

DOWTY BOULTON PAUL LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31ST DECEMBER 1996

Registered in England and Wales, number 293428



DIRECTORS' REPORT

The Directors present their report and the audited financial statements for the year ended 31st December 1996.

The Company trades under the name of Dowty Aerospace Wolverhampton.

The principal activities of the Company are the design and manufacture of mechanical and hydraulic flying controls and equipment for aircraft, industrial and marine hydraulic systems, satellite propellant tanks, and fabrications.

The Company operates and intends to continue to operate in the worldwide aerospace, marine and automotive markets. The Company will focus on the particular product requirements of each of these markets.

Particulars of results, the average number and aggregate remuneration of employees in the United Kingdom, and changes in fixed assets, are shown in the notes to the financial statements. During the year the Company made charitable donations of £951 (1995: £982).

The results and transfers to reserves for the year, and the state of the Company's affairs, are set out in the financial statements. No dividends are proposed.

Employment Policies

The Board continues to use the management and supervisory channels in the Company for disseminating information and gaining involvement of the whole workforce. Formal briefing/discussion groups have continued meeting on a regular monthly basis involving all parts of the Company. Company information is provided regularly on turnover, orders and profitability as well as more detailed information applicable only to each group.

The Company continues to have an Employee Council to assist the close co-operation of management and employees in the operation of the Company.

The Company operates a suggestion scheme.

During the year the Company has continued its policy of providing employment to disabled persons and persons becoming disabled during their employment with the Company. Subject to the availability of employment suitable to the disability of the individuals concerned, disabled employees are not discriminated against for any purposes, including training, career development and promotion.

Research and Development

TI Group has a continuing commitment to a strategy of market leadership through investment in customer-focused applied technology. The Company maintains self-sufficiency in applied technology geared to new product development and world-class manufacturing practice.

Payment Policy

The Company's ultimate parent undertaking, TI Group plc, is a registered supporter of the Confederation of British Industry's (CBI) Prompt Payers Code of Good Practice, copies of which are available from the CBI, Centre Point, 103 New Oxford Street, London WC1A 1DU.

It is the Company's policy to agree terms of settlement with its suppliers which are appropriate for the markets in which they operate, and to abide by such terms where suppliers have also met their obligations.

Directors and Share Schemes

The Directors of the Company during the year and their interests in shares of the Holding Company and options under its Employees' Share Savings Scheme and Executive Share Option Scheme were as follows, the interests shown being beneficial and family interests. The Directors of the Company have no interest in the shares of the Company.

Directors and their share interests at 31st December 1996 were:-

	<u>NUMBER OF TI GROUP PLC, 25p SHARES</u>					
	<u>OPTIONS</u>			<u>SHARES</u>		
	<u>At 31st</u>	<u>Granted</u>	<u>Exercised</u>	<u>At 31st</u>	<u>At 31st</u>	<u>At 31st</u>
	<u>December</u>			<u>December</u>	<u>December</u>	<u>December</u>
	<u>1995*</u>			<u>1996</u>	<u>1995</u>	<u>1996</u>
P.A. Strothers	14,400	-	-	14,400	181	186
R.J. Grainger	-	-	-	-	-	-
R.J. Wall	-	-	-	-	-	-
R.J. Willcox	-	-	-	-	-	-

* or date of appointment if later.

Mr. N.P. Gibney resigned on 30th June 1996

Mr. W.E. Smith resigned 20th September 1996

The TI (1981) Savings-Related Share Option Scheme was adopted at the 1981 Annual General Meeting of TI Group plc and has been approved by the Inland Revenue under the Finance Act 1980. The effect of the scheme is to enable eligible employees to acquire options on TI Group plc ordinary shares in conjunction with a Save-As-You-Earn contract.

