

H + S Aviation Limited

Accounts 31 December 1998
together with directors' and auditors' reports

Registered number: 422128



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Directors' report

For the year ended 31 December 1998

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 1998.

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.

On 6 March 1998 the Company sold a part of its business to Pratt & Whitney Canada (UK) Limited. The resultant gain of £4,687,000 is disclosed on page 5 of the accounts.

Change in ownership

On 9 March 1998 the entire share capital of H+S Aviation Limited was acquired by BBA Group plc from Vector Industries Limited.

Results and dividends

The profit for the year after taxation amounted to £8,405,000 (1997 - £2,323,000). This includes a realised gain on disposal of discontinued activities of £4,687,000, as noted above (1997 - nil). The Directors recommended payment of a dividend of £8,587,000 (1997 - £2,718,000). £182,000 was transferred from reserves (1997 - £395,000).

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 terms. Trade creditors of the Company at 31 December 1998 were equivalent to 64 (1997 - 84) days purchases, based on the average daily amount invoiced by suppliers in the latest months of the year.

Employee participation

The Company is committed to employee participation and encourages the development of co-operation 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.

Year 2000

The Company has a detailed plan in place to ensure that its computer and other operating systems are able to function effectively in the Year 2000 and thereafter. This project is substantially complete. The cost for this work is expensed as incurred.

Directors' report (continued)

Directors and their interests

The directors who served during the year were as follows:

A C Robinson	
J E R Barker	
D M McRobert	
R Dodson	(appointed 9 March 1998)
G Derby	(appointed 9 March 1998)
A O Fischer	(resigned 9 March 1998)
I Fisher	(resigned 9 March 1998)
AT Fletcher	(resigned 9 March 1998)
S A Smith	(resigned 9 March 1998)
A L Russell	(resigned 30 September 1998)

At 31 December 1998, R Dodson held 20,552 ordinary shares in BBA Group Plc. (9 March 1998 – 7,413 ordinary shares).

The Directors do not have any other beneficial interests in the Company required to be disclosed under Schedule 7 of the Companies Act 1985.

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.

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 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.

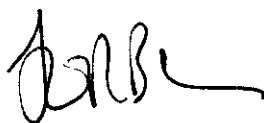
Directors' report (continued)

Auditors

The previous auditors resigned on 9 March 1998 and Arthur Andersen were appointed on that date to fill a casual vacancy. The Directors propose to re-appoint Arthur Andersen for the ensuing year.

By order of the Board,

Airport Service Road
Portsmouth
Hampshire
PO3 5PJ

A handwritten signature in black ink, appearing to read 'J E R Barker', with a long horizontal flourish extending to the right.

J E R Barker
Secretary

26 October 1999

Auditors' report

Bristol

To the Shareholders of H + S Aviation Limited

We have audited the accounts on pages 5 to 18 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 page 2 the Company's Directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

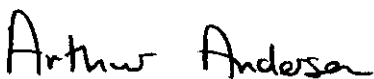
Basis of opinion

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 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 1998 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

Broad Quay House
Broad Quay
Bristol
BS1 4DJ

26 October 1999

Profit and loss account

For the year ended 31 December 1998

	Note	1998 £'000	1997 £'000 (Note 23)
Turnover			
Continuing operations		35,026	33,516
Discontinuing operations		887	7,541
	2	<u>35,913</u>	<u>41,057</u>
Cost of sales	3	(23,579)	(26,192)
Gross profit		<u>12,334</u>	<u>14,865</u>
Other operating expenses (net)	3	(9,817)	(11,398)
Operating profit			
Continuing operations		2,284	2,181
Discontinuing operations		233	1,286
Gain on disposal of discontinued operations		4,687	-
Profit on ordinary activities before interest		<u>7,204</u>	<u>3,467</u>
Interest receivable and similar income		53	87
Interest payable and similar charges		(259)	(14)
Profit on ordinary activities before taxation	4	<u>6,998</u>	<u>3,540</u>
Tax on profit on ordinary activities	6	1,407	(1,217)
Profit on ordinary activities after taxation		<u>8,405</u>	<u>2,323</u>
Dividends on equity shares	7	(8,587)	(2,718)
Loss after dividends for the year	16	<u>(182)</u>	<u>(395)</u>

Statement of total recognised gains and losses:

	1998 £'000	1997 £'000
Profit for the financial year	8,405	2,323
Unrealised surplus on revaluation of properties	1,706	-
Total recognised gains	<u>10,111</u>	<u>2,323</u>

There was no material difference between the result for each financial year presented above and the result restated on an historical cost basis.

