VT Flagship Limited

(formerly Flagship Training Limited)

Directors' report and consolidated financial statements

Registered number 3086376

31 March 2008

Contents

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 March 2008.

Principal activities

The consolidated financial statements of VT Flagship Limited (formerly Flagship Training Limited) comprises of VT Flagship Limited and its wholly owned subsidiary VT Flagship Fire Fighting Training Limited (formerly Fire Fighting Training Limited). VT Flagship Limited was established in July 1996 and signed a 15 year "Partnering Arrangement" contract with the Royal Navy's Naval Training Command (NTC); the primary objective of the Partnering Arrangement is to reduce the NTC's cost of delivering Royal Navy training. Its shareholders during the year were VT Group Plc and BAE Systems Plc.

The principal activities of VT Flagship Limited are to:

- supply naval training services with the NTC to parent companies and third parties (known as Income Generation);
- provide support services including facilities management, property management and training support to the NTC (known as Service Provision);
- develop, deliver and support the provision of capital equipment and infrastructure to the NTC via the Private Finance Initiative; and
- develop, deliver and support the provision of facilities and infrastructure to the NTC via traditional funding sources (known as Construction Prime Contracting).

The mission statement of the Company is: "To be the valued partner of choice for training and integrated support services".

The core objective of the Company is: "To be the Royal Navy's Partner of choice for the long term".

Business review

VT Flagship Limited continues to achieve a favourable operating performance and generated turnover of £157.8 million *(2007: £123 million)* and an operating profit of £17 million *(2007: £14.8 million)*.

Orders worth £97 million were received during the year. These consisted of a number of new income generation contracts and a significant volume of Construction Prime Contracting activity. The unfulfilled order book now stands at £510 million, the majority to be delivered over the remaining 3 years of the partnering arrangement.

Business risks

The main focus for VT Flagship Limited is to secure the extension to the partnering arrangement with NTC. Considerable effort is ongoing around cost saving initiatives to ensure that long term cost targets are met and operational KPI's continue to outperform the contractual requirements. Commercial exploitation levy targets in relation to the main Royal Navy contract are challenging and work continues to attract new customers and build on established programs through various income generation contracts.

Business risks are managed through a project risk management framework which forms part of the regular business review meetings of the management team and through the completion of compliance and review reports in adherence to VT Group policies.

Dividends

Dividends paid during the year comprised of £nil *(2007: £19,800,000)*.

Directors' Report *(continued)*

Directors

The directors who held office during the year were as follows:

Mr Ian King	Chairman (resigned 30th June 2008)
Mr Paul Lester	(resigned 4th July 2008)
Mr Christopher Cundy	(resigned 4th July 2008)
Mr Nigel Billingham	(resigned 30th June 2008)
Mr David Bristow	(alternate director, resigned 29th January 2008)
Mr John Davies	(alternate director, appointed 27 June 2007, resigned 4th July 2008)
Mr Sundip Thakrar	(alternate director, appointed 27 June 2007, resigned 4th July 2008)
Mr Simon Withey	(appointed 4th July 2008)
Mr Neal Misell	(appointed 4th July 2008)
Mr Ron Sams	(appointed 4th July 2008)
Mr Philip Harrison	(appointed 4th July 2008)

All directors and officers of the Company benefit from third-party indemnity insurance during the financial year and up to the date of this report.

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Post Balance Sheet Event

On the 30th June 2008 an extraordinary general meeting approved VT Group plc entering into an agreement with BAE Systems plc for the formation of a joint venture combining their respective shipbuilding and naval support businesses and to purchase the outstanding 50 per cent shareholding in Flagship Training Limited from the BAE group. Flagship Training Limited became VT Flagship Limited from this date, its ultimate parent company being VT Group plc.

Supplier Payments

Flagship recognises the importance of supplier relations and applies standard payment terms of 30 days or those as specified and agreed in the supplier's terms and conditions. Current creditor days are 42 (*2007: 31*).

Employees

VT Flagship is an equal opportunity employer. Full and fair consideration is given to applications from people with disabilities having regard to their aptitudes and abilities; where practicable special arrangements are made to support the continued employment of those who become disabled. Disabled employees are given fair consideration for training, career development and promotion.