The TI Group Executive Share Option Scheme was adopted at the 1978 Annual General Meeting of TI Group plc and subsequently amended to qualify for approval by the Inland Revenue under the Finance Act 1984. The TI Group (1990) Executive Share Option Scheme was adopted at the 1990 Annual General Meeting of TI Group plc and also has Inland Revenue approval. The effect of the Schemes is to enable senior executives to acquire options on TI Group plc ordinary shares.

The Company has maintained insurance in respect of certain liabilities of Directors and Officers in relation to the Company as permitted by section 310(3) of the Companies Act 1985.

Auditors

The auditors, being eligible, offer themselves for reappointment under section 385 of the Companies Act, 1985.

By order of the Board



R J Wall
FINANCE DIRECTOR & COMPANY SECRETARY

Wolverhampton
12th March 1997

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO 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 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;
- 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.

The Directors confirm that these financial statements comply with these requirements.

REPORT OF THE AUDITORS, PRICE WATERHOUSE
to the members of Dowty Boulton Paul Limited
(A wholly owned subsidiary of TI Group plc)

We have audited the financial statements on pages 2 to 13 which have been prepared under the historical cost convention modified by the revaluation of properties and the accounting policies set out on page 2.

Respective Responsibilities of Directors and Auditors

As described in the Statement of Directors' Responsibilities in Relation to Financial Statements, 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 31st December 1996 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PRICE WATERHOUSE
Chartered Accountants
and Registered Auditors
Birmingham

12th March 1997

ACCOUNTING POLICIES AND DEFINITIONS

There have been no changes in accounting policies during the year.

(a) Basis of Preparation

The financial statements are prepared under the historical cost convention and comply with applicable accounting standards.

(b) Turnover

Turnover represents the amounts receivable in the ordinary course of business for goods sold and services provided after deducting sales taxes.

(c) Foreign Currencies

Assets and liabilities denominated in foreign currencies are translated at the closing rates of exchange or, where appropriate, at the rate in a related foreign currency futures contract. Profits and losses on the exchange of foreign currencies are included in operating profit.

(d) Research and Development

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

(e) Depreciation

Tangible fixed assets are included at cost or valuation as set out in note 7. Depreciation of fixed tangible assets is on the straight line basis mainly at the rates shown below:

Freehold land	Nil
Freehold buildings	2% per annum
Leasehold with term less than 50 years	Term of lease
Plant and equipment (subject to a residue of 4%)	8% per annum
Data processing installations equipment & software	33 1/3% per annum
Tooling and test rigs	10% - 20% per annum

(f) Deferred Taxation

Deferred taxation relating to capital allowances and other timing differences is provided in the financial statements only in so far as a liability is expected to crystallise.

(g) Retirement Benefits

Retirement benefits are payable through schemes whose funds are administered separately from the Company. Contributions to the TI Group Pension Scheme and Dowty Group Pension Scheme are assessed by a qualified actuary based on the cost of providing pensions across all participating TI Group companies. Costs are not determined for each individual company, hence contributions are charged to the profit and loss account in the period in respect of which they become payable.

(h) Repairs and Renewals

Repairs and renewals are charged to revenue in the year in which the expenditure is incurred.

(i) Stocks

Stocks and work in progress are valued at the lower of cost, including an appropriate proportion of overheads, and net realisable value, less payments on account.

(j) Leased Assets

Fixed assets acquired under finance leasing contracts are recorded in the balance sheet as fixed 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.

PROFIT AND LOSS ACCOUNT

		1996 £'000	1995 £'000
Notes			
1	TURNOVER	35,801	32,499
2	Costs less other income	(33,559)	(31,038)
	OPERATING PROFIT BEFORE INTEREST	2,242	1,461
4	Interest	(434)	(841)
	PROFIT BEFORE TAX	1,808	620
5	Tax charge	(563)	(307)
	PROFIT FOR THE YEAR	1,245	313

DEFICIT ON PROFIT AND LOSS ACCOUNT

At start of year	(6,649)	(6,962)
Profit for the year	1,245	313
At end of year	(5,404)	(6,649)

All operations are continuing.

