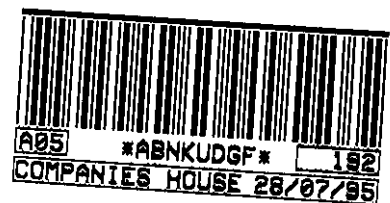


HORSTMAN DEFENCE SYSTEMS LIMITED
(Registered Number 1511975)

DIRECTORS' REPORT AND ACCOUNTS FOR
THE YEAR ENDED 31 DECEMBER, 1994



HORSTMAN DEFENCE SYSTEMS LIMITED

REPORT OF THE DIRECTORS

The directors have pleasure in submitting their report together with the audited accounts for the year to 31 December, 1994.

ACTIVITIES

The principal activity of the company continues to be the design and manufacture of gearboxes, auxiliary power units and components, hydraulic dampers for military vehicles, high precision aircraft gears and naval instrumentation equipment.

REVIEW OF THE BUSINESS

The company suffered a reduction in profits due to harsher trading conditions.

RESULTS

	£
Profit on ordinary activities for the year before taxation	254,487
Taxation	(89,725)
Profit for the year	164,762
Dividends - paid	(30,000)
- proposed	(120,000)
Retained profit in year	14,762
Retained profit brought forward	675,474
Retained profit carried forward	690,236

DIRECTORS

The directors who served during the year were:-

Mr P J K Haslehurst	(Chairman)
Mr R Morris	(Retired 31 December 1994)
Mr J J Hobbs	
Mr M K Wood	(Resigned 2 February 1995)
Mr A J Brooks	
Mr P J Binns	
Mr T Holman	
Mr P F Barrett	
Mr P Briggs	(Appointed 1 July 1994)

Mr P J Binns and Mr T Holman retire by rotation and, being eligible, offer themselves for re-election.

HORSTMAN DEFENCE SYSTEMS LIMITED

REPORT OF THE DIRECTORS
(contd.)

DIRECTORS' INTERESTS

Directors' interests in the share capital of the ultimate holding company, EIS Group PLC, as recorded in the register of directors' interests were:-

	<u>Interest in 25p ordinary shares</u>		<u>Options to acquire 25p ordinary shares</u>	
	<u>1994</u>	<u>1993</u>	<u>1994</u>	<u>1993</u>
Mr P J Binns	-	-	3,684	3,259
Mr A Brooks	1,554	596	2,852	4,454
Mr P F Barrett	-	-	2,619	1,981
Mr T Holman	-	-	-	-
Mr P Briggs	-	-	916	916

The interests of Mr P J K Haslehurst and Mr J J Hobbs in the share capital of the ultimate holding company are shown in the directors' report of that company. The directors' interests were beneficially owned.

With the exception of the interests disclosed above, no director had any interest in the shares or debentures of any group company at either 31st December 1994 or 31st December 1993.

FIXED ASSETS

The changes in fixed assets during the year are summarised in note 7 to the accounts. The directors are of the opinion that the existing value of the Company's properties in aggregate is not less than the amount at which they are included in the accounts.

RESEARCH AND DEVELOPMENT

The company is committed to a policy of investment in the future both by acquisition of new capital equipment and by expenditure on product development and improvement.

POLITICAL AND CHARITABLE CONTRIBUTIONS

No charitable or political donations were made during the year.

AUDITORS

On 6 February 1995 our auditors changed the name under which they practice to KPMG and, accordingly, have signed their report in their new name. In accordance with Section 384 of the Companies Act 1985 a resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

Secretary 

13th April 1995

HORSTMAN DEFENCE SYSTEMS LIMITED

STATEMENT OF 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 of the company for the year. In preparing those financial statements, the directors are required to:

- (i) select suitable accounting policies and then apply them consistently;
- (ii) make judgments and estimates that are reasonable and prudent;
- (iii) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- (iv) 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 of fraud and other irregularities.

REPORT OF THE AUDITORS TO THE MEMBERS OF HORSTMAN DEFENCE SYSTEMS LTD.