Internal communications increase the contribution which employees can make to improving performance and the directors are committed to encouraging greater involvement of employees in VT Flagship. To this end, team briefings take place on a regular basis and employees are encouraged to make suggestions to enhance the quality of VT Flagship's services and processes. Trade Unions are involved in local consultations as well as at meetings of the VT Flagship Joint Consultative Committee.

Political and charitable contributions

VT Flagship made charitable donations of £800 during the year *(2007: £1,350)*. Political contributions were £nil *(2007: £nil)*.

Directors' Report *(continued)*

Auditors

In accordance with section 384 of the Companies Act 1985, 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.

This report was approved by the Board of Directors on 3rd March 2008

By order of the board

Matthew Jowett

MP Jowett
Secretary

VT Flagship Limited (formerly Flagship Training Limited)
Shore House
Compass Road
North Harbour
Portsmouth
Hampshire
PO6 4PR

Statement of directors' responsibilities in respect of the directors' report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the group and parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the group and the parent company and of the profit or loss for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK 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 group and the parent 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 parent company and enable them to ensure that its 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 group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

KPMG

KPMG Audit Plc
Dukes Keep
Marsh Lane
Southampton
SO14 3EX
United Kingdom

Independent auditors' report to the members of VT Flagship Limited

We have audited the group and parent company financial statements (the "financial statements") of VT Flagship Limited for the year ended 31st March 2008 which comprise the Group Profit and Loss Account, the Group and Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Total Recognised Gains and Losses, the Group and Company Reconciliation of Movements in Shareholders' Funds and the related notes. These financial statements have been prepared under 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 auditor's 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

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 4.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions 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.

Independent auditors' report to the members of VT Flagship Limited
(continued)

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and 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, in accordance with UK Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31st March 2008 and of the group's profit for the year then ended;

• the financial statements have been properly prepared in accordance with the Companies Act 1985; and

• the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
6 March 2009

Consolidated profit and loss account
for the year ended 31 March 2008

	Note	**2008**	2007
		£000	£000
Turnover	*2*	**157,804**	122,964
Cost of sales		**(129,449)**	(98,220)
Gross profit		**28,355**	24,744
Administrative expenses		**(11,363)**	(9,919)
Operating profit		**16,992**	14,825
Interest receivable and similar income	*5*	**2,963**	3,199
Interest payable and similar charges	*6*	**(1,157)**	(1,074)
Profit on ordinary activities before taxation	*7*	**18,798**	16,950
Taxation on profit on ordinary activities	*8*	**(5,737)**	(5,207)
Profit for the financial year	*18*	**13,061**	11,743

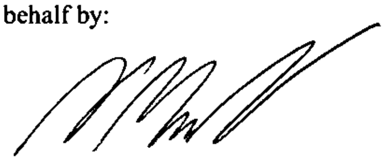
During the current and previous year the Group made no acquisitions and had no discontinued operations.

There is no material difference between the profit for the financial years and their historical cost equivalents.

Consolidated balance sheet
at 31 March 2008

	Note	2008		2007	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	10		362		597
Current assets					
Stocks	12	3,071		5,900	
Debtors	13	43,903		50,585	
Cash in hand and at bank		29,326		4,619	
		76,300		61,104	
Creditors: amounts falling due within one year	14	(58,697)		(56,327)	
Net current assets			17,603		4,777
Total assets less current liabilities			17,965		5,374
Creditors: amounts falling due after more than one year	15		(1,388)		(1,591)
Net assets excluding pension liability			16,577		3,783
Pension liability	22		-		(383)
Net assets including pension liability			16,577		3,400
Capital and reserves					
Called up share capital	17		500		500
Profit and loss account	18		16,077		2,900
Shareholders' funds			16,577		3,400

These financial statements were approved by the Board of Directors on 3rd March 2009 and were signed on its behalf by:



N Misell
Director

Company balance sheet
at 31 March 2008

	Note	2008		2007	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	10	362		597	
Investments	11	50		50	
			412		647
Current assets					
Stocks	12	4,193		4,612	
Debtors	13	41,181		49,893	
Cash in hand and at bank		27,287		3,184	
		72,661		57,689	
Creditors: amounts falling due within one year	14	(57,296)		(55,014)	
Net current assets			15,365		2,675
Net assets excluding pension liability			15,777		3,322
Pension liability	22		-		(383)
Net assets including pension liability			15,777		2,939
Capital and reserves					
Called up share capital	17		500		500
Profit and loss account	18		15,277		2,439
Shareholders' funds			15,777		2,939