The notes on pages 6 to 13 are an integral part of the financial statements.

The retained profit for the financial year includes all recognised gains and losses in the year.

There is no material difference between the result disclosed in the profit and loss account and the result on an unmodified historic cost basis.

BALANCE SHEET

<u>Notes</u>	31ST DECEMBER 1996		31st DECEMBER 1995	
	£'000	£'000	£'000	£'000
	FIXED ASSETS			
7	Tangible assets	7,692		8,531
	CURRENT ASSETS			
8	Stocks	7,524	4,795	
9	Debtors and prepayments	9,206	10,296	
	Cash at bank & in hand	3,233	469	
		<u>19,963</u>	<u>15,560</u>	
	CREDITORS FALLING DUE WITHIN ONE YEAR			
	Bank overdrafts	(224)	(380)	
10	Other creditors	(10,232)	(7,560)	
12	Parent company loan	(6,450)	(6,450)	
		<u>(16,906)</u>	<u>(14,390)</u>	
	NET CURRENT ASSETS	3,057		1,170
	TOTAL ASSETS LESS CURRENT LIABILITIES	10,749		9,701
11	CREDITORS FALLING DUE AFTER MORE THAN ONE YEAR	(217)		(414)
	NET ASSETS	<u>10,532</u>		<u>9,287</u>
	CAPITAL AND RESERVES			
13	Called up equity share capital	15,500		15,500
14	Share premium account	22		22
14	Revaluation reserve	414		414
Page 3	Profit and loss account	(5,404)		(6,649)
	TOTAL EQUITY SHAREHOLDERS' FUNDS	<u>10,532</u>		<u>9,287</u>

The notes on pages 6 to 13 are an integral part of the financial statements.

These financial statements were approved by the Board of Directors on 12th March 1997 and signed on its behalf by:



R J Wall
Finance Director and Company Secretary

Wolverhampton
12th March 1997

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31ST DECEMBER 1996

	1996 £'000	1995 £'000
Profit for the financial year	1,245	313
Total recognised gains and losses for the year	1,245	313

MOVEMENTS IN SHAREHOLDERS' FUNDS

	1996 £'000	1995 £'000
At start of year	9,287	8,974
Total recognised gains and losses	1,245	313
At end of year	10,532	9,287

NOTES TO THE FINANCIAL STATEMENTS

1. TURNOVER - Geographical analysis:

	1996			1995		
	Sales to fellow subsidiaries	External sales	Total	Sales to fellow subsidiaries	External sales	Total
	£'000	£'000	£'000	£'000	£'000	£'000
The Americas	252	3,717	3,969	114	4,516	4,630
Europe	-	12,716	12,716	6	11,346	11,352
Asia and Middle East	189	1,123	1,312	46	885	931
Australasia	-	1,319	1,319	-	831	831
Africa	-	34	34	-	-	-
Exports	441	18,909	19,350	166	17,578	17,744
United Kingdom	32	16,419	16,451	5	14,750	14,755
Total turnover	473	35,328	35,801	171	32,328	32,499

2. COSTS LESS OTHER INCOME

	1996	1995
	£'000	£'000
Change in stocks of work in progress	(3,608)	2,483
Own work capitalised	(7)	(47)
Raw materials and consumables	19,689	11,797
Other external charges	4,215	3,793
Staff costs	12,035	11,762
Depreciation of tangible fixed assets	1,235	1,264
Profit on disposal of fixed assets	-	(14)
	<u>33,559</u>	<u>31,038</u>

3. OPERATING PROFIT

	1996	1995
	£'000	£'000
Operating Profit is stated after charging:		
Research and development expenditure	1,474	1,355
Operating lease rentals		
Hire of plant and machinery	459	451
Auditors' remuneration	21	19

4. INTEREST

1. The first part of the document is a title page. It contains the title "The Role of the State in the Development of the Economy" and the author's name "John Doe".

