

H + S Aviation Limited

Accounts 31 December 2000
together with directors' and auditors' reports

Registered number: 422128



Directors' report

For the year ended 31 December 2000

The directors present their annual report on the affairs of the Company, together with the accounts and auditors' report, for the year ended 31 December 2000.

Principal activities and business review

The principal activity of the Company is the overhaul of aviation engines, propellers and associated components. The Company expects to continue the same level of business activity for the foreseeable future.

Results and dividends

The profit for the year after taxation amounted to £4,407,000 (1999 - £2,888,000).

The directors do not recommend payment of a dividend (1999 - £nil).

Supplier payment policy

The Company's policy is to provide suppliers with the Company's standard conditions of trading for the purchase of goods and services, and to abide by those conditions. Trade creditors of the Company at 31 December 2000 were equivalent to 71 (1999 - 64) days purchases, based on the average daily amount invoiced by suppliers in the last 2 months of the year.

Employee participation

The Company is committed to employee participation, encouraging the development of co-operation with employees by involving and consulting the Employee Council in staff welfare issues, and through regular communication meetings with employees.

The Company has continued to examine ways and means of providing employment for disabled employees, under normal terms and conditions, with opportunities for training, career development and promotion as appropriate. The Company's policy on the employment of disabled persons has been applied as sympathetically and positively as possible.

Directors and their interests

The directors who served during the year were as follows:

A C Robinson

J E R Barker (resigned 28 February 2001)

D M McRobert (resigned 31 January 2000)

R Dodson (retired 28 February 2001)

G Derby

C Head (appointed 1 June 2000)

Directors' report (continued)

Directors and their interests (continued)

The directors who held office at the year end had interests in the shares of BBA Group plc, the ultimate holding company, as follows:

	25p Ordinary Shares			
	Shares Held		Share Option Schemes	
	31 December	1 January	31 December	1 January
	2000	2000	2000	2000
	Number	Number	Number	Number
J E R Barker	-	-	31,900	15,100
G F Derby	20,362	4,193	66,300	66,300
R Dodson	73,984	33,295	189,300	189,300
A C Robinson	-	-	39,300	15,365

In addition as at 31 December 2000, G Derby had been awarded 90,792 restricted shares (1999: 23,791) and 30,192 matched shares (1999: 7,283) and R Dodson had been awarded 178,521 restricted shares (1999: 103,268) and 35,995 matched shares (1999: 43,351) under the BBA Group Long Term Incentive Plan. Further details of this Plan can be found in the BBA Group consolidated accounts.

Charitable contributions

During the year the Company made charitable donations of £420 (1999 - £370).

Directors' responsibilities

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

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- Prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

Directors' report (continued)

Directors' responsibilities (continued)

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 accounts 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.

Auditors

A resolution has been passed to dispense with the need to reappoint Arthur Andersen as auditors on an annual basis.

By order of the Board,

Airport Service Road
Portsmouth
Hampshire
PO3 5PJ



G L Evans
Company Secretary

22 May 2001

To the Shareholders of H + S Aviation Limited:

We have audited the accounts on pages 5 to 17 which have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and the accounting policies set out on pages 7 and 8.

Respective responsibilities of directors and auditors

As described on pages 2 and 3 the Company's directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

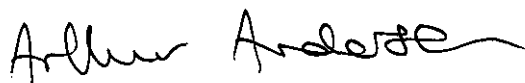
Basis of opinion

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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company, 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 accounts 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 accounts.

Opinion

In our opinion, the accounts give a true and fair view of the state of affairs of the Company at 31 December 2000 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen
Chartered Accountants and Registered Auditors

Abbots House
Abbey Street
Reading
Berkshire
RG1 3BD

22 May 2001

Profit and loss account

For the year ended 31 December 2000

	Note	2000 £'000	1999 £'000
Turnover	2	47,150	36,683
Cost of sales		(30,816)	(23,066)
Gross profit		16,334	13,617
Other operating expenses (net)	3	(11,821)	(10,365)
Operating profit		4,513	3,252
Finance charges (net)	4	(106)	(364)
Profit on ordinary activities before taxation	5	4,407	2,888
Tax on profit on ordinary activities	7	-	-
Profit on ordinary activities after taxation, being retained profit for the financial year	16	4,407	2,888

There were no recognised gains or losses other than the profit for each financial year.