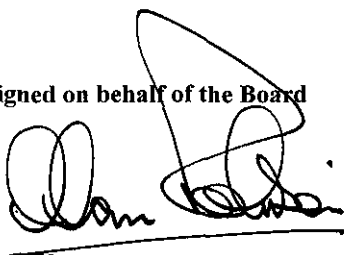
The accompanying notes form an integral part of this profit and loss account.

Balance sheet

31 December 1998

	Note	1998 £'000	1997 £'000 (Note 23)
Fixed assets			
Intangible assets	8	610	-
Tangible assets	9	10,954	8,063
		<u>11,564</u>	<u>8,063</u>
Current assets			
Stocks	10	10,514	10,834
Debtors	11	10,023	8,721
Cash at bank and in hand		1,554	3,097
		<u>22,091</u>	<u>22,652</u>
Creditors: Amounts falling due within one year	12	(7,423)	(12,091)
Net current assets		<u>14,668</u>	<u>10,561</u>
Total assets less current liabilities		<u>26,232</u>	<u>18,624</u>
Creditors: Amounts falling due after more than one year	13	(16,297)	(10,023)
Provision for liabilities and charges	14	-	(190)
Net assets		<u>9,935</u>	<u>8,411</u>
Capital and reserves			
Called-up share capital	15	7,500	7,500
Revaluation reserve	16	2,215	509
Profit and loss account	16	220	402
Equity shareholders' funds	17	<u>9,935</u>	<u>8,411</u>

Signed on behalf of the Board



A C Robinson

Director

26 October 1999

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

Notes to accounts

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 will be amortised over the period from which the company is expected to benefit. Provision is made for any impairment.

d) *Tangible fixed assets*

Tangible fixed assets are stated at cost, with the exception of certain freehold and long leasehold land and buildings which are stated at valuation. For aviation engines, cost comprises purchase price or materials, labour and attributable overheads incurred in returning the engine to serviceable condition. To ensure consistency with BBA Group accounting policies, subsequent to the change in ownership of the Company certain aviation engines were transferred into fixed assets from stock.

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.

Depreciation is provided on all tangible fixed assets, other than freehold land and aviation engines, 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	-	30 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

No depreciation is provided on freehold land.

Notes to accounts (continued)

1 Accounting policies (continued)

e) *Stocks*

Raw material stocks comprise aviation engines, 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.

f) *Lease agreements*

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

g) *Foreign currencies*

Trading items are translated into sterling at average rates 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.

h) *Pensions*

The costs of pension plans are charged to the profit and loss account so as to spread the costs over employees' working lives within the BBA Group. Pension benefits accrued under the Vector Group Pension Scheme were transferred into the BBA Group Scheme during April 1998. The contribution levels are determined by valuations undertaken by independent qualified actuaries.

i) *Taxation*

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

Deferred taxation is provided by the ultimate parent company on the liability method at current rates of taxation in respect of short term timing differences between profits computed for taxation purposes and profits as stated in the financial statements. Provision is made for other timing differences where, in the opinion of the directors, a liability is expected to arise in the foreseeable future.

j) *Cash flow statement*

The company has not produced a cashflow statement and has taken advantage of the exemptions under Financial Reporting Standard 1 (Revised) 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:

	1998 £'000	1997 £'000
United Kingdom	12,899	8,002
Rest of Europe	11,402	18,875
USA	6,102	7,363
Other	5,510	6,817
	<u>35,913</u>	<u>41,057</u>

3 Cost of sales, gross profit and other operating expenses (net)

	1998			1997		
	Continuing £'000	Discontinued £'000	Total £'000	Continuing £'000	Discontinued £'000	Total £'000
Cost of sales	23,159	420	23,579	21,958	4,234	26,192
Gross profit	11,867	467	12,334	11,558	3,307	14,865
Distribution costs	360	25	385	211	49	260
Administrative expenses	9,584	209	9,793	9,180	1,972	11,152
Other operating income	(361)	-	(361)	(14)	-	(14)
Other operating expenses (net)	9,583	234	9,817	9,377	2,021	11,398

Notes to accounts (continued)

