

Horstman Defence Systems Limited

Report and Accounts

31 March 2003

Registered Number: 1511975



Horstman Defence Systems Limited

Registered No. 1511975

DIRECTOR

Mr J G Harris

SECRETARY

Mr H J Hindle

AUDITORS

Ernst & Young LLP
One Colmore Row
Birmingham
B3 2DB

BANKERS

Allied Irish Bank (GB)
48/50 High Street
Harborne
Birmingham
B17 9NE

REGISTERED OFFICE

Locksbrook Road
Bath
Avon
BA1 3EX

DIRECTORS' REPORT

The directors present their report and accounts of the company for the year ended 31 March 2003.

Principal 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 and torpedo parts and naval instrumentation equipment.

Review of the business and future developments

The business has had a successful year in difficult market conditions, with higher sales growth than anticipated. The additional sales volume combined with a reduction in costs resulting from cost reduction initiatives in the preceding period has produced a strong operating performance in the year. Although market conditions remain uncertain, prospects going forward look promising.

Results and dividends

The results for the year are shown in the profit and loss account on page 5.

The directors do not recommend the payment of a final dividend. The retained profits of £399,609 for the year (2002: retained loss of £308,038) will be transferred to (2002: from) reserves.

Directors

The directors who served during the year were:

Mr J G Harris

Directors' interests

None of the directors had an interest in the share capital of the company. J G Harris is a director of the ultimate parent company, Harris Watson Holdings plc, and his shareholding is disclosed in that company's 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 innovative research and product development and improvement.

Payment policy

It is the company's payment policy to negotiate terms with its suppliers in all sectors to ensure that they know the terms on which payment will take place when the business is agreed. It is our policy to abide by these terms. The number of days purchases outstanding at the year end was 57 (2002: 54 days).

Auditors

A resolution to re-appoint Ernst & Young LLP as the Company's auditor will be put to the forthcoming annual general meeting.

By order of the board

H J Hindle
Secretary

August 04, 2003

Horstman Defence Systems Limited

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the directors to prepare accounts for each financial period that 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; 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 that 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.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HORSTMAN DEFENCE
SYSTEMS LIMITED**

We have audited the company's accounts for the year ended 31 March 2003 which comprise the Profit and Loss Account, Statement of Total Recognised Gains & Losses, Note of Historical Cost Profits and Losses, Balance Sheet and the related notes 1 to 22. These accounts have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the accounts 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 accounts, 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.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

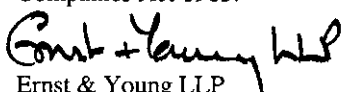
Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 judgments made by the directors in the preparation of the accounts, 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 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 as at 31 March 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP

Registered Auditor

Birmingham

Dated

4/8/03.

Horstman Defence Systems Limited

PROFIT AND LOSS ACCOUNT

for the year ended 31 March 2003

	Notes	Year ended 31 March 2003 £	8 months to 31 March 2002 £
TURNOVER	2	8,953,210	5,496,421
Cost of sales		(7,322,862)	(4,781,184)
GROSS PROFIT		1,630,348	715,237
Distribution and selling costs		(415,499)	(213,750)
Administrative expenses		(501,809)	(817,206)
Other operating income	4	106,108	53,800
OPERATING PROFIT/(LOSS)	3	819,148	(261,919)
Interest payable	7	(262,728)	(105,010)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION	3	556,420	(366,929)
Taxation on profit/(loss) on ordinary activities	8	(156,811)	58,891
RETAINED PROFIT/(LOSS) FOR THE YEAR/PERIOD	17	399,609	(308,038)

STATEMENT OF RECOGNISED GAINS AND LOSSES

There are no recognised gains or losses other than the profit attributable to shareholders of the company of £399,609 for the year ended 31 March 2003 and the loss £308,038 for the 8 months ended 31 March 2002.