These financial statements were approved by the Board of Directors on 3rd March 2009 and were signed on its behalf by:

N Misell
Director

Consolidated cash flow statement
for the year ended 31 March 2008

	Note	2008 £000	2008 £000	2007 £000	2007 £000
Net cash inflow from operating activities	23		11,937		13,548
Returns on investments and servicing of finance					
Interest received		2,286		2,612	
Interest paid		(159)		(232)	
Net cash inflow from returns on investment and servicing of finance			2,127		2,380
Taxation			(5,741)		(7,641)
Capital expenditure					
Purchase of tangible fixed assets		(122)		(286)	
Net cash outflow from capital expenditure			(122)		(286)
Equity dividends paid			-		(19,800)
Cash (outflow)/inflow before management of liquid resources and financing			8,201		(11,799)
Management of liquid resources					
Decrease in Shareholder Loans		16,700		12,800	
Repayment of Restricted Accounts		-		158	
Net cash inflow from management of liquid resources			16,700		12,958
Financing					
Repayment of debt		(194)		(198)	
Net cash outflow from financing			(194)		(198)
Increase in cash in year	24		24,707		961

Reconciliation of net cash flow to movement in net funds
for the year ended 31 March 2008

	Note	**2008**	2007
		£000	£000
Increase in cash in the year		**24,707**	961
Cash outflow from decrease in debt and lease financing		**194**	198
Cash (inflow) from (decrease) in liquid resources		**(16,700)**	(12,958)
Movement in net funds in year		**8,201**	(11,799)
Net funds at 1 April		**34,061**	45,860
Net funds at 31 March	*24*	**42,262**	34,061

Reconciliation of movements in shareholders' funds
for the year ended 31 March 2008

	Group 2008 £000	Group 2007 £000	**Company 2008 £000**	Company 2007 £000
Total gains recognised for the financial year	**13,177**	12,620	**12,838**	12,322
Dividends	-	(19,800)	-	(19,800)
Net (decrease)/increase in shareholders' funds	**13,177**	(7,180)	**12,838**	(7,478)
Opening shareholders' funds	**3,400**	10,580	**2,939**	10,417
Closing shareholders' funds	**16,577**	3,400	**15,777**	2,939

Statement of total recognised gains & losses
for the year ended 31 March 2008

	Group 2008 £000	Group 2007 £000	**Company 2008 £000**	Company 2007 £000
Profit for the financial year	**13,061**	11,743	**12,722**	11,445
Actuarial gain recognised in the pension scheme	**1,639**	1,253	**1639**	1,253
Deferred tax arising on gain in the pension scheme	**(492)**	(376)	**(492)**	(376)
Effect of change in tax rate on pension deferred tax	**34**	-	**34**	-
Actuarial loss recognised on cap of scheme surplus	**(1,479)**	-	**(1,479)**	-
Deferred tax arising on cap of scheme surplus	**414**	-	**414**	-
Total gains and losses recognised for the financial year	**13,177**	12,620	**12,838**	12,322

Notes
(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 March 2008. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

In accordance with section 230(4) of the Companies Act 1985 VT Flagship Limited (formerly Flagship Training Limited) is exempt from the requirement to present its own profit and loss account.

Fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Computer hardware	-	3 years
Computer software	-	1 year
Office equipment	-	3 years
Fixtures & fittings	-	5 years

Where fixed assets are purchased for specific projects and the remaining project life is less than the above periods, the asset is written off over the remaining project life.

Investments

Investments are shown at the lower of cost and market value.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease. Where the Group enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease'. The asset is recorded in the balance sheet as a tangible asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included in creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments included within creditors.

Notes *(continued)*

1 Accounting policies *(continued)*

Post-retirement benefits

The Company participated in two defined contribution pension schemes during the year. The assets of the schemes are held separately from those of the Company in independently administered funds. The amount charged against profits represents the contributions payable to the schemes in respect of the accounting period.

The Company also participated in four pension schemes providing benefits based on final pensionable pay. The assets of these schemes are held separately from those of the Company. Three of these schemes are with Parent companies and the attributable assets and liabilities are not separately identifiable. As such the contributions to the schemes are charged to the profit and loss account as incurred so as to spread the cost of pensions over employees' working lives with the Company. The Group scheme is accounted for under FRS 17.