4 Profit on ordinary activities before taxation

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

	1998 £'000	1997 £'000
Amounts charged by the Company's previous auditors		
- audit fees and expenses	-	28
- tax and consultancy fees	-	10
Amounts charged by the Company's current auditors		
- audit fees and expenses	26	-
- tax and consultancy fees	9	-
Rentals payable under operating leases		
- land and buildings	125	110
- plant and machinery	101	105
Profit on sales of fixed assets	(56)	(1)
Depreciation	1,102	1,141
Parent company management charge – Vector Industries Limited	-	1,719
Parent company management charge – BBA Group plc	400	-

5 Staff numbers and costs

The average number of persons employed by the Company (including directors) during the year was:

	1998 Number	1997 Number
Manufacturing	220	239
Administration	147	150
	<u>367</u>	<u>389</u>

Their aggregate remuneration comprised:

	1998 £'000	1997 £'000
Wages and salaries	8,112	8,665
Social security costs	648	801
Other pension costs	776	751
	<u>9,536</u>	<u>10,217</u>

Notes to accounts (continued)

5 Staff numbers and costs (continued)

Directors' remuneration

The remuneration of the directors was as follows:

	1998 £'000	1997 £'000
Emoluments	<u>337</u>	<u>393</u>

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

	1998 Number	1997 Number
Defined benefit scheme	<u>3</u>	<u>4</u>

	1998 £'000	1997 £'000
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The above amounts of remuneration include the following:

Compensation for loss of office	<u>27</u>	<u>-</u>
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The remuneration of the highest-paid director was £345,000 (1997 - £112,000).

The accrued pension entitlement under the Company's defined benefit scheme of the highest-paid director at 31 December 1998 was £ 45,198 (1997 - £ 45,198)

6 Taxation

Taxation on the profit for the year

	1998 £'000	1997 £'000
Corporation tax at NIL% (1997 - 31.5%)	-	1,206
Adjustments in respect of prior years		
- current taxation	(1,217)	11
- deferred taxation	<u>(190)</u>	<u>-</u>
	<u>(1,407)</u>	<u>1,217</u>

Notes to accounts (continued)

6 Taxation (continued)

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, so long as 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 £405,000 (1997 – nil.)

Tax has not been provided on the gain on disposal of discontinued operations as the gain is not subject to corporation tax. The directors have obtained an indemnity from the purchasers indemnifying the company against any potential tax consequences arising from the disposal.

7 Dividends

	1998 £'000	1997 £'000
Dividends on £1 ordinary shares		
Paid	8,587	-
Proposed	-	2,718
	<u>8,587</u>	<u>2,718</u>

8 Intangible fixed assets

	Licence fee £'000
Cost	
At beginning of year	-
Additions	610
At end of year	<u>610</u>
Net book value	
At end of year	<u>610</u>
At beginning of year	<u>-</u>

Notes to accounts (continued)

9 Tangible fixed assets

	Land and buildings freehold £'000	Land and buildings long leasehold £'000	Motor vehicles £'000	Fixtures and fittings £'000	Plant machinery and tools £'000	Engines £'000	Total £'000
Cost or valuation							
Beginning of year	219	4,387	454	1,434	8,480	-	14,974
Additions	-	9	-	423	1,356	673	2,461
Revaluations	168	1,538	-	-	-	-	1,706
Disposals	-	-	(124)	(140)	(2,129)	-	(2,393)
Transfers	-	-	-	-	-	570	570
End of year	387	5,934	330	1,717	7,707	1,243	17,318
Depreciation							
Beginning of year	17	355	293	676	5,570	-	6,911
Charge for year	5	171	62	300	550	14	1,102
Disposals	-	-	(119)	(73)	(1,457)	-	(1,649)
Transfers	-	-	-	-	-	-	-
End of year	22	526	236	903	4,663	14	6,364
Net book value							
End of year	365	5,408	94	814	3,044	1,229	10,954
Beginning of year	202	4,032	161	758	2,910	-	8,063

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

The engine transfers into fixed assets relate to lease engines reclassified from stocks to bring the Company's accounting treatment in line with that of the parent undertaking.

Notes to accounts (continued)

10 Stocks

	1998 £'000	1997 £'000
Raw materials and consumables	7,490	7,931
Work in progress	3,024	2,903
	<u>10,514</u>	<u>10,834</u>

11 Debtors

	1998 £'000	1997 £'000
Amounts due within one year:		
Trade debtors	6,330	8,236
Other debtors	22	231
Site remediation project	403	-
Prepayments and accrued income	296	254
Advance corporation tax	875	-
	<u>7,926</u>	<u>8,721</u>
Amount due after one year;		
Site remediation project	2,097	-
	<u>10,023</u>	<u>8,721</u>

The amounts due above relating to the site remediation project represent an indemnity granted to the Company from its parent undertaking (note 13).

