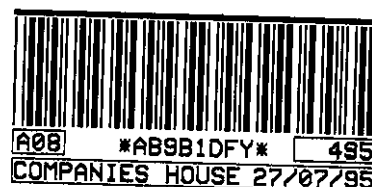


2691211

UAV Engines Limited
(formerly Alvis UAV Engines Limited)
Directors' Report and Financial Statements
for the fifteen months ended 31 December 1994

Kershen Fairfax
Chartered Accountants



UAV Engines Limited
(formerly Alvis UAV Engines Limited)
Company Information

Directors	Y Baruchi (appointed 24/8/94) E Gamzon (appointed 24/8/94) D W Garside R Ariav (appointed 24/8/94) C J Biddulph (resigned 24/8/94) B Hyner (resigned 24/8/94) R S Wigley (resigned 24/8/94) B C Winch (resigned 24/8/94)
Secretary	C J Biddulph
Company Number	2691211 (England and Wales)
Registered Office	Lynn Lane Shenstone Lichfield Staffordshire WS14 0EA
Auditors	Kershen Fairfax Walkden House 10 Melton Street Euston Square London NW1 2EJ
Business Address	Lynn Lane Shenstone Lichfield Staffordshire WS14 0EA
Bankers	Lloyds Bank plc 30 High Street Coventry CV1 5RA

UAV Engines Limited
(formerly Alvis UAV Engines Limited)
Contents

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UAV Engines Limited
(formerly Alvis UAV Engines Limited)
Directors' Report for the fifteen months ended 31 December 1994

The directors present their report and the financial statements for the fifteen months ended 31 December 1994.

Principal Activities and Review of the Business

The Company's principal activity is the design, manufacture and sale of high performance, rotary engines for unmanned air vehicles for target and surveillance purposes.

A controlling interest in the company was sold by its original parent, Alvis PLC, to Silver Arrow Limited Partnership on 24th August 1994. The company was previously Alvis UAV Engines Limited and changed its name to UAV Engines Limited on 6th September 1994.

Results and Dividends

The results for the fifteen months are set out on page 4.

It is proposed that the loss of £258,643 is transferred to reserves.

Fixed Assets

The significant changes in fixed assets during the fifteen months are explained in note 8 to the financial statements.

Directors and their Interests

The directors who served during the fifteen months and their interests in the company were as stated below.

		Number of shares	
		1994	1993
		Class of share	
Y Baruchi	(appointed 24/8/94)	Ordinary shares	-
E Gamzon	(appointed 24/8/94)	Ordinary shares	-
D W Garside		Ordinary shares	32,500
R Ariav	(appointed 24/8/94)	Ordinary shares	-
C J Biddulph	(resigned 24/8/94)	Ordinary shares	20,375
B Hyner	(resigned 24/8/94)	Ordinary shares	9,625
R S Wigley	(resigned 24/8/94)	Ordinary shares	-
B C Winch	(resigned 24/8/94)	Ordinary shares	-

Auditors

Kershen Fairfax were appointed auditors to the company and in accordance with Section 385 of the Companies Act 1985, a resolution proposing that they be re-appointed will be put to the Annual General Meeting.

UAV Engines Limited
(formerly Alvis UAV Engines Limited)
Directors' Report for the fifteen months ended 31 December 1994 (continued)

Directors' Responsibilities

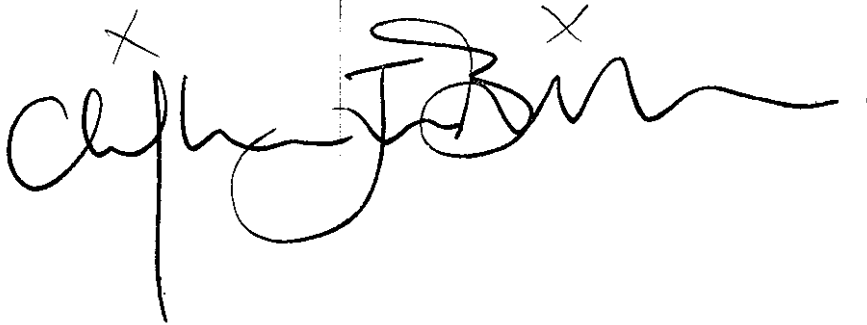
Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

This report was approved by the Board on 7 July 1995

C J Biddulph
Secretary

A large, stylized handwritten signature in black ink, likely belonging to C J Biddulph, the Secretary. The signature is written in a cursive, flowing style with a long horizontal stroke at the end. There are two small 'X' marks above the signature, one on the left and one on the right.