We have audited the financial statements on pages 4 to 13.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described above, 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 profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG



Chartered Accountants
Registered Auditors

13th April, 1995

HORSTMAN DEFENCE SYSTEMS LIMITED

PROFIT AND LOSS ACCOUNT FOR
THE YEAR ENDED 31 DECEMBER 1994

	<u>Notes</u>	<u>1994</u> £	<u>1993</u> £
TURNOVER	2	5,692,824	6,028,022
Cost of sales		(4,628,034)	(4,323,181)
GROSS PROFIT		1,064,790	1,704,841
Distribution & Selling costs		(204,800)	(357,065)
Administration costs		(605,503)	(541,193)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		254,487	806,583
Taxation on profit on ordinary activities	6	(89,725)	(271,259)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		164,762	535,324
Dividend - paid		(30,000)	—
proposed		(120,000)	(400,000)
RETAINED PROFIT FOR THE YEAR	15	14,762	135,324

There have been no acquisitions or discontinued operations during the period.

The notes on pages 7 to 13 form part of these accounts.

HORSTMAN DEFENCE SYSTEMS LIMITED

NOTE OF HISTORICAL COST PROFITS AND LOSSES

	<u>1994</u> £	<u>1993</u> £
Reported profit on ordinary activities before taxation	254,487	806,583
Difference between the historical cost depreciation charge and the actual depreciation charge of the year calculated on the revalued asset	<u>3,020</u>	<u>3,020</u>
Historical cost profit on ordinary activities before taxation	<u>257,507</u>	<u>809,603</u>
Historical cost profit for the year, retained after taxation and dividends	<u>17,782</u>	<u>138,344</u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

There are no recognised gains and losses other than the profit or loss for the period.

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS FUNDS

	<u>1994</u> £	<u>1993</u> £
Profit for the financial year	164,762	535,324
Dividends	<u>(150,000)</u>	<u>(400,000)</u>
Opening shareholders' funds	<u>14,762</u>	<u>135,324</u>
	876,695	741,371
Closing shareholders' funds	<u>891,457</u>	<u>876,695</u>

HORSTMAN DEFENCE SYSTEMS LIMITED

BALANCE SHEET AT 31 DECEMBER, 1994

	<u>Note</u>	<u>1994</u> £	<u>1993</u> £
FIXED ASSETS			
Tangible assets	7	758,299	815,890
CURRENT ASSETS			
Stocks	9	436,683	643,949
Debtors	10	1,422,870	1,487,570
Cash at bank and in hand		6,572	45,496
		<u>1,866,125</u>	<u>2,177,015</u>
CREDITORS: amounts falling due within one year	11	(1,602,966)	(2,107,687)
NET CURRENT ASSETS		<u>263,159</u>	<u>69,328</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		1,021,458	885,218
CREDITORS: amounts falling due after one year	12	(123,315)	-
PROVISIONS FOR LIABILITIES AND CHARGES	13	(6,686)	(8,523)
		<u>891,457</u>	<u>876,695</u>
CAPITAL AND RESERVES			
Called up share capital	14	50,000	50,000
Revaluation reserve	15	151,014	151,014
Other reserves	15	207	207
Profit and loss account	15	690,236	675,474
		<u>891,457</u>	<u>876,695</u>

The accounts were approved by the board of directors on 13th April, 1995.

P J K Haslehurst)
) Directors
 A J Brooks)

The notes on pages 7 to 13 form part of these accounts.

HORSTMAN DEFENCE SYSTEMS LIMITED

NOTES TO THE ACCOUNTS

1. PRINCIPAL ACCOUNTING POLICIES

The following accounting policies which are in accordance with applicable accounting standards have been applied consistently in dealing with items which are considered material in relation to the company's accounts.

a) Basis of accounting

The accounts have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets.

b) Depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost of each asset evenly over its expected useful life as follows:

Fixtures & Fittings	10% to 20%
Plant and machinery	10% to 25%
Buildings	2% p.a.
Leasehold land and building	2% p.a.

c) Stocks and work-in-progress

Stocks and work in progress are stated at the lower of cost and net realisable value. Cost includes works overheads where applicable.

d) Research and development

Research and development expenditure is written off against profit in the year in which the expenditure arises.

e) Deferred taxation

Deferred taxation is provided at the future rate of taxation using the liability method in respect of the taxation effect of all timing differences to the extent that it is probable that liabilities will crystallise in the foreseeable future.

f) Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Balances denominated in a foreign currency are translated into sterling at the exchange rates ruling on the balance sheet date or where there are matching forward contracts in respect of trading transactions, the rates of exchange specified in the contracts are used. All realised differences are taken to the profit and loss account and unrealised differences on forward contracts are taken to the balance sheet.