Notes to accounts (continued)

12 Creditors: Amounts falling due within one year

	1998 £'000	1997 £'000
Trade creditors	3,596	6,481
Amounts owed to parent undertaking	197	-
Other creditors	588	190
Site remediation project (note 13)	403	-
Corporation tax	-	1,219
Advance corporation tax	875	-
Social security and other taxes	230	256
Accruals and deferred income	1,534	1,227
Proposed dividend	-	2,718
	<u>7,423</u>	<u>12,091</u>

13 Creditors: Amounts falling due after more than one year

	1998 £'000	1997 £'000
Amounts owed to parent undertaking	14,200	9,889
Site remediation project	2,097	134
	<u>16,297</u>	<u>10,023</u>

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 site remediation work totalling £2,500,000 has been fully indemnified by the Company's parent undertaking.

Notes to accounts (continued)

14 Provisions for liabilities

	1998 £'000
Deferred taxation	
Beginning of year	190
Over provision in prior years transferred to current year profit and loss account	(190)
End of year	-

The Company and the ultimate parent company (note 22) have undertaken an agreement that the latter will provide for deferred taxation, so long as 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 £176,000 (1997 - nil). The amount of deferred tax unprovided in the accounts of the ultimate parent company is £392,000 (deferred tax unprovided in the Company's accounts 1997 - £405,000).

15 Share capital

	1998 £'000	1997 £'000
<i>Authorised</i>		
7,500,000 ordinary shares of £1 each	7,500	7,500
<i>Allotted, called-up and fully paid</i>		
7,500,000 ordinary shares of £1 each	7,500	7,500

16 Reserves

	Revaluation Reserve £'000	Profit and Loss account £'000	Total £'000
At beginning of year	509	402	911
Revaluation	1,706	-	1,706
Loss for the year	-	(182)	(182)
At end of year	2,215	220	2,435

Notes to accounts (continued)

17 Reconciliation of movements in shareholders' funds

	1998 £'000	1997 £'000
Shareholders' funds, at beginning of year	8,411	8,806
Loss after dividends for the financial year	(182)	(395)
Revaluation	1,706	-
Shareholders' funds, at end of year	<u>9,935</u>	<u>8,411</u>

18 Pension schemes

Until 31 March 1998 employees were members of a defined benefit pension scheme operated by Vector Industries Limited.

From 1 April 1998 employees were 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 pension cost is assessed using the projected unit method. The latest actuarial valuation of the scheme was as at 30 September 1996. The principal assumptions used in the valuation of the liabilities were an average investment return of 8.75% per annum, pay inflation of 7% per annum and pension increases of 4.5% per annum. The market value of the assets of the scheme at the date of the actuarial valuation was £268m. The actuarial value of the scheme assets represented 100.8% 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 excess of assets over liabilities will be spread over the average remaining service lives of employees (16 years).

The Company's contribution in the year was £776,000 (1997 - £751,000).

19 Contingent liabilities

At 31 December 1998 the Company had contingent liabilities, primarily in the form of bank guarantees, arising in the ordinary course of business of £120,000 (1997 - £53,000).

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:

	1998 £'000	1997 £'000
Contracted and not provided for	926	138

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

	1998		1997	
	Land and Buildings £'000	Other £'000	Land and Buildings £'000	Other £'000
Lease expiring:				
Within one year	-	65	-	20
Within two to five years	-	35	-	62
Later than five years	93	-	77	-
	93	100	77	82

21 Related party transactions

Transactions with other companies within the group are not disclosed as the company has taken advantage of the exemption available under Financial Reporting Standard 8. The consolidated accounts of BBA Group plc, ultimate holding company, are publicly available at the address indicated below in note 22.

22 Ultimate holding company

On 9 March 1998 the share capital of H+S Aviation Limited was acquired from Vector Industries Limited by BBA Group Plc. Further disclosures about the nature of this transaction are available in the accounts of BBA Group Plc.

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 the 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 EX4Y 1EU.

23 Prior year comparatives

The prior year comparative figures were audited by a firm of accountants other than Arthur Andersen.