All the activities of the Company continued throughout both periods.

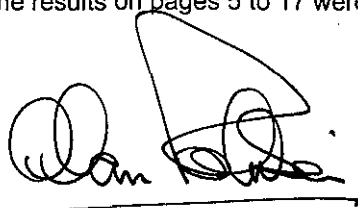
The accompanying notes form an integral part of this profit and loss account.

Balance sheet

31 December 2000

	Note	2000 £'000	1999 £'000
Fixed assets			
Intangible assets	8	1,344	992
Tangible assets	9	13,244	11,910
		<u>14,588</u>	<u>12,902</u>
Current assets			
Stocks	10	13,969	12,680
Debtors	11	11,122	10,590
Cash at bank and in hand		1,335	-
		<u>26,426</u>	<u>23,270</u>
Creditors: Amounts falling due within one year	12	<u>(9,314)</u>	<u>(6,982)</u>
Net current assets		<u>17,112</u>	<u>16,288</u>
Total assets less current liabilities		<u>31,700</u>	<u>29,190</u>
Creditors: Amounts falling due after more than one year	13	<u>(14,470)</u>	<u>(16,367)</u>
Net assets		<u>17,230</u>	<u>12,823</u>
Capital and reserves			
Called-up share capital	15	7,500	7,500
Revaluation reserve	16	2,215	2,215
Profit and loss account	16	7,515	3,108
Equity shareholders' funds	17	<u>17,230</u>	<u>12,823</u>

The results on pages 5 to 17 were approved by the board of directors on 22 May 2001 and signed on its behalf by:



A C Robinson

Director

22 May 2001

The accompanying notes form an integral part of this balance sheet.

Notes to accounts

31 December 2000

1 Accounting policies

The principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, are as follows:

a) Basis of accounting

The accounts have been prepared under the historical cost convention, modified to include the revaluation of certain fixed assets, and in accordance with applicable accounting standards.

b) 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.

c) Intangible fixed assets

Intangible fixed assets comprise licence fees, and are included at cost, and amortised in equal annual instalments over their useful economic life for which the company is expected to benefit. The useful economic life of the current licence fees has been estimated at ten years. Provision is made for any impairment.

d) Tangible fixed assets

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment. For aviation engines, cost comprises purchase price or materials, labour and attributable overheads incurred in returning the engine to serviceable condition.

Depreciation is provided on all tangible fixed assets, other than 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:

Freehold buildings	-	20 to 50 years
Long leasehold properties	-	over the life of the lease
Motor vehicles	-	4 years
Fixtures and fittings	-	3 to 10 years
Plant, machinery and tools	-	7 to 10 years

Depreciation is provided on aviation engines to write off the cost less estimated residual value over the engine's remaining flight hours, based on actual hours flown.

e) Revaluation of land and buildings

The Company has taken advantage of the transitional provisions of FRS 15 'Tangible Fixed Assets', and retained the book amounts of certain freehold and leasehold land and buildings which were revalued prior to implementation of that standard. The tangible fixed assets affected were last revalued in March 1998 and the valuations have not subsequently been updated.

Notes to accounts (continued)

1 Accounting policies (continued)

f) Stocks

Raw material stocks comprise aviation engines for resale, and parts and components used in the overhaul and repair of aviation engines. Raw material stocks and work in progress are stated at the lower of cost and estimated net realisable value. The cost of work in progress comprises materials, labour and attributable overheads. Net realisable value is based upon estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving and defective items where appropriate.

g) Lease agreements

Rentals under operating leases are charged to the profit and loss account, on a straight-line basis, over the term of the lease, whether or not payments are made on this basis.