HORSTMAN DEFENCE SYSTEMS LIMITED

NOTES TO THE ACCOUNTS (contd.)

g) Cash flow statement

The company has not produced a Cash Flow Statement as it is a wholly owned subsidiary of EIS Group P.L.C., whose accounts include a consolidated Cash Flow Statement.

h) Operating Leases

All leases are accounted for as operating leases and the rental charges are charged to the profit and loss account in the period in which these are incurred.

2. TURNOVER

Turnover represents invoiced sales during the year exclusive of value added tax.

All of the company's turnover and profit on ordinary activities before taxation relate to the company's principal activity.

The geographic analysis of turnover is as follows:

	<u>1994</u>	<u>1993</u>
	£	£
United Kingdom	5,382,278	5,628,716
Asia, Far East and Australia	188,659	56,120
North, South & Central America	23,562	48,783
Europe	17,559	89,629
Middle East	80,766	204,774
	<u>5,692,824</u>	<u>6,028,022</u>

3. OPERATING PROFIT

Operating profit is stated after charging/(crediting) the following items:

	<u>1994</u>	<u>1993</u>
	£	£
Auditors' remuneration	7,900	7,700
Depreciation	133,337	170,746
Operating lease charges - Buildings	12,000	23,333
- Plant	-	9,200
Research and development expenditure	<u>44,921</u>	<u>76,600</u>

HORSTMAN DEFENCE SYSTEMS LIMITED

NOTES TO THE ACCOUNTS (contd.)

4. DIRECTORS' EMOLUMENTS

	<u>1994</u>	<u>1993</u>
	£	£
For services as directors	241,027	192,632

The amounts (excluding pension contributions) paid to the chairman and highest paid director were as follows:

	<u>1994</u>	<u>1993</u>
	£	£
Chairman	NIL	NIL
Highest paid director	54,693	49,297

The emoluments of the directors fell within the following bands:

	<u>1994</u>	<u>1993</u>
	No.	No.
£Nil - £5,000	3	4
£15,001 - £20,000	1	-
£30,001 - £35,000	-	3
£35,001 - £40,000	3	1
£40,001 - £45,000	1	-
£45,001 - £50,000	-	1
£50,001 - £55,000	1	-

5. STAFF COSTS

The average weekly number of employees, including directors, during the year was as follows:

	<u>1994</u>	<u>1993</u>
	No.	No.
Sales, administration and distribution	14	14
Manufacturing	100	99
	114	113

The aggregate payroll costs of these persons were as follows:

	<u>1994</u>	<u>1993</u>
	£	£
Wages and salaries	2,077,275	1,983,189
Social security costs	153,311	140,395
Other pension costs	73,410	43,568
	2,303,996	2,167,152

HORSTMAN DEFENCE SYSTEMS LIMITED

NOTES TO THE ACCOUNTS
(contd.)

6. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	<u>1994</u> £	<u>1993</u> £
Based on the profit for the year:		
Corporation tax at 33% (1993:33%)	92,500	271,000
Deferred taxation (credit)/charge	(1,837)	(557)
	<hr/> 90,663	<hr/> 270,443
Taxation relating to prior years:		
Corporation tax	(938)	816
	<hr/> 89,725	<hr/> 271,259

7. TANGIBLE FIXED ASSETS

	<u>Freehold land and buildings</u> £	<u>Plant and machinery</u> £	<u>Total</u> £
COST OR VALUATION			
At 1 January, 1994	557,998	3,109,709	3,667,707
Additions	1,950	73,797	75,747
Disposals	—	(9,968)	(9,968)
	<hr/> 559,948	<hr/> 3,173,538	<hr/> 3,733,486
At 31 December, 1994			
DEPRECIATION			
At 1 January, 1994	135,808	2,716,009	2,851,817
Charge for the year	13,173	120,164	133,337
Disposals	—	(9,967)	(9,967)
	<hr/> 148,981	<hr/> 2,826,206	<hr/> 2,975,187
At 31 December, 1994			
NET BOOK VALUE			
At 31 December, 1994	410,967	347,332	758,299
At 31 December, 1993	422,190	393,700	815,890

Included in land and buildings is land at £173,100 (1993: £171,150) on which no depreciation is charged.

If stated under the historical cost convention the comparable amounts for the land and buildings would be:-

	<u>1994</u> £	<u>1993</u> £
Cost	408,934	406,984
Depreciation	(119,841)	(109,688)
	<hr/> 289,093	<hr/> 297,296
Net value		

HORSTMAN DEFENCE SYSTEMS LIMITED

NOTES TO THE ACCOUNTS (contd.)