UAV Engines Limited
(formerly Alvis UAV Engines Limited)
Auditors' Report
to the shareholders of UAV Engines Limited (formerly Alvis UAV Engines Limited)

We have audited the financial statements on pages 4 to 13 which have been prepared under the historical cost convention and the accounting policies set out on page 6.

Respective responsibilities of directors and auditors

As described on page 2 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 1994 and of its result for the fifteen months then ended and have been properly prepared in accordance with the provisions of the Companies Act 1985.



Kershen Fairfax

Chartered Accountants
Registered Auditor

24th July, 1995

Walkden House
10 Melton Street
Euston Square
London NW1 2EJ

UAV Engines Limited
(formerly Alvis UAV Engines Limited)
Profit and Loss Account
for the fifteen months ended 31 December 1994

	Notes	15 mths to 31/12/1994 £	1993 £
Turnover	2	846,989	241,599
Cost of sales		(827,156)	(203,359)
Gross profit		19,833	38,240
Administrative expenses		(222,083)	(183,412)
Operating loss	3	(202,250)	(145,172)
Business setup costs	7	-	(125,000)
Loss on ordinary activities before interest		(202,250)	(270,172)
Other interest receivable and similar income	4	333	-
Interest payable and similar charges	5	(56,726)	(18,932)
Loss on ordinary activities before taxation		(258,643)	(289,104)
Tax on loss on ordinary activities	6	-	-
Loss for the fifteen months	14	(258,643)	(289,104)

There are no recognised gains and losses other than those passing through the profit and loss account.

UAV Engines Limited
(formerly Alvis UAV Engines Limited)

Balance Sheet
as at 31 December 1994

		15 mths to 31/12/1994	1993
	Notes	£	£
Fixed Assets			
Tangible assets	8	136,547	150,721
Current Assets			
Stocks	9	149,001	144,877
Debtors	10	198,176	52,002
Cash at bank and in hand		52,909	7,804
		<u>400,086</u>	<u>204,683</u>
Creditors: amounts falling due within one year	11	(201,982)	(198,690)
Net Current Assets		<u>198,104</u>	<u>5,993</u>
Total Assets Less Current Liabilities		<u>334,651</u>	<u>156,714</u>
Creditors: amounts falling due after more than one year	12	(750,000)	(375,000)
Provision for Liabilities and Charges		(6,683)	(7,604)
		<u>£(422,032)</u>	<u>£(225,890)</u>
Capital and Reserves			
Called up share capital	13	312,500	250,000
Profit and loss account	14	(734,532)	(475,890)
Shareholders' Funds	15	<u>£(422,032)</u>	<u>£(225,890)</u>

The financial statements were approved by the Board on 7 July 1995.

Director

Elie Cohen
W Gaudin

Anthony J. Brown

UAV Engines Limited
(formerly Alvis UAV Engines Limited)
Notes to the Financial Statements
for the fifteen months ended 31 December 1994

1. Accounting Policies

1.1 Accounting convention

The financial statements are prepared under the historical cost convention and include the results of the company's operations as indicated in the directors' report, all of which are continuing.

The company has taken advantage of the exemption in Financial Reporting Standard No 1 from the requirement to produce a cashflow statement on the grounds that it is a small company.

1.2 Turnover

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties, except in respect of long term contracts where turnover represents the sales value of work done in the year.

1.3 Research and development

Research and development expenditure is written off to the profit and loss account in the year in which it is incurred.

1.4 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Plant and machinery	-	10% Straight line (10 years over EUL)
Fixtures, fittings and equipment	-	20% Straight line (5 years over EUL)
Motor vehicles	-	15% Straight line (3 years over EUL)

The fixed assets depreciation rates were changed from those stated in brackets above, in order to bring the company's depreciation policy in line with its new parent company's. There is no material effect on the company's results for the period.