h) Foreign currencies

Trading items are translated into sterling at the average forward rate of exchange for the relevant accounting period. Balance sheet items in foreign currencies are translated into sterling at the forward rates of exchange at the balance sheet date. All foreign currency gains and losses are taken to the profit and loss account.

i) Pensions

Employees are members of a defined benefit pension scheme operated by the Company's ultimate parent company, BBA Group plc. The amount charged to the profit and loss account in respect of pension costs is the estimated regular cost of providing the benefits accrued in the year, adjusted to reflect variations from that cost. The regular cost is calculated so that it represents a substantially level percentage of current and future payroll. Variations from regular cost are charged or credited to the profit and loss account as a constant percentage of payroll over the estimated average remaining working life of scheme members. Differences between amounts charged to the profit and loss account and amounts funded are shown as either provisions or prepayments in the balance sheet. The contribution levels are determined by valuations undertaken by independent qualified actuaries.

j) Taxation

The Company entered into an agreement on 9 March 1998, under which the ultimate parent company has agreed to provide and account for all tax liabilities.

Deferred taxation is provided by the ultimate parent company using the liability method on all timing differences only to the extent that they are expected to reverse in the future without being replaced, except that the deferred tax effects of timing differences arising from pensions and other post-retirement benefits are always recognised in full.

k) Cash flow statement

The Company has taken advantage of the exemptions under Financial Reporting Standard 1 (Revised) and has not produced a cashflow statement since its ultimate holding company produces a consolidated cashflow statement that is publicly available.

Notes to accounts (continued)

2 Turnover

Set out below is an analysis of the destination of turnover by geographical area, which arose from the principal activity of the Company:

	2000 £'000	1999 £'000
United Kingdom	12,092	10,665
Rest of Europe	11,471	8,779
USA	18,658	12,923
Other	4,929	4,316
	<u>47,150</u>	<u>36,683</u>

3 Other operating expenses (net)

	2000 £'000	1999 £'000
Distribution costs	458	359
Administrative expenses	11,446	10,456
Other operating income	(83)	(450)
Other operating expenses (net)	<u>11,821</u>	<u>10,365</u>

4 Finance charges (net)

Investment income

	2000 £'000	1999 £'000
Other interest and similar income	<u>100</u>	<u>23</u>

Interest payable and similar charges

	2000 £'000	1999 £'000
Bank loans and overdrafts	108	23
Interest on parent company loan	98	364
	<u>206</u>	<u>387</u>

Notes to accounts (continued)

4 Finance charges (net) (continued)

	2000 £'000	1999 £'000
Interest payable and similar charges	206	387
Less: investment income	(100)	(23)
	<u>106</u>	<u>364</u>

5 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging (crediting);

	2000 £'000	1999 £'000
Auditors' remuneration		
- audit fees and expenses	31	41
- tax and consultancy fees	6	43
Operating lease rentals		
- land and buildings	181	240
- plant and machinery	143	126
Profit on sales of fixed assets	(19)	(21)
Depreciation and amounts written off owned tangible fixed assets	1,420	1,211
Amortisation of licence fees	87	65
Parent company management charge – BBA Group plc	<u>351</u>	<u>274</u>

6 Staff costs

The average monthly number of employees (including directors) during the year was:

	2000 Number	1999 Number
Manufacturing	248	216
Administration	<u>175</u>	<u>161</u>
	<u>423</u>	<u>377</u>

Notes to accounts (continued)

6 Staff costs (continued)

Their aggregate remuneration comprised:

	2000 £'000	1999 £'000
Wages and salaries	9,675	8,567
Social security costs	728	631
Other pension costs	1,019	780
	<u>11,422</u>	<u>9,978</u>

Directors' remuneration

The remuneration of the directors was as follows:

	2000 £'000	1999 £'000
Emoluments	<u>273</u>	<u>268</u>

The number of directors who were members of pension schemes at the year end was as follows:

	2000 Number	1999 Number
Defined benefit scheme	<u>3</u>	<u>3</u>

The remuneration of the highest-paid director was £131,802 (1999 - £118,359).