NOTE OF HISTORICAL COST PROFITS AND LOSSES

for the year ended 31 March 2003

	Year ended 31 March 2003 £	8 months to 31 March 2002 £
Reported profit/(loss) on ordinary activities before taxation	556,420	(366,929)
Difference between depreciation based on historical cost and on revalued amounts	7,915	5,277
Historical cost profit/(loss) on ordinary activities before taxation	564,335	(361,652)
Historical cost profit/(loss) for the period, retained after taxation	407,524	(302,761)

Horstman Defence Systems Limited

BALANCE SHEET

at 31 March 2003

	Note	31 March 2003 £	31 March 2002 £
FIXED ASSETS			
Tangible assets	9	1,799,569	1,971,415
CURRENT ASSETS			
Stocks	10	548,836	1,135,306
Debtors	11	3,030,907	3,445,479
Cash at bank and in hand		<u>217,314</u>	<u>438,511</u>
		3,797,057	5,019,296
CREDITORS: amounts falling due within one year	12	<u>(2,137,168)</u>	<u>(3,420,165)</u>
NET CURRENT ASSETS		1,659,889	1,599,131
TOTAL ASSETS LESS CURRENT LIABILITIES		3,459,458	3,570,546
CREDITORS: amounts falling due after more than one year	13	(1,109,491)	(1,425,222)
PROVISIONS FOR LIABILITIES AND CHARGES	15	(216,528)	(411,494)
NET ASSETS		<u>2,133,439</u>	<u>1,733,830</u>
CAPITAL AND RESERVES			
Called up share capital	16	50,000	50,000
Share premium account	17	207	207
Revaluation reserve	17	81,049	88,964
Profit and loss account	17	2,002,183	1,594,659
EQUITY SHAREHOLDERS' FUNDS		<u>2,133,439</u>	<u>1,733,830</u>

J. G. Harris
J G Harris
Director

Dated *4TH August 2003*

Horstman Defence Systems Limited

NOTES TO THE ACCOUNTS

at 31 March 2003

1. ACCOUNTING POLICIES

Accounting convention

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets, and in accordance with applicable accounting standards.

Royalty Income

Income relating to royalties is accounted for on a receipts basis.

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 and Fittings	10% to 20%
Plant and Machinery	7% to 25%
Freehold buildings	2% to 4%

No depreciation is charged on freehold land.

Stocks and work-in-progress

Stocks and work-in-progress are stated at the lower of cost and net realisable value. Cost is calculated to include an appropriate proportion of manufacturing overhead.

Research and development

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

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to receive more, tax, with the following exceptions:

- provision is made for tax on gains arising from the revaluation of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;
- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse.

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.

Cash flow statement

In accordance with Financial Reporting Standard 1 (Revised 1996), the company is exempt from the requirement to prepare a cash flow statement on the grounds that the company is included in the consolidated accounts of its ultimate parent company, Harris Watson Holdings plc.

Horstman Defence Systems Limited

NOTES TO THE ACCOUNTS

at 31 March 2003

1. ACCOUNTING POLICIES (continued)

Pensions

The company operates a defined contribution pension scheme. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the scheme.

Leases

Assets acquired under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated in accordance with the company's depreciation policies. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the profit and loss account over the period of the lease. The capital elements of future obligations under the leases and hire purchase agreements are included as liabilities in the balance sheet. All other leases are accounted for as operating leases and the rental is charged to the profit and loss account in the period in which these are incurred.

2. TURNOVER

Turnover, which is stated net of value added tax, represents the total amount receivable by the company for goods supplied and services provided. All turnover is attributable to the continuing principal activity.