1.5 Leasing

Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

UAV Engines Limited
(formerly Alvis UAV Engines Limited)
Notes to the Financial Statements

for the fifteen months ended 31 December 1994

1.6 Stock and work in progress

Stock and work in progress are valued at the lower of cost and net realisable value.

1.7 Long term contracts

Amounts recoverable on long term contracts, which are included in debtors are stated at the net sales value of the work done after provision for contingencies and anticipated future losses on contracts, less amounts received as progress payments on account.

1.8 Pensions

The pension costs charged in the financial statements represent the contributions paid by the company during the fifteen months to individuals' personal pension plans.

1.9 Deferred taxation

Provision is made for deferred taxation using the liability method to take account of timing differences between the incidence of income and expenditure for taxation and accounting purposes except to the extent that the directors consider that a liability to taxation is unlikely to crystallise.

1.10 Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the accounting date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to profit and loss account.

1.11 Going Concern

The accounts have been prepared on a going concern basis. Although the balance sheet shows the company to be technically insolvent, indications are that it is now trading at a profit, and the sales orders book for 1995 is healthy. The parent company has agreed to continue the existing £750,000 loan for a minimum of one year, and the company will therefore have the requisite financial support to continue trading. The directors are therefore of the opinion that the going concern basis is appropriate.

UAV Engines Limited
(formerly Alvis UAV Engines Limited)
Notes to the Financial Statements
for the fifteen months ended 31 December 1994

2. Turnover

The total turnover of the company for the fifteen months represents amounts to third parties, except in respect of long term contracts where turnover represents the sales value of work done in the year, including estimates in respect of amounts not invoiced. Turnover in respect of total contract value is calculated as that proportion of total contract value which costs incurred to date bear to total expected costs for that contract.

	Turnover	
	15 mths to	
	31/12/1994	1993
	£	£
Geographical market		
United Kingdom	364,205	97,599
United States of America	93,169	122,000
Western Europe	8,470	22,000
Rest of the World	381,145	-
	<u>£ 846,989</u>	<u>£ 241,599</u>

3. Operating Loss

	15 mths to	
	31/12/1994	1993
	£	£
Operating loss is stated after charging:		
Depreciation of tangible assets	34,900	22,346
Operating lease rentals		
- Land and buildings	23,775	17,831
Auditors' remuneration	11,372	6,032
	<u> </u>	<u> </u>

4. Other Interest Receivable and Similar Income

	15 mths to	
	31/12/1994	1993
	£	£
Bank interest received	333	-
	<u> </u>	<u> </u>

UAV Engines Limited
(formerly Alvis UAV Engines Limited)
Notes to the Financial Statements
for the fifteen months ended 31 December 1994

5.	Interest Payable	15 mths to 31/12/1994	1993
		£	£
	On amounts payable to group companies	56,725	18,932
	On bank loans and overdrafts	1	-
		<u>£ 56,726</u>	<u>£ 18,932</u>

6. Taxation

At the balance sheet date the company had tax losses in the amount £585,542. There is currently a dispute over the availability of these losses up to 30th September 1993 for future relief and this might reduce these total losses available to £293,111.

7.	Exceptional item	15 mths to 31/12/1994	1993
		£	£
	Business setup costs	-	125,000

8. Tangible Assets

	Plant and machinery	Fixtures, fittings & equipment	Motor vehicles	Total
	£	£	£	£
Cost				
At 1 October 1993	40,205	128,862	4,000	173,067
Additions	13,022	6,997	2,200	22,219
Disposals	-	-	(2,000)	(2,000)
At 31 December 1994	<u>53,227</u>	<u>135,859</u>	<u>4,200</u>	<u>193,286</u>
Depreciation				
At 1 October 1993	2,510	19,126	709	22,345
On disposals	-	-	(506)	(506)
Charge for fifteen months	6,015	27,725	1,160	34,900
At 31 December 1994	<u>8,525</u>	<u>46,851</u>	<u>1,363</u>	<u>56,739</u>
Net book values				
At 31 December 1994	<u>£ 44,702</u>	<u>£ 89,008</u>	<u>£ 2,837</u>	<u>£ 136,547</u>
At 30 September 1993	<u>£ 37,695</u>	<u>£ 109,735</u>	<u>£ 3,291</u>	<u>£ 150,721</u>

