

**BAE SYSTEMS Avionics Overseas Limited**

**Directors' Report and Financial Statements**

**For the year ended 31 December 2001**



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## **Report of the Directors**

The directors present their report and the audited financial statements of the company for the year ended 31st December 2001.

### **Principal Activity**

The principal activity of the company is the supply of avionics equipment overseas.

### **Business Review**

During the year the company was wholly concerned with contracts for avionics equipment, the manufacture and support of which was subcontracted.

During the year the company made a profit of £142,000 (year ended 31<sup>st</sup> December 2000 - £57,000.) The directors do not recommend the payment of a dividend (year ended 31<sup>st</sup> December 2000 - £nil).

### **Directors and Directors' Interests**

The directors who served during the year and at the date of this report were :

D.M. Frost

C.V. Geoghegan (Resigned 4 April 2002)

N E Franks (Appointed 4 April 2002)

The beneficial, including family, interests of the other directors at the end of the year in the ordinary shares, options to acquire ordinary shares and warrants to acquire ordinary shares of BAE SYSTEMS plc, the ultimate holding company, are shown below. None of the directors had any beneficial interest in the share capital of the company during the year, nor in the period from period end to the date of this report. The Board is not aware of any contract of significance in relation to the company in which any director has, or has had, a material interest.

	<b>Ordinary shares of 2.5p</b>		<b>Capital Amortising Loan Stock</b>	
	<u>1<sup>st</sup> January</u>	<u>31<sup>st</sup> December</u>	<u>1<sup>st</sup> January</u>	<u>31<sup>st</sup> December</u>
	<u>2001</u>	<u>2001</u>	<u>2001</u>	<u>2001</u>
D M Frost	19,917	19,917	6,196	6,196
C V Geoghegan	113,289	117,947	-	-

### **Share Option Schemes**

	<u>1<sup>st</sup> January</u>	<u>Lapsed</u>	<u>Granted</u>	<u>Exercised</u>	<u>31<sup>st</sup> December</u>	<u>Weighted</u>
	<u>2001</u>				<u>2001</u>	<u>average</u>
						<u>exercise price</u>
D M Frost	24,386	-	36,165	-	60,551	£3.64
C V Geoghagen	238,266	27,813	121,366	22,023	309,796	£2.77


Normally the options are exercisable, conditional on the performance of BAE SYSTEMS plc, between 26 February 2000 and 22 May 2011, Full details are contained in the register of directors' interests.

**Directors Report (Continued)**

**Auditors**

A resolution for the re-appointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By Order of the Board

A handwritten signature in black ink, appearing to be 'D. M. Frost', written over a horizontal line.

D. M. Frost  
Director

11 September 2002  
Registered Office:  
Warwick House  
PO Box 87  
Farnborough Aerospace Centre  
Farnborough  
Hampshire GU14 6YU

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The directors are required by the Companies Act 1985 to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the profit or loss for the financial 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, subject to any material departures disclosed and explained in the financial statements;
- 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 ensuring that the company keeps accounting records which disclose with reasonable accuracy the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

**REPORT OF THE INDEPENDENT AUDITORS**  
**to the members of BAE SYSTEMS Avionics Overseas Limited**

We have audited the financial statements on pages 5 to 8.

**Respective responsibilities of Directors and Auditors**

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements 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.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

**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 at 31 December 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*KPMG Audit Plc*

*24 September 2002*

KPMG Audit Plc  
Chartered Accountants and Registered Auditor  
1 Forest Gate  
Brighton Road  
Crawley  
West Sussex RH11 9PT

**PROFIT AND LOSS ACCOUNT**

for the year ended 31 December 2001

	Note	Year to 31 December 2001 £'000	Year to 31 December 2000 £'000
Turnover	1	1,414	7,347
Operating profit and profit on ordinary activities before and after taxation	1	142	57
Retained profit for the financial year		142	57

**MOVEMENT ON PROFIT AND LOSS  
ACCOUNT RESERVE**

At start of year	57	-
Retained profit for the financial year	142	57
At end of year	199	57

There were no recognised gains or losses or other movements in shareholders' funds other than those reported above. The above results relate entirely to the continuing operations of the Company. There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above, and their historical cost equivalents.