The geographic analysis of turnover is as follows:

	<i>Year ended</i> <i>31 March 2003</i>	<i>8 months to</i> <i>31 March 2002</i>
	£	£
United Kingdom	5,976,331	3,636,819
Asia, Far East and Australia	1,936,301	1,447,955
North, South and Central America	535,632	202,275
Rest of Europe	504,946	209,372
	<u>8,953,210</u>	<u>5,496,421</u>

3. PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION

The profit/(loss) on ordinary activities before taxation is stated after charging the following items:

	<i>Year ended</i> <i>31 March 2003</i>	<i>8 months to</i> <i>31 March 2002</i>
	£	£
Auditors' remuneration - audit services	15,000	11,500
Depreciation on owned assets	60,609	41,921
Depreciation on leased assets	169,007	118,448
Restructuring provision	-	250,000
Operating lease charges - plant and machinery	49,169	38,195
Research and development expenditure	135,690	100,057
Exchange loss on foreign currencies	4,494	8,425
	<u></u>	<u></u>

Horstman Defence Systems Limited

NOTES TO THE ACCOUNTS

at 31 March 2003

4. OTHER OPERATING INCOME

	<i>Year ended 31 March 2003</i>	<i>8 months to 31 March 2002</i>
	£	£
Royalties received	106,108	53,800
	<u> </u>	<u> </u>

5. DIRECTORS' EMOLUMENTS

	<i>Year ended 31 March 2003</i>	<i>8 months to 31 March 2002</i>
	£	£
Emoluments for services as directors	-	28,550
	<u> </u>	<u> </u>
	No	No
Members of defined benefit schemes	-	-
	<u> </u>	<u> </u>

6. STAFF COSTS

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

	<i>Year ended 31 March 2003</i>	<i>8 months to 31 March 2002</i>
	No	No
Sales, administration and distribution	12	14
Manufacturing	54	67
	<u> </u>	<u> </u>
	66	81
	<u> </u>	<u> </u>

The aggregate payroll costs of these persons were as follows:

	<i>Year ended 31 March 2003</i>	<i>8 months to 31 March 2002</i>
	£	£
Wages and salaries	1,563,840	1,301,677
Social security costs	154,676	114,217
Other pension costs	48,102	67,767
	<u> </u>	<u> </u>
	1,766,618	1,483,661
	<u> </u>	<u> </u>

Horstman Defence Systems Limited

NOTES TO THE ACCOUNTS

at 31 March 2003

7. INTEREST PAYABLE

	<i>Year ended</i> <i>31 March 2003</i>	<i>8 months to</i> <i>31 March 2002</i>
	£	£
Finance leases and hire purchase	94,077	35,628
Mortgage	71,049	15,694
Invoice discounting	28,298	12,000
Other	69,304	41,688
	<u>262,728</u>	<u>105,010</u>

8. TAXATION ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

(a) The tax charge/(credit) is made up as follows:

	<i>12 months to</i> <i>31 March 2003</i>	<i>8 months to</i> <i>31 March 2002</i>
	£	£
Based on the profit/(loss) for the year:		
Corporation tax at 30% (2001: 30%)	112,754	-
Group relief	55,246	(52,868)
Prior year corporation tax	-	4,297
	<u>168,000</u>	<u>(48,571)</u>
Total current tax	168,000	(48,571)
Deferred taxation	(21,800)	(15,700)
Overseas taxation	10,611	5,380
	<u>156,811</u>	<u>(58,891)</u>

(b) The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 30%. The differences are reconciled below:

	<i>2003</i>	<i>2002</i>
	£	£
Profit/(loss) on ordinary activities before tax	<u>556,420</u>	<u>(366,929)</u>
Profit/(loss) on ordinary activities multiplied by standard rate of		
Corporation tax in the UK of 30%	166,926	(110,079)
Other expenditure deductible for tax purposes	(10,276)	(28,365)
Decelerated capital allowances	61,882	12,810
Other timing differences	(50,532)	72,766
Prior year corporation tax	-	4,297
	<u>168,000</u>	<u>(48,571)</u>

(c) Factors that may affect future tax charges

No provision has been made for deferred tax on gains recognised on revaluing property to its market value. Such tax would become payable only if the property were sold without it being possible to claim rollover relief. The total amount not provided for is £39,858 (2002: £39,858). At present, it is not envisaged that any tax will become payable in the foreseeable future.