Turnover

Turnover is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Rendering of services

Turnover from services rendered is recognised by reference to the stage of completion of the transaction. Turnover from services provided on a short-term or one-off basis is recognised when the service is complete.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised without discounting in respect of all timing differences between the treatment of certain items for taxation and accounting which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS19.

Deferred tax assets are recognised only to the extent that, in the opinion of the directors, there is a reasonable probability that the asset will crystallise in the foreseeable future.

Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Notes *(continued)*

2 Turnover – Group

The analysis of the Group's turnover by destination is set out below:

	2008 £000	2007 £000
United Kingdom	**157,226**	122,145
Rest of the World	**578**	819
	157,804	122,964

The analysis of the Group's turnover by activity is set out below:

	2008 £000	2007 £000
Training to RN and Facilities Management Services	**103,845**	86,735
Other Training	**16,105**	19,802
Prime Contracting	**37,854**	16,427
	157,804	122,964

The required full provisions of SSAP 25 are not complied with as, in the view of the directors, it would be prejudicial to the company's interest to do so.

3 Remuneration of directors – Group

None of the directors received remuneration for their services to the company as the services provided to the company are incidental to their wider role as employees of the shareholders and related entities (2007: £nil).

4 Staff numbers and costs

The average number of persons employed by the Group during the year, analysed by category, was as follows:

	Number of employees 2008	2007
Overhead	**101**	85
Direct	**1,529**	1,490
	1,630	1,575

The aggregate payroll costs of these persons were as follows:

	2008 £000	2007 £000
Wages and salaries	**39,146**	36,640
Social security costs	**3,419**	3,059
Other pension costs	**3,143**	2,794
	45,708	42,493

Notes *(continued)*

5 Interest receivable and similar income

	2008 £000	2007 £000
Receivable on bank loans and deposits	**1,574**	2,025
Expected return on pension scheme assets	**1,389**	1,174
	2,963	3,199

6 Interest payable and similar charges

	2008 £000	2007 £000
On bank loans and overdrafts	**107**	128
Interest on pension scheme liabilities	**1,002**	883
Other	**48**	63
	1,157	1,074

7 Profit on ordinary activities before taxation

	2008 £000	2007 £000
Profit on ordinary activities before taxation is stated after charging:		
Depreciation and other amounts written off tangible fixed assets:		
Owned	**357**	502
Under finance lease	**-**	-
Operating lease rentals:		
Land and buildings	**287**	325
Other	**4,503**	4,439
Auditors' remuneration:		
Audit of these financial statements	**53**	50
Audit of financial statements of subsidiaries pursuant to legislation	**8**	11
Other services relating to taxation	**43**	200

Under section 230(4) of the Companies Act 1985, the Company is exempt from the requirement to present its own profit and loss account. The Company's retained profit for the financial year was £12.7m *(2007: £11.4m)*.

Notes *(continued)*

8 Taxation

Analysis of charge in period

	2008	2007
	£000	£000
UK corporation tax		
Current tax on income for the period	**5,546**	3,336
Adjustment in respect of prior periods	**50**	1,802
Total current tax	**5,596**	5,138
Deferred tax (see note 16)		
Origination and reversal of timing differences	**17**	(8)
Timing differences arising on pension scheme	**115**	77
Adjustment in respect of prior periods	**9**	-
Tax on profit on ordinary activities	**5,737**	5,207

Factors affecting the tax charge for the current period

The current tax charge for the period is lower (*2007: higher*) than the standard rate of corporation tax in the UK of 30% *(2007: 30%)*. The differences are explained below:

	2008	2007
	£000	£000
Current tax reconciliation		
Profit on ordinary activities before tax	**18,798**	16,950
Current tax at 30% *(2007: 30%)*	**5,639**	5,085
Effects of:		
Expenses not deductible for tax purposes	**39**	44
Reversal of prior year adjustment	**-**	(1,710)
Net difference between capital allowances and depreciation for the year	**5**	32
Small company relief	**-**	(11)
Movement in short-term timing differences	**(22)**	(27)
Timing differences relating to pension deficit	**(115)**	(77)
Adjustment in respect of prior periods	**50**	1,802
Total current tax charge (see above)	**5,596**	5,138

Factors that may affect future tax charges

The reversal in the deferred tax asset over time (note 16) will affect future tax charges.