The accrued pension entitlement under the Company's defined benefit scheme of the highest-paid director at 31 December 2000 was £50,948 (1999 - £50,948)

Notes to accounts (continued)

7 Taxation

The Company and the ultimate parent company (note 22) have undertaken an agreement that the latter will meet all corporate tax liabilities relating to the profits of the Company, provided it remains a subsidiary undertaking of BBA Group plc. The United Kingdom corporation tax charge arising on the profit for the year which is reflected in the accounts of the ultimate parent company is £nil (1999 – £601,000), due to the utilisation of group relief.

8 Intangible fixed assets

	Licence fees
	£'000
Cost	
1 January 2000	1,057
Additions	439
31 December 2000	<u>1,496</u>
Depreciation	
1 January 2000	65
Charge for year	87
31 December 2000	<u>152</u>
Net book value	
31 December 2000	<u>1,344</u>
1 January 2000	<u>992</u>

Notes to accounts (continued)

9 Tangible fixed assets

	Freehold land and buildings £'000	Long leasehold land and buildings £'000	Motor vehicles £'000	Fixtures and fittings £'000	Plant machinery and tools £'000	Engines £'000	Total £'000
Cost or valuation							
1 January 2000	370	5,564	274	1,940	9,172	1,688	19,008
Additions	-	5	29	347	1,777	677	2,835
Disposals	-	-	(99)	-	(11)	(70)	(180)
31 December 2000	<u>370</u>	<u>5,569</u>	<u>204</u>	<u>2,287</u>	<u>10,938</u>	<u>2,295</u>	<u>21,663</u>
Depreciation							
1 January 2000	10	259	205	1,232	5,261	131	7,098
Charge for year	5	137	39	337	701	201	1,420
Disposals	-	-	(88)	-	(11)	-	(99)
31 December 1999	<u>15</u>	<u>396</u>	<u>156</u>	<u>1,569</u>	<u>5,951</u>	<u>332</u>	<u>8,419</u>
Net book value							
31 December 2000	<u>355</u>	<u>5,173</u>	<u>48</u>	<u>718</u>	<u>4,987</u>	<u>1,963</u>	<u>13,244</u>
1 January 2000	<u>360</u>	<u>5,305</u>	<u>69</u>	<u>708</u>	<u>3,911</u>	<u>1,557</u>	<u>11,910</u>

Freehold and leasehold land and buildings were valued during 1998 by Fuller Peiser, Property Consultants, on the basis of open market value for existing use.

As a result of these valuations land was revalued by £605,000 and buildings were revalued by £1,101,000.

The current year depreciation charge on the revalued freehold and long leasehold buildings is not materially different to the depreciation charge based on previous original carrying value.

Notes to accounts (continued)

10 Stocks

	2000 £'000	1999 £'000
Raw materials and consumables	10,253	9,108
Work in progress	3,716	3,572
	<u>13,969</u>	<u>12,680</u>

11 Debtors

	2000 £'000	1999 £'000
Amounts due within one year:		
Trade debtors	10,482	7,367
Amounts due from group undertakings	-	173
VAT	139	163
Other debtors	103	312
Site remediation project	256	430
Prepayments and accrued income	142	248
	<u>11,122</u>	<u>8,693</u>
Amounts due after one year:		
Site remediation project	-	1,897
	<u>11,122</u>	<u>10,590</u>

The amounts due above relating to the site remediation project represent an indemnity granted to the Company from its parent undertaking (note 12).

Notes to accounts (continued)

12 Creditors: Amounts falling due within one year

	2000 £'000	1999 £'000
Bank loans and overdrafts	-	202
Trade creditors	6,852	3,932
Amounts owed to group undertakings	35	387
Taxation and social security	252	215
Other creditors	201	220
Accruals and deferred income	1,718	1,596
Site remediation project	256	430
	<u>9,314</u>	<u>6,982</u>

Bank loans and overdrafts are part of a group set off arrangement where group companies guarantee the overdraft.