Horstman Defence Systems Limited

NOTES TO THE ACCOUNTS

at 31 March 2003

9. TANGIBLE FIXED ASSETS

	<i>Freehold land and buildings</i> £	<i>Plant and machinery</i> £	<i>Total</i> £
Cost/Valuation:			
At 1 April 2002	956,701	3,932,835	4,889,536
Additions	-	58,509	58,509
Disposals	-	(805)	(805)
At 31 March 2003	<u>956,701</u>	<u>3,990,539</u>	<u>4,947,240</u>
Depreciation:			
At 1 April 2002	307,829	2,610,292	2,918,121
Charge for the year	24,471	205,145	229,616
Disposals	-	(66)	(66)
At 31 March 2003	<u>332,300</u>	<u>2,815,371</u>	<u>3,147,671</u>
Net book value:			
At 31 March 2003	<u>624,401</u>	<u>1,175,168</u>	<u>1,799,569</u>
At 1 April 2002	<u>648,872</u>	<u>1,322,543</u>	<u>1,971,415</u>

Assets held under finance leases and hire purchase contracts and capitalised in plant and machinery:

	2003 £	2002 £
Cost	3,214,963	3,171,175
Aggregate depreciation	<u>2,188,457</u>	<u>2,019,452</u>
	<u>1,026,506</u>	<u>1,151,723</u>

The freehold land and buildings includes assets valued in 1980 at £386,848 (2002: £386,848). The company has taken advantage of the transitional arrangements of Financial Reporting Standard 15 and consequently, the valuation has not been updated. If stated under the historical cost convention the comparable amounts for freehold land and buildings would be:

	2003 £	2002 £
Cost	805,687	805,687
Depreciation	<u>262,335</u>	<u>245,779</u>
Net book value	<u>543,352</u>	<u>559,908</u>

Horstman Defence Systems Limited

NOTES TO THE ACCOUNTS

at 31 March 2003

10. STOCKS

	2003 £	2002 £
Raw materials	7,031	31,690
Work-in-progress	<u>755,117</u>	<u>1,931,889</u>
	762,148	1,963,579
Payments received on account	(213,312)	(828,273)
	<u>548,836</u>	<u>1,135,306</u>

The stock value is not materially different from the replacement cost.

11. DEBTORS

	2003 £	2002 £
Trade debtors	1,904,294	1,087,849
Amounts owed by group undertakings	1,093,749	2,193,749
Other debtors	6,391	23,879
Prepayments and accrued income	10,000	140,002
Taxation	16,473	-
	<u>3,030,907</u>	<u>3,445,479</u>

12. CREDITORS: amounts falling due within one year

	2003 £	2002 £
Mortgage	61,784	72,535
Finance leases and hire purchase contracts	327,120	309,320
Trade creditors	1,271,096	1,556,740
Corporation tax	112,754	-
Other taxation and social security	50,034	53,584
Amounts owed to group undertakings	55,246	1,165,887
Accruals and deferred income	259,134	262,099
	<u>2,137,168</u>	<u>3,420,165</u>

Horstman Defence Systems Limited

NOTES TO THE ACCOUNTS

at 31 March 2003

13. CREDITORS: amounts falling due after more than one year

	2003 £	2002 £
Finance leases and hire purchase	222,827	508,547
Mortgage	886,664	916,675
	<u>1,109,491</u>	<u>1,425,222</u>

The mortgage is secured by a charge over the freehold property included in fixed assets as disclosed in note 9 and also by a guarantee given by the holding company.

	2003 £	2002 £
Repayable within one year	61,784	72,535
Repayable between one and two years	58,177	66,660
Repayable between two and five years	151,568	199,980
Repayable after five years	676,919	650,035
	<u>948,448</u>	<u>989,210</u>

The original amount of the mortgage was £1,000,000 repayable by October 2016 and interest is charged at base rate plus 2.25% per annum.