Effective 1st April 2008 the relevant rate of corporation tax was reduced from 30% to 28%. Accordingly deferred tax has been recognised at the lower rate.

Notes *(continued)*

9 Dividends

The aggregate amount of dividends comprises:

	2008	2007
	£000	£000
Final dividend paid in respect of prior year but not recognised as a liability in that year	-	10,800
Interim dividend paid in respect of the current year	-	9,000
Aggregate amount of dividend paid in the financial year	-	19,800

10 Tangible fixed assets - Group and Company

	Fixtures, fittings, tools and equipment
	£000
Cost	
At beginning of year	5,984
Additions	122
At end of year	6,106
Depreciation	
At beginning of year	5,387
Charge for year	357
At end of year	5,744
Net book value	
At 31 March 2008	**362**
At 31 March 2007	597

11 Fixed asset investments

Company	**Investment in group undertaking**
	£000
Cost	
At beginning and end of year	**50**

The Company has a 100% owned subsidiary undertaking, VT Flagship Fire Fighting Training Limited, a company registered in England and Wales. Its activity is the supply of fire fighting training under the PFI contract awarded to the Group.

Notes *(continued)*

12 Stocks

	Group 2008 £000	Group 2007 £000	**Company 2008 £000**	Company 2007 £000
Work in progress	**3,071**	5,900	**4,193**	4,612

13 Debtors

	Group 2008 £000	Group 2007 £000	**Company 2008 £000**	Company 2007 £000
Trade debtors	**22,781**	14,719	**22,065**	14,022
Amounts recoverable on contracts	**1,606**	2,896	**1,606**	2,302
Amounts owed by group undertakings	**-**	-	**697**	975
Amounts owed by related parties (see note 21)	**1,925**	854	**1,925**	854
Loans to parent companies (see note 21)	**14,500**	31,200	**14,500**	31,200
Other debtors	**4**	1	**6**	1
Prepayments and accrued income	**2,550**	352	**199**	352
Recoverable deferred taxation (see note 16)	**537**	563	**183**	187
	43,903	50,585	**41,181**	49,893

Company debtors include amounts owed by group undertakings of £403,000 *(2007: £450,000)* which is due after more than one year.

14 Creditors: amounts falling due within one year

	Group 2008 £000	Group 2007 £000	**Company 2008 £000**	Company 2007 £000
Bank loans and overdrafts (secured – see note 20)	**213**	204	**-**	-
Payments received on account	**14,133**	21,779	**14,133**	21,779
Trade creditors	**7,715**	5,133	**7,715**	5,133
Amounts owed to related parties (see note 21)	**1,365**	3,213	**635**	2,496
Corporation tax payable	**2,660**	799	**2,487**	711
Taxation and social security	**1,449**	4,313	**1,240**	4,057
Other creditors	**6,044**	151	**6,044**	150
Accruals and deferred income	**17,228**	20,735	**17,152**	20,688
Provisions	**7,890**	-	**7,890**	-
	58,697	56,327	**57,296**	55,014

Notes *(continued)*

15 Creditors: amounts falling due after more than one year

	Group 2008 £000	Group 2007 £000	**Company 2008 £000**	Company 2007 £000
Bank loan (secured – see note 20)	**1,388**	1,591	-	-
	1,388	1,591	-	-

Analysis of debt:

	Group 2008 £000	Group 2007 £000	**Company 2008 £000**	Company 2007 £000
The bank loan can be analysed as falling due:				
In one year or less, or on demand	**213**	204	-	-
Between one and two years	**231**	218	-	-
Between two and five years	**788**	743	-	-
In five years or more	**369**	630	-	-
	1,601	1,795	-	-

The bank loan is secured to Barclays Bank plc via a fixed and floating charge over shares and assets of VT Flagship Fire Fighting Training Limited, and by guarantees given by the shareholders of the parent company, VT Flagship Limited.