UAV Engines Limited
(formerly Alvis UAV Engines Limited)
Notes to the Financial Statements
for the fifteen months ended 31 December 1994

9.	Stocks and Work in Progress	15 mths to 31/12/1994	1993
		£	£
	Raw materials and consumables	125,977	132,300
	Work in progress	23,024	12,577
		<u>149,001</u>	<u>144,877</u>
10.	Debtors	15 mths to 31/12/1994	1993
		£	£
	Trade debtors	154,690	43,228
	Amounts recoverable on long term contracts	25,310	-
	Other debtors	7,110	8,774
	Prepayments and accrued income	11,066	-
		<u>£ 198,176</u>	<u>£ 52,002</u>
11.	Creditors: amounts falling due within one year	15 mths to 31/12/1994	1993
		£	£
	Trade creditors	156,731	169,563
	Taxes and social security costs	5,763	4,277
	Other creditors	-	19,000
	Accruals and deferred income	39,488	5,850
		<u>£ 201,982</u>	<u>£ 198,690</u>
12.	Creditors: amounts falling due after more than one year	15 mths to 31/12/1994	1993
	Loans		
	Repayable after one year	<u>750,000</u>	<u>375,000</u>

The loan is from the immediate parent company. The principal sum of the loan is repayable in the event of default or an insolvency. The principal will not be recoverable within the first year of the loan. Interest is chargeable at 1.5% over base rates and is payable quarterly. The loan is secured over the company's assets by way of a fixed and floating charge.

UAV Engines Limited
(formerly Alvis UAV Engines Limited)
Notes to the Financial Statements
for the fifteen months ended 31 December 1994

13. Share Capital	15 mths to	1993
	31/12/1994	
	£	£
Authorised		
312,500 Ordinary shares of £1 each	312,500	250,000
	<u> </u>	<u> </u>
Allotted, called up and fully paid		
312,500 Ordinary shares of £1 each	312,500	250,000
	<u> </u>	<u> </u>
During the fifteen months 62,500 ordinary shares of £1 each were allotted to the parent company at par in consideration for a reduction in the amounts owed to it.		
14. Profit And Loss Account	15 mths to	1993
	31/12/1994	
	£	£
Accumulated losses at 1 October 1993	(475,889)	186,852
Retained loss for the fifteen months	(258,643)	(289,104)
Goodwill written off	-	(186,638)
	<u> </u>	<u> </u>
Accumulated losses at 31 December 1994	£(734,532)	£(288,890)
	<u> </u>	<u> </u>
15. Reconciliation of Movements in Shareholders' Funds	15 mths to	1993
	31/12/1994	
	£	£
Loss for the financial fifteen months	(258,643)	(289,104)
Proceeds of issue of equity shares	62,500	-
Goodwill written-off	-	(186,638)
	<u> </u>	<u> </u>
Net depletion in shareholders' funds	(196,143)	(475,742)
Opening shareholders' funds	(225,890)	249,852
	<u> </u>	<u> </u>
Closing shareholders' funds	£(422,032)	£(225,890)
	<u> </u>	<u> </u>

UAV Engines Limited
(formerly Alvis UAV Engines Limited)
Notes to the Financial Statements
for the fifteen months ended 31 December 1994

16. Financial Commitments

At 31 December 1994 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings	
	15 mths to	1993
	31/12/1994	
	£	£
Expiry date:		
Between two and five years	23,775	23,775
	<u>£ 23,775</u>	<u>£ 23,775</u>

17. Directors' Emoluments

	15 mths to	1993
	31/12/1994	
	£	£
Remuneration	71,873	64,000
Consultancy fees	33,958	28,253
	<u>£ 105,831</u>	<u>£ 92,253</u>

Emoluments disclosed above
(excluding pension contributions) include
amounts paid to:

The highest-paid director	<u>£ 46,061</u>	<u>£ 33,000</u>
---------------------------	-----------------	-----------------

Other directors' emoluments (excluding
pension contributions) were in the
following ranges:

	Number	Number
£Nil - £5,000	5	3
£20,001 - £25,000	-	1
£25,001 - £30,000	1	1
£30,001 - £35,000	1	-
	<u> </u>	<u> </u>