The Company identified that historical industrial activities in the area had affected the subsurface environment beneath one of its facilities. Since then the Company has been working closely with the Environment Agency to reverse these effects. The Agency is satisfied that once the work is complete, there will be no impact on the local environment. The cost of the work identified above as 'site remediation project', has been fully indemnified by the Company's parent undertaking.

13 Creditors: Amounts falling due after more than one year

	2000 £'000	1999 £'000
Amounts owed to parent undertaking	14,470	14,470
Site remediation project (note 12)	-	1,897
	<u>14,470</u>	<u>16,367</u>

14 Provisions for liabilities and charges

The Company and the ultimate parent company (note 22) have undertaken an agreement that the latter will provide for deferred taxation, provided the Company remains a subsidiary undertaking of BBA Group plc. The amount of deferred tax provided in the accounts of the ultimate parent company is £nil (1999 - £190,000). The amount of deferred tax unprovided in the accounts of the ultimate parent company is £270,000 (1999 - £472,000)

Notes to accounts (continued)

15 Share capital

	2000 £'000	1999 £'000
<i>Authorised, allotted, called-up and fully paid</i>		
7,500,000 ordinary shares of £1 each	<u>7,500</u>	<u>7,500</u>

16 Reserves

	Revaluation Reserve £'000	Profit and Loss account £'000	Total £'000
At 1 January 2000	2,215	3,108	5,323
Profit for the year	-	4,407	4,407
At 31 December 2000	<u>2,215</u>	<u>7,515</u>	<u>9,730</u>

17 Reconciliation of movements in equity shareholders' funds

	2000 £'000	1999 £'000
Equity shareholders' funds, at 1 January 2000	12,823	9,935
Retained profit for the financial year	<u>4,407</u>	<u>2,888</u>
Equity shareholders' funds, at 31 December 2000	<u>17,230</u>	<u>12,823</u>

18 Pension schemes

Employees are members of a defined benefit pension scheme operated by the Company's ultimate parent company, BBA Group plc. The BBA Group's main UK pension commitments are contained within this scheme with assets held in a separate trustee administered fund. Contributions to the scheme are made and the pension cost is assessed using the projected unit method, based on pension costs across the Group as a whole. The latest actuarial valuation of the scheme was as at 31 March 1999. The principal assumptions used in the valuation of the liabilities were an average investment return of 8.5% per annum, pay inflation of 6% per annum and pension increases of 4% per annum. The market value of the assets of the scheme at the date of the actuarial valuation was £350m. The actuarial value of the scheme assets represented 99.4% of the liabilities for benefits that had accrued to members, after allowing for expected future increases in earnings, but excluding the costs of early retirement which are dealt with on a pay as you go basis.

The Company's contribution in the year was £1,019,000 (1999 - £780,000)

19 Contingent liabilities

At 31 December 2000 the Company had contingent liabilities, primarily in the form of bank guarantees, arising in the ordinary course of business of £77,000 (1999 - £142,000).

Notes to accounts (continued)

20 Commitments

i) Capital commitments at the year end for which no provision has been made in these accounts were as follows:

	2000 £'000	1999 £'000
Contracted and not provided for	<u>81</u>	<u>714</u>

ii) The annual commitment under non-cancellable operating leases was as follows:

	2000		1999	
	Land and Buildings £'000	Other £'000	Land and Buildings £'000	Other £'000
Expiry date:				
Within one year	62	-	81	57
Between one to five years	-	143	-	62
After five years	<u>100</u>	<u>-</u>	<u>114</u>	<u>16</u>
	<u>162</u>	<u>143</u>	<u>195</u>	<u>135</u>

21 Related party transactions

Transactions with other companies within the BBA group are not disclosed as the Company has taken advantage of the exemption available under Financial Reporting Standard 8.

22 Ultimate holding company

The Company is a subsidiary undertaking of the BBA Group plc, a company registered in England and Wales, which is also the ultimate holding company.

The largest and smallest group in which the results of H+S Aviation Limited are consolidated is that headed by BBA Group plc. The consolidated accounts of the group are available to the public and may be obtained from the Company secretary of BBA Group plc at 70 Fleet Street, London EC4Y 1EU.