Amounts repayable in five years or more:

	2008 £000	2007 £000
Group		
Bank loan	**369**	630

16 Deferred taxation

	Group £000	**Company £000**
Asset at beginning of year	563	187
Charged to the profit and loss account	**(26)**	**(4)**
Asset at end of year	**537**	**183**

The elements of deferred taxation are as follows:

Notes *(continued)*

16 Deferred taxation *(continued)*

Group	2008 £000	2007 £000
Difference between accumulated depreciation and amortisation and capital allowances	**190**	197
Other timing differences	**347**	366
Recoverable deferred taxation (see note 13)	**537**	563
Deferred tax on pension scheme liabilities (see note 22)	**-**	164
	537	727

Company	2008 £000	2007 £000
Difference between accumulated depreciation and amortisation and capital allowances	**183**	187
Differences arising on pension scheme liabilities	**-**	164
	183	351

17 Called up share capital

	2008 £000	2007 £000
Authorised, allotted, called up and fully paid		
A Ordinary shares of £1 each	**250**	250
B Ordinary shares of £1 each	**250**	250
	500	500

All ordinary shares have the same rights.

Notes *(continued)*

18 Reserves

	Group profit and loss account £000	Company profit and loss account £000
Reserves at 1 April 2007	2,900	2,439
Profit for the financial year	13,061	12,722
Actuarial gain recognised on the pension scheme	1,639	1,639
Deferred tax arising on gain on the pension scheme	(492)	(492)
Effect of rate change on deferred tax on pension scheme	34	34
Actuarial loss recognised on cap of pension scheme surplus	(1,479)	(1,479)
Deferred tax arising on cap of pension scheme surplus	414	414
Reserves at 31 March 2008	**16,077**	**15,277**

19 Commitments

(a) Annual commitments under non-cancellable operating leases are as follows:

	2008		2007	
Group	**Land and Buildings £000**	**Other £000**	Land and Buildings £000	Other £000
Operating leases which expire:				
Within one year	18	222	-	224
In the second to fifth years inclusive	25	245	18	308
Over five years	263	4,136	268	4,037
	306	4,603	286	4,569

	2008		2007	
Company	**Land and Buildings £000**	**Other £000**	Land and Buildings £000	Other £000
Operating leases which expire:				
Within one year	18	222	-	224
In the second to fifth years inclusive	25	245	18	308
Over five years	263	-	268	-
	306	467	286	532

(b) Capital commitments at the end of the financial year, for which no provision has been made, are as follows:

	2008 £000	2007 £000
Contracted	-	-

Notes *(continued)*

20 Contingent liabilities

The bank loan is secured to Barclays Bank plc via a fixed and floating charge over the shares of VT Flagship Fire Fighting Training Limited and by parent company guarantees given by the shareholders of VT Flagship Limited (formerly Flagship Training Limited). This loan is repayable over 14 years at 1% above LIBOR. There are 7 years remaining on the loan.

The Company and Group have given performance guarantees of £nil *(2007: £nil).*

21 Related party transactions

During the year the Group entered into transactions with related parties, which consisted of its shareholders, Vosper Thornycroft (UK) Limited (owners of A shares) and BAE Systems Electronics Limited (owners of B shares).

Related party		Sales to related party £000	Purchases from related party £000	Amounts owed by related party £000	Amount owed to related party £000
Vosper Thornycroft (UK) Limited and associated companies	**2008**	**2,289**	**5,751**	**7,873**	**1,046**
	2007	930	7,996	15,627	2,843
BAE Systems Electronics Limited and associated companies	**2008**	**7,425**	**879**	**8,552**	**319**
	2007	7,409	3,964	16,427	370

All charges were made on an arm's length basis.

The Group was charged £229,099 *(2007: £506,123)* by its shareholders for staff services received; these charges were made at cost.

The Group has a loan outstanding of £7.25 million to each joint venture party at the 31st March 2008 *(2007: £15.6 million).* The loans are split into tranches, being repayable within one week, one month or six months. Interest is accrued on a one month basis for the weekly and monthly tranche and a six month basis for the six month tranche at a rate of LIBOR less 12.5 basis points. Interest of £812,821 *(2007: £1,616,622)* was received in the year with £27,519 accrued for at the year end.

Notes *(continued)*

22 Pension schemes

Defined Contribution Scheme

The Group participated in two defined contribution pension schemes, Shipbuilding Industries Pension Scheme (SIPS) and BAE 2000. The pension cost charge for the period represents contributions payable by the Group to the schemes and amounted to £708,509 *(2007: £600,526)*. Amounts accrued in respect of the schemes at 31 March 2008 totalled £238,477 *(2007: £188,000)*.