UAV Engines Limited
(formerly Alvis UAV Engines Limited)
Notes to the Financial Statements
for the fifteen months ended 31 December 1994

18. Employees

Number of employees

The average weekly number of employees (including directors) during the fifteen months was:

	15 mths to 31/12/1994 Number	1993 Number
Administration	4	4
Manufacturing	7	5
	<u>11</u>	<u>9</u>

Employment costs

	£	£
Wages and salaries	199,403	121,467
Social security costs	26,525	10,425
Other pension costs	530	5,850
	<u>£ 226,458</u>	<u>£ 137,742</u>

19. Ultimate Parent Company

The ultimate parent company is Silver Arrow Limited Partnership, registered in Israel.

UAV Engines Limited
(formerly Alvis UAV Engines Limited)
Information for Management Purposes

for the fifteen months ended 31 December 1994

UAV Engines Limited
(formerly Alvis UAV Engines Limited)
Detailed Trading and Profit and Loss Account
for the fifteen months ended 31 December 1994

	1994		1993	
	£	£	£	£
Sales		846,989		241,599
		<u>846,989</u>		<u>241,599</u>
Cost of sales				
Materials	421,987		243,145	
Wages and salaries (excl. N.I.)	107,246		23,933	
Directors' remuneration	53,123		31,000	
Employer's N.I. contributions	25,112		5,108	
Subcontract labour	94,661		-	
Warranty Charges	4,267		-	
Consumables	974		-	
Sundries	5,295		8,005	
Carriage	6,975		-	
Motor expenses	10,099		3,628	
Tooling	39,613		1,593	
Research and development	16,832		-	
Repairs to plant and machinery	1,013		1,009	
Test costs	-		756	
Light, heat and power	9,009		9,009	
Rent re operating leases	23,775		17,831	
Depreciation on plant and machinery	6,015		2,510	
Depreciation on motor vehicles	1,160		709	
	<u>827,156</u>		<u>348,236</u>	
Closing stock and work in progress	-		(144,877)	
		<u>(827,156)</u>		<u>(203,359)</u>
Gross profit	2.3%	19,833	15.8%	38,240
Administrative expenses		<u>(222,083)</u>		<u>(183,412)</u>
		<u>(202,250)</u>		<u>(145,172)</u>
Other operating income				
Sundry income	-		(125,000)	
	<u>-</u>		<u>-</u>	
				<u>(125,000)</u>
Operating loss	23.9%	<u>(202,250)</u>	111.8%	<u>(270,172)</u>
Other income and expenses				
Interest receivable				
Bank deposit interest	333		-	
	<u>333</u>		<u>-</u>	
		333		-

UAV Engines Limited
(formerly Alvis UAV Engines Limited)
Detailed Trading and Profit and Loss Account
for the fifteen months ended 31 December 1994

Interest payable		
• Group interest	56,725	18,932
Bank interest	1	-
	<hr/>	<hr/>
	(56,726)	(18,932)
	<hr/>	<hr/>
Net loss for the fifteen months	£(258,643)	£(289,104)
	<hr/>	<hr/>

UAV Engines Limited
(formerly Alvis UAV Engines Limited)
Administrative Expenses
for the fifteen months ended 31 December 1994

	1994 £	1993 £
Administrative expenses		
Wages and salaries	21,697	33,130
Staff pension	530	5,850
Directors' remuneration	18,750	33,000
Sums paid to third parties	-	5,721
Contract drafting	-	9,117
Commissions	1,361	-
Recruitment	-	82
Insurance	20,874	7,125
Service charges payable	6,833	4,500
Printing, postage and stationery	6,939	8,479
Advertising	846	2,903
Telephone	11,805	5,074
Carriage inwards	4,244	955
Project management	45,253	28,253
Travelling	13,419	6,945
Entertaining	1,860	573
Legal and professional	22,189	920
Consultancy	-	55
Audit and accountancy	11,372	6,032
Bank charges	1,387	449
Bad debts	2,152	2,416
Loss on foreign exchange	39	-
Conferences	2,374	2,571
General expenses	690	135
Depreciation on FF & E	27,725	19,127
Profit on disposal of tangible assets	(256)	-
	<u>£ 222,083</u>	<u>£ 183,412</u>