

Flagship Training Limited

**Directors' report and consolidated
financial statements**

Registered number 3086376

31 March 2004



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Directors' Report

The Directors present their annual report and the audited financial statements for the year ended 31 March 2004.

Principal activities

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

The principal activities of Flagship are to:

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

The mission statement of the Company is:

"To be the World Leader in Military and Maritime Training Solutions",

The core objective of the Company is:

"To be the NRTA's Partner of choice for the long term"

Business review

Flagship continues to achieve a favourable operating performance and generated turnover of £112 million (2003: £81 million) and an operating profit of £12.3 million (2003: £9.8 million).

Orders worth £102 million were received during the year. These consisted of a number of contractual extensions to Service Provision activities and also a significant volume of Construction Prime Contracting activity. The unfulfilled order book now stands at £700 million, the majority to be delivered over the remaining 7 years of the partnering arrangement.

Dividends

The Directors recommend the payment of a dividend of £9,019,000 (2003: £7,501,000).

Directors

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

Mr Ian King	Chairman	
Mr George Cameron		(resigned 24/10/2003)
Mr Simon Withey		(resigned 24/10/2003)
Mr Andrew Davies		(resigned 13/8/2003)
Mr Richard Rowe	(alternate director)	(resigned 24/10/2003)
Mr Peter Dawes	(alternate director)	(resigned 24/10/2003)
Mr Glynn Phillips	(alternate director)	(resigned 13/8/2003)
Mr Paul Lester		
Mr Christopher Cundy		
Mr Julian Hartley	(alternate director)	
Mr Rory Fisher		
Mr Simon Tarrant	(alternate director)	

Directors' Report *(continued)*

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the Company or any other Group Company.

According to the register of directors' interests, no rights to subscribe for shares in or debentures of the Company or any other Group Company were granted to any of the directors or their immediate families, or exercised by them, during the financial year.

Employees

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 Flagship. To this end team briefings take place on a regular basis and employees are encouraged to make suggestions to enhance the quality of Flagship's services and processes. Trade Unions are involved in local consultations as well as at meetings of the Flagship Joint Consultative Committee.

Political and charitable contributions