Defined Benefit Schemes

The Group also participated in four pension schemes providing benefits based on final pensionable pay. The assets of these schemes are held separately from those of the Group. Three of these schemes are with Parent companies and the attributable assets and liabilities are not separately identifiable. As such, the Company has accounted for these schemes as if they were defined contribution schemes, as permitted under FRS 17, and the amount charged to the profit and loss account represents the contributions payable to the schemes for the accounting period. Details of the schemes are as follows:

VT Flagship Group Scheme

The Company is a participating employer in the VT Group plc defined benefit scheme. Particulars of the most recent valuation, which was at 1 April 2004, are disclosed in the financial statements of VT Group plc, which are available from VT House, Grange Drive, Southampton SO30 2DQ, for the year ended 31 March 2008. Contributions for the year ended 31 March 2008 amounted to £120,075 (*2007: £126,828*). At 31 March 2008 VT Group plc's defined benefit pension deficit was £9.4m *(2007: £33.1m)*.

BAE Systems Schemes

The Group is a participating employer in the BAE SYSTEMS Pension Scheme and the BAE SYSTEMS 2000 Pension Plan. These schemes are funded defined benefit schemes and the assets are held in separate trustee administered funds. Pension scheme valuations are regularly carried out by independent actuaries to determine contribution rates and regular costs for pension funding FRS17 purposes. Details of the schemes and their latest valuation dates and the financial assumptions used for the pension funds to which the company contributions are paid are contained in the consolidated accounts of BAE SYSTEMS plc. These can be obtained at Stirling Square, 6 Carlton Gardens, London, SW1Y 5AD. The contributions paid by the Group are determined at BAE SYSTEMS level, based on the funding requirements of the schemes set by the Trustees, following actuarial advice. The total value of the contributions charged to the company's profit and loss account to 31 March 2008 were BAE SYSTEMS Pension Scheme, £11,623 *(2007: £89,044)*: BAE SYSTEMS 2000 Pension Plan £31,806 *(2007: £42,007)*. At 31 December 2007 the BAE SYSTEMS plc defined benefit pension deficit was £1,908m *(2007: £2,866m)*.

VT Flagship Group Scheme

The Company participates in the Shipbuilding Industries pension scheme (SIPS). The Company contributes to both the defined benefits and the money purchase (defined contribution) scheme arrangements with SIPS. The assets of SIPS are held separately from those of the company.

The Group scheme is accounted for as a defined benefit pension scheme. Liabilities are measured using the projected unit credit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. Any pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full and shown in the balance sheet. The movement in the surplus or deficit is split between operating charge, finance items, actuarial gains and losses and the contributions actually paid in the accounting period. The contributions are determined by a qualified actuary on the basis of triennial valuations using the attained age method. The most recent valuation was at 31 March 2008. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments (7.2%) and the rates of increase in salaries and pensions (4.90%).

Notes *(continued)*

22 Pension schemes *(continued)*

The most recent actuarial valuation showed that the market value of the scheme's assets was £18,136,000 at 31 March 2008 and that the actuarial value of those assets represented 1.09% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The combined contributions of the company and employees will increase to 31.4% of earnings respectively.

The valuation at 31 March 2007 has been updated by the actuary on an FRS 17 basis as at 31 March 2008. The major assumptions used in this valuation were:

	2008	2007	2006
Rate of increase in salaries	**4.90%**	4.50%	4.40%
Rate of increase in pensions in payment and deferred pensions	**3.30%**	2.90%	2.80%
Discount rate applied to scheme liabilities	**6.70%**	5.30%	5.00%
Inflation assumption	**3.40%**	3.00%	2.90%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

The fair value of the scheme's assets, which are not intended to be realised in the short term, may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	Long term rate of return	**Value at 31 March 2008 £000**	Long term rate of return	Value at 31 March 2007 £000	Long term rate of return	Value at 31 March 2006 £000
Equities	**8.00%**	**12,890**	8.00%	15,097	8.00%	12,439
Bonds	**5.38%**	**3,033**	4.84%	1,677	4.69%	1,381
Other	**6.32%**	**2,213**	4.95%	973	5.59%	802
		18,136		17,747		14,622
Present value of scheme liabilities		**(16,657)**		(18,294)		(16,770)
Surplus/(deficit) in the scheme – Pension asset/(liability)		**1,479**		(547)		(2,148)
Related deferred tax asset/(liability)		**(414)**		164		645
Net pension asset/(liability)		**1,065**		(383)		(1,503)
Effect of asset cap		**(1,065)**		-		-
Net asset/(liability) recognised		**-**		(383)		(1,503)

Notes *(continued)*

22 Pension schemes *(continued)*

The surplus in the scheme has not been recognised as a pension asset due to uncertainty that the asset will be realised through future reduced pension scheme funding.