8. COMMITMENTS

Capital commitments at 31st December 1994, for which no provision has been made in these accounts, were as follows:

	<u>1994</u>	<u>1993</u>
	£	£
Contracted	18,465	15,385
Authorised but not contracted	16,892	20,000
	<hr/>	<hr/>
	35,357	35,385
	<hr/>	<hr/>

9. STOCKS

	<u>1994</u>	<u>1993</u>
	£	£
Raw materials	74,869	105,146
Work-in-progress	383,288	560,277
	<hr/>	<hr/>
	458,157	665,423
Payments received on account	(21,474)	(21,474)
	<hr/>	<hr/>
	436,683	643,949
	<hr/>	<hr/>

The replacement value of stock and work in progress is not considered to be materially different from the book value.

10. DEBTORS

	<u>1994</u>	<u>1993</u>
	£	£
Amounts falling due within one year:		
Trade debtors	1,440,662	1,415,820
Amounts owed by group companies	2,616	55,715
Other debtors	(20,408)	16,035
	<hr/>	<hr/>
	1,422,870	1,487,570
	<hr/>	<hr/>

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	<u>1994</u>	<u>1993</u>
	£	£
Trade creditors	1,176,862	1,251,607
Corporation tax	92,500	271,000
Other taxation and social security	154,804	131,312
Dividends payable	120,000	400,000
Amounts owed to group undertakings	141	1,468
Accruals and deferred income	58,659	52,300
	<hr/>	<hr/>
	1,602,966	2,107,687
	<hr/>	<hr/>

HORSTMAN DEFENCE SYSTEMS LIMITED

NOTES TO THE ACCOUNTS
(contd.)

12. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	<u>1994</u>	<u>1993</u>
	£	£
Amounts owed to group companies	123,315	—

13. PROVISION FOR LIABILITIES AND CHARGES

	<u>Amount not Provided</u>		<u>Amount Provided</u>	
	<u>1994</u>	<u>1993</u>	<u>1994</u>	<u>1993</u>
	£	£	£	£
Deferred taxation:				
Accelerated capital allowances	—	—	6,686	8,523
Other timing differences	600	600	—	—
Surplus on revaluation of property	42,429	42,429	—	—
	<u>43,029</u>	<u>43,029</u>	<u>6,686</u>	<u>8,523</u>

Movement in year

Balance at 1 January 1994	8,523
Amount charged to profit and loss account for the year	(1,837)
Balance at 31 December 1994	<u>6,686</u>

14. SHARE CAPITAL

	<u>1994 and 1993</u>			
	<u>Authorised</u>		<u>Allotted, called up and fully paid</u>	
	<u>No.</u>	<u>£</u>	<u>No.</u>	<u>£</u>
Ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>

15. RESERVES

	<u>Other Reserves</u>	<u>Revaluation reserve</u>	<u>Profit and loss account</u>	<u>Total</u>
	£	£	£	£
At 1 January, 1994	207	151,014	675,474	826,695
Retained profit for year	—	—	14,762	14,762
At 31 December, 1994	<u>207</u>	<u>151,014</u>	<u>690,236</u>	<u>841,457</u>

HORSTMAN DEFENCE SYSTEMS LIMITED

NOTES TO THE ACCOUNTS (contd.)

16. OPERATING LEASES

The commitments which fall to be paid in the following year under non-cancellable operating leases are:-

	<u>1994</u>	<u>1993</u>
	Land and	Land and
	<u>Buildings</u>	<u>Buildings</u>
	£	£
Operating leases which expire:		
Within one year	3,000	4,000
	<hr/>	<hr/>

17. PENSIONS

The Company operates a pension scheme providing benefits on final pensionable pay. The assets of the scheme are held separately from those of the company being invested with an insurance company. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent valuation was at 5th April 1993 and showed that the market value of the scheme's assets were £32.6m and that the actuarial value of those assets represented 144% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The valuation assumed that the investment return would be 2.5% higher than the rate of annual salary increase and that present and future pensions would increase at a rate of 3% per annum.

The pension charge for the period was £73,410 (1993: £43,568) and has been determined over the average remaining service lives of the employees. There may be some increase in pension costs in future years as a consequence of the Social Security Act 1990.

18. ULTIMATE HOLDING COMPANY

The ultimate holding company is EIS Group P.L.C., a company incorporated in England. Copies of the group accounts are available from:

The Registrar of Companies
Companies House
Crown Way
Cardiff
CF4 3HZ