2. The second part of the document is an abstract. It provides a brief summary of the main findings of the study.

3. The third part of the document is the introduction. It discusses the importance of the state in the development of the economy and the objectives of the study.

4. The fourth part of the document is the literature review. It examines the existing research on the role of the state in the development of the economy.

5. The fifth part of the document is the methodology. It describes the research methods used in the study.

6. The sixth part of the document is the results and discussion. It presents the findings of the study and discusses their implications.

7. The seventh part of the document is the conclusion. It summarizes the main findings of the study and provides recommendations for future research.

8. The eighth part of the document is the references. It lists the sources used in the study.

9. The ninth part of the document is the appendix. It contains additional information related to the study.

10. The tenth part of the document is the index. It provides a list of the topics covered in the document.

5. TAX

If deferred tax had been provided in full, the charge for the year would have increased by £145,000. (1995)

No provision is made for tax which might become payable in the event of a sale of revalued property as no such

Full potential deformed text liability

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NOTES TO THE FINANCIAL STATEMENTS (continued)

6. EMPLOYEE INFORMATION

	1996 £'000	1995 £'000
Staff costs:		
Wages and salaries	10,447	9,701
Social security costs	807	755
Pension costs	759	739
Redundancy	22	567
	12,035	11,762

The average monthly number of persons employed by the company during the year was as follows:

	Number	Number
UK	437	429
Overseas	-	-
	437	429

The staff costs shown above include the following emoluments, including contributions to pension schemes, in respect of Directors:

	£'000	£'000
Salaries and benefits	379	370

The emoluments of the Chairman and highest paid Director, excluding pension contributions were:-

67	77
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The emoluments of the Directors fell within the following bands:

£	£	Number	Number
5,001	-	10,000	-
10,001	-	15,000	-
15,001	-	20,000	-
25,001	-	30,000	-
40,001	-	45,000	-
45,001	-	50,000	-
50,001	-	55,000	-
55,001	-	60,000	-
60,001	-	65,000	-
65,001	-	70,000	-
75,001	-	80,000	-

NOTES TO THE FINANCIAL STATEMENTS (continued)

	£'000	£'000	£'000	1996 £'000	1995 £'000
7. <u>TANGIBLE FIXED ASSETS</u> (Note 1(e))	Land and Buildings	Plant and Equipment	Tooling & Test Rigs	Total	Total
COST OR VALUATION					
At 31 December 1995	3,384	11,901	3,499	18,784	18,636
Capital Expenditure	91	347	32	470	353
Disposals	-	(226)	-	(226)	(205)
At 31 December 1996	3,475	12,022	3,531	19,028	18,784
DEPRECIATION					
At 31 December 1995	298	8,332	1,623	10,253	9,158
Charge for year	68	663	504	1,235	1,264
Disposals	-	(152)	-	(152)	(169)
At 31 December 1996	366	8,843	2,127	11,336	10,253
NET BOOK AMOUNT	3,109	3,179	1,404	7,692	8,531
Leased assets included above comprise:		1,295		1,295	1,295
Cost	-	(1,050)	-	(1,050)	(886)
Depreciation					
Net Book Amount	-	245	-	245	409

	1996 £'000	1995 £'000
(a) Fixed assets are included at full historical cost to the Group except land and buildings held at 31st December 1996 which are included at existing use open market valuation carried out as at 31st March 1991 by Chartered Surveyors in the UK as follows:		
Freehold	2,167	2,167
Short leasehold	49	49
	2,216	2,216
Land and buildings includes £1,515,000 (1995: £1,515,000) in respect of land on which no depreciation is provided.		
(b) Comparable figures for freehold land and buildings on the basis of full historical cost to the Group are as follows:		
Cost	2,099	2,099
Depreciation	(864)	(822)
Net book amount	1,235	1,277
(c) Land and buildings at 31st December 1996 includes £48,000 (1995: £49,000) in respect of a short leasehold. The unexpired term of the lease is 31 years. The balance represents freehold land and buildings.		
(d) Commitments for future capital expenditure: Contracted for	22	11
(e) Accumulated depreciation includes amounts provided by fellow Group undertakings prior to acquisition from those companies.		