Movement in surplus/(deficit) during the year

	2008 £000	2007 £000
Deficit in scheme at beginning of year	**(547)**	(2,148)
Current service cost	**(1,897)**	(1,936)
Contributions paid	**1,897**	1,909
Other finance income	**387**	291
Net return	**-**	84
Actuarial gain	**1,639**	1,253
Surplus/(deficit) in the scheme at end of year	**1,479**	(547)

Analysis of other pension costs charged in arriving at operating profit:

	2008 £000	2007 £000
Current service cost	**1,897**	1,936

Analysis of amounts included in other finance income/costs:

	2008 £000	2007 £000
Expected return on pension scheme assets	**1,389**	1,174
Interest on pension scheme liabilities	**(1,002)**	(883)
	387	291

Analysis of amount recognised in statement of total recognised gains and losses:

	2008 £000	2007 £000
Actual return less expected return on scheme assets	**(2,231)**	130
Experience gains/(losses) arising on scheme liabilities	**(166)**	1,006
Changes in assumptions underlying the present value of scheme liabilities	**4,036**	117
Actuarial gain/(loss) recognised in statement of total recognised gains and losses	**1,639**	1,253

Notes *(continued)*

22 Pension schemes *(continued)*

History of experience gains and losses:

	2008	2007	2006	2005	2004
	£000	£000	£000	£000	£000
Difference between expected and actual return on scheme assets	**(2,231)**	130	2,186	622	1,111
Percentage of year end scheme assets	**(12%)**	1%	15%	6%	14%
Experience gains & losses arising on the scheme liabilities	**(166)**	1,006	(1,105)	220	-
Percentage of year end scheme assets	**(1%)**	6%	7%	2%	-
Actuarial gain recognised in statement of total recognised gains and losses	**1,639**	1,253	(160)	691	320
Percentage of present value of year end scheme liabilities	**10%**	7%	1%	5%	3%

23 Reconciliation of operating profit to net cash inflow from operating activities

	2008	2007
	£000	£000
Operating profit	**16,992**	14,825
Depreciation charge	**357**	502
Decrease in stocks	**2,829**	974
Increase in debtors	**(10,046)**	(782)
(Decrease)/increase in creditors	**1,805**	(1,914)
Difference between pension contributions paid and amounts recognised in the income statement	**-**	(57)
Net cash inflow from operating activities	**11,937**	13,548

24 Analysis of changes in net funds

	1 April 2007	**Cashflows**	**Other non-cash changes**	**31 March 2008**
	£000	**£000**	**£000**	**£000**
Cash in hand and at bank	4,619	24,707	-	29,326
	4,619	24,707	-	29,326
Debt due in less than one year	(204)	204	(213)	(213)
Debt due after one year	(1,591)	(10)	213	(1,388)
Non cash movement	37	-	-	37
Current asset investments	31,200	(16,700)	-	14,500
Total	**34,061**	**8,201**	-	**42,262**

Notes *(continued)*

25 Events after the balance sheet date

Effective 1st April 2008 the relevant rate of corporation tax was reduced from 30% to 28%. Accordingly deferred tax has been recognised at the lower rate.

Additionally, on the 30th June 2008 an extraordinary general meeting approved VT Group entering into an agreement with BAE Systems plc for the formation of a joint venture combining their respective shipbuilding and naval support businesses and to purchase the outstanding 50 per cent shareholding in VT Flagship Limited (formerly Flagship Training Limited) from the BAE group.

26 Controlling Party

The company was jointly controlled by the ultimate parent companies of BAE SYSTEMS Plc and VT Group Plc during the financial year ended 31st March 2008.
Following the purchase of the remaining 50% of share on 30th June 2008, the ultimate parent undertaking of the company is VT Group plc, a company incorporated in Great Britain and registered in England & Wales.
The largest group, in which the results of the Company are consolidated is that headed by VT Group plc. The consolidated financial statements of this Company are available to the public and may be obtained from the company's registered office of Grange Drive, Hedge End, Southampton.