14. OBLIGATIONS UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS

	2003 £	2002 £
Finance Leases	549,947	817,867
Future minimum payments under finance leases are as follows:		
Within one year	422,591	403,397
In more than one year, but not more than five years	<u>284,061</u>	<u>661,072</u>
Total gross payments	706,652	1,064,469
Less finance charges included above	<u>156,705</u>	<u>246,602</u>
	<u>549,947</u>	<u>817,867</u>

Horstman Defence Systems Limited

NOTES TO THE ACCOUNTS

at 31 March 2003

15. PROVISIONS FOR LIABILITIES AND CHARGES

	£
At 1 April 2002 – Provisions:	
Warranty	128,194
Restructuring	<u>250,000</u>
	378,194
Credited to the profit and loss account during the year:	
Release of restructuring Provision	(173,166)
	<u>205,028</u>
At 31 March 2003	<u>205,028</u>

The warranty provision represents the maximum potential exposure to the company on customer claims against work carried out. It is expected that any transfer of economic benefits will occur within one year.

	Deferred Tax £
At 1 April 2002	33,300
Charge/(credit) for the year	(21,800)
	<u>11,500</u>
At 31 March 2003	<u>11,500</u>

	Amount provided	
	2003	2002
	£	£
Deferred taxation:		
Capital allowances	27,310	89,190
Surplus on revaluation	-	-
Other timing differences	(15,810)	(55,890)
	<u>11,500</u>	<u>33,300</u>

16. SHARE CAPITAL

	2003	2002
	£	£
Authorised		
50,000 ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>
Allotted, issued and fully paid		
50,000 ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>

Horstman Defence Systems Limited

NOTES TO THE ACCOUNTS

at 31 March 2003

17. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

	<i>Share capital</i> £	<i>Share premium account</i> £	<i>Revaluation Reserve</i> £	<i>Profit and loss account</i> £	<i>Total</i> £
At 1 August 2001	50,000	207	94,241	1,897,420	2,041,868
Retained loss for the period	-	-	-	(308,038)	(308,038)
Transfer of difference between depreciation based on historical costs and on revalued amounts	-	-	(5,277)	5,277	-
At 31 March 2002	50,000	207	88,964	1,594,659	1,733,830
Retained profit for year	-	-	-	399,609	399,609
Transfer of difference between depreciation based on historical costs and on revalued amounts	-	-	(7,915)	7,915	-
At 31 March 2003	50,000	207	81,049	2,002,183	2,133,439

18. CONTINGENT LIABILITIES

	<i>2003</i> £	<i>2002</i> £
Guarantees in respect of indebtedness of third parties	27,064	27,064

19. COMMITMENTS

a) Capital commitments

Capital commitments contracted for but not provided in the accounts amounted to £7,102 at 31 March 2003 (2002: £nil).

b) Operating lease commitments

At 31 March 2003 the company had annual commitments under non-cancellable operating leases as follows:

	<i>2003</i> £	<i>2002</i> £
Plant and machinery		
Operating lease expiry:		
Within 1 year	5,379	15,399
Between 1 and 5 years	8,010	20,561
Over 5 years	5,709	-
	19,098	35,960

Horstman Defence Systems Limited

NOTES TO THE ACCOUNTS

at 31 March 2003

20. PENSIONS

The company operates a defined contribution pension scheme for the benefit of its employees. The assets of the scheme are held separately from those of the company in an independently administered fund. There were no unpaid contributions outstanding at the period end.

21. RELATED PARTIES

As permitted by FRS 8 'Related Party Disclosures' the accounts do not disclose transactions with the parent company and fellow subsidiaries where 90% of the voting rights are controlled within the group.

22. ULTIMATE PARENT UNDERTAKING

The company's ultimate parent undertaking is Harris Watson Holdings plc.

Until 11 November 2001 the company's ultimate parent undertaking was Smiths Group plc, which is incorporated in Great Britain and registered in England and Wales and whose accounts are available to the public and may be obtained from 765 Finchley Road, London, NW11 8DS.

Harris Watson Holdings plc is incorporated in Great Britain and registered in England and Wales. Copies of its group accounts which include the company are available from the company's registered office, 45 Waterlinks House, Richard Street, Birmingham, West Midlands B7 4AA.