NOTES TO THE FINANCIAL STATEMENTS (continued)

	1996 £'000	1995 £'000
8. <u>STOCKS</u>		
Stocks comprise:		
Raw materials and consumables	183	207
Work in progress	8,437	4,829
	8,620	5,036
Less payments on account	(1,096)	(241)
	7,524	4,795

	1996 £'000	1995 £'000
9. <u>DEBTORS</u>		
Amounts due within one year:		
Trade debtors	8,372	9,647
Amounts owed by Group undertakings	83	70
Amounts owed by Associated undertakings	243	269
Other debtors	46	26
Prepayments and accrued income	245	284
	8,989	10,296
Amounts due after more than one year	217	-
	9,206	10,296

	1996 £'000	1995 £'000
10. <u>CREDITORS: FALLING DUE WITHIN ONE YEAR</u>		
Payments received on account	1,051	943
Trade creditors	4,268	3,769
Amounts owed to Group undertakings	135	57
Amounts owed to Associated undertakings	2	7
Obligations under finance leases	197	178
Corporation tax	643	307
Other taxes and social security	412	350
Other creditors	1,004	32
Accruals and deferred income	2,520	1,917
	10,232	7,560

NOTES TO THE FINANCIAL STATEMENTS (continued)

	1996 £'000	1995 £'000
11. <u>CREDITORS: FALLING DUE AFTER MORE THAN ONE YEAR</u>		
Amounts payable under finance leases:		
Between one and two years	217	197
Between two and five years	-	217
	217	414

12. PARENT COMPANY LOAN

A loan is provided by the parent company to finance working capital.

13. SHARE CAPITAL

Authorised, called up and fully paid:
62,000,000 Ordinary shares of 25p each

	1996 £'000	1995 £'000
	15,500	15,500

The Company's ultimate parent undertaking is TI Group plc which is incorporated in the UK. The smallest and largest group in which the Company's results are consolidated is that headed by TI Group plc. Copies of the consolidated accounts can be obtained from:

TI Group plc
Lambourn Court
Abingdon
Oxon OX14 1UH

14. RESERVES

At 31 December 1995 and 1996

	Share Premium Account £'000	Revaluation Reserve £'000
	22	414

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. CONTINGENT LIABILITIES

(a) The Company had contingent liabilities, in respect of bank and other guarantees and other matters arising in the ordinary course of the business, from which it is anticipated that no material liabilities will arise.

(b) There are contingent liabilities for:

Terminable indemnities £1,436,000 (31st December 1995: £160,000)

16. LEASING COMMITMENTS

Operating lease rental commitments for next year:

	1996 Plant and Equipment £'000	1995 Plant and Equipment £'000
In respect of leases expiring:		
Within 1 year	1	202
Between 1 and 5 years	151	76
	152	278

17. PENSION ARRANGEMENTS

The majority of the Company's employees are members of the TI Group Pension Scheme into which the Dowty Group Pension Scheme was merged in July 1996. The Scheme was valued by independent actuaries as at 31st May 1996. The Scheme is of the defined benefit type with assets held in separate trustee administered funds. Full details of the Scheme are included in the financial statements of the ultimate holding company TI Group plc.

18. CASH FLOW STATEMENT

Under Financial Reporting Standard 1, the Company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary undertaking.

19. RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption provided by paragraph 3(c) of Financial Reporting Standard 8 not to disclose transactions with entities that are part of TI Group plc. As explained in note 13 the Company is controlled by TI Group plc.

Sales made to Messier-Dowty in 1996 amounted to £1,729,562 (1995: £1,258,486).