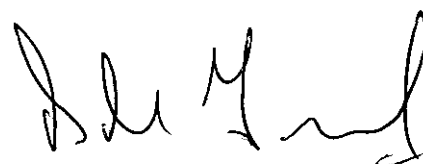
**BAE SYSTEMS Avionics Overseas Limited**

**BALANCE SHEET**

At 31 December 2001

	<b>Note</b>	<b>31 December 2001 £'000</b>	<b>31 December 2000 £'000</b>
<b>Current assets</b>			
Debtors	3	942	1,627
Creditors: amounts falling due within one year	4	(743)	(1,570)
<b>Net current assets</b>		<u>199</u>	<u>57</u>
 <b>Capital and reserves</b>			
Called up share capital	5	-	-
Profit and loss account		199	57
<b>Equity shareholders' funds</b>		<u>199</u>	<u>57</u>

Approved by the Board of Directors on 11<sup>th</sup> September 2002



D.M. Frost  
Director



NOTES (forming part of the financial statements)

1. OPERATING PROFIT AND PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	Year to 31 December 2001 £'000	Year to 31 December 2000 £'000
Turnover	1,414	7,347
Cost of sales	(1,272)	(7,290)
<b>Operating profit and profit on ordinary activities before taxation.</b>	<b>142</b>	<b>57</b>

All turnover is to Asia.

The auditor's remuneration is borne by another group company.

2. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

**Current Year Corporation Tax**

The company has not provided for corporation tax for the year as any profits will be covered by the surrender of losses from other group companies, in respect of which no payment will be made.

**Current Year Deferred Tax**

Provision for deferred tax is not required.

3. DEBTORS

	December 2001 £'000	December 2000 £'000
<b>Amounts falling due within one year:</b>		
Trade debtors	743	1,570
Amounts owed by group undertakings	199	57
	<b>942</b>	<b>1,627</b>

4. CREDITORS

	December 2001 £'000	December 2000 £'000
<b>Amounts falling due within one year:</b>		
Amounts owed to group undertakings	743	1,570

5. CALLED UP SHARE CAPITAL

	Authorised £	Issued £
At 1 January 2001 and 31 December 2001		
Shares of £1 each fully paid	2	2

**NOTES (Continued)**

**6. DIRECTORS AND EMPLOYEES**

The company does not employ any staff (2000 nil) and therefore there are no payroll or pension costs. The directors are full time executives of other group companies. They do not receive any remuneration for their services as directors of the company (2000 nil) and it is not practicable to allocate their emoluments for other services. Information relating to the directors' interests in the shares and debentures of group companies can be found in the directors' report.

**7. CONTINGENT LIABILITIES**

**Guarantees**

Under a group registration the company is jointly and severally liable for any Value Added Tax owing by other BAE SYSTEMS Group Companies at 31 December 2001 and 31 December 2000.

**8. ULTIMATE PARENT UNDERTAKING**

The company's ultimate parent company and controlling entity is BAE SYSTEMS plc (formerly British Aerospace plc), which is registered in England and Wales. The BAE SYSTEMS group is the only group of which the Company is a member for which group financial statements are prepared. Copies of the financial statements of BAE SYSTEMS plc are available from The Secretary, 6, Carlton Gardens, London SW1Y 5AD.

**9. ACCOUNTING POLICIES**

The financial statements have been prepared on the historical cost basis in accordance with applicable accounting standards in the United Kingdom. The company is a wholly owned subsidiary of BAE SYSTEMS plc; consequently the company is exempt under the terms of Financial Reporting Standard 1 (Revised 1996) from the requirement to publish its own cash flow statement. The Company has adopted FRS18 "accounting policies" in their financial statements.

Pursuant to the exemption granted by Financial Reporting Standard 8 "Related Party Disclosures", transactions with other undertakings within, and related parties of, the BAE SYSTEMS group have not been disclosed in these financial statements.

The more important accounting policies, which have been consistently applied, are summarised below to facilitate the interpretation of the financial statements.

**(a) Turnover**

The company records transactions as turnover when title passes to customers or when there is a contractual right to invoice. Turnover is exclusive of VAT.

**(b) Taxation**

The charge for taxation is based on the profit for the year and takes account of taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision of deferred tax is made using the liability method to the extent that the next deferred tax asset or liability is likely to crystallise in the foreseeable future.