u> </u>

Notes to the financial statements

at 31 December 2002

21. Financial commitments

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

	<i>Land and buildings</i>	<i>Other</i>	<i>Land buildings</i>	<i>Other</i>
	£	£	£	£
Expiry date:				
– within one year	40,000	42,138	–	23,441
– between two and five years	–	162,282	–	140,038
– after five years	269,400	–	297,395	–
	<u>309,400</u>	<u>204,420</u>	<u>297,395</u>	<u>163,479</u>

Leases of land and buildings are typically subject to rent reviews as specified intervals and provide for the lessee to pay all insurance, maintenance and repair costs.

22. Contingent liabilities

At 31 December 2002 Thales e-Security Limited was part of Thales Group cross guarantee scheme to secure fellow subsidiaries overdrafts and group banking facilities under a 'mass' bank account arrangement. There are contingent liabilities in the event of any claim for breach or non-performance of the terms of overseas contracts against which bank guarantees have been issued amounting to £100,000 (2001 – £60,000).

23. Pensions

The company has continued to account for pensions in accordance with SSAP 24 and the disclosures given in a) are those required by the standard. FRS 17 "Retirement Benefits" was issued in November 2000 but compulsory implementation has been delayed by the Accounting Standards Board. The transitional disclosure, to the extent that they are not given in a) are set out in b) below.

(a) Statement of Standard Accounting Practice "Accounting for Pension Costs" (SSAP 24)

The company participates in a number of pension schemes, operated by the Thales Group, which cover the majority of its directors and employees. The schemes are defined benefit arrangements and are operated on a pre-funded basis.

Actuarial assessments covering expenses and contributions are carried out by independent qualified actuaries.

At 31 December 2002, a prepayment of £325,332 is included in prepayments due in more than one year (2001 – £522,094). This represents the excess of the amounts funded over the accumulated pension costs.

The last valuations of the schemes were carried out at 31 March 2001 and the results of these valuations and details of the main actuarial assumptions adopted for this purpose are given in the accounts of Thales Plc, the intermediate parent company.

Notes to the financial statements

at 31 December 2002

23. Pensions (continued)

(b Financial Reporting Standard 17 "Retirement Benefits" (FRS 17)

The company participates in a number of funded group defined benefit schemes. It is not possible to identify the company's share of assets and liabilities in the schemes on a consistent and reasonable basis. Therefore, in accordance with FRS17 paragraph 9(b) (multi-employer exemption), the schemes are disclosed as if they are accounted for as defined contributions schemes.

The pension cost charge for the year amounted to £925,317 (2001 – £339,538).

In order to provide information about the existence of a surplus or deficit on the schemes, a separate valuation of the schemes as at 31 December 2002 using the projected unit basis required by FRS17, have been obtained.

The valuations of the group schemes show the following:

Racal Staff Scheme	£(90,400,000)
Racal EM & SM Scheme	£(50,800,000)
Racal EPP Scheme	£(43,300,000)

For the purposes of these financial statements, these figures are illustrative only and do not impact on the results or the balance sheet of the company. It should also be noted that these figures include a substantial proportion of pension assets and liabilities relating to other group companies which also participate in the schemes. It has not been possible to identify the share of these funds which relates solely to Thales e-Security Limited.

The measurement bases required by FRS17 are likely to give rise to significant fluctuations in the reported amounts of the defined benefit pension schemes assets and liabilities from year to year, and do not necessarily give rise to a change in the contributions payable into the schemes, which are recommended by the independent actuaries based on the expected long term rate of return on the schemes assets.

24. Related party transactions

During the course of the year loans and payments made on behalf of CHR Design Limited of £733,259 were provided to CHR Design Ltd. These amounts are outstanding as at the year-end.

25. Ultimate parent company and controlling party

The director's regard Thales SA, a company incorporated in France, as the ultimate parent company and the ultimate controlling party.

Thales SA is the parent of the largest and smallest group of which the company is a member and for which group financial statements are drawn up. Copies of the financial statements are available from 173 boulevard Haussmann, 75415 Paris Cedex 08, France.

As a subsidiary undertaking of Thales SA, the company has taken advantage of the exemption FRS8 "Related Party Disclosures" from disclosing transactions with other members of the group headed by Thales SA.

26. Post balance sheet events

During 2003, the business and trade of CHR Design Limited were transferred to Thales E-Security and an additional capital contribution of £1 million was made in CHR Design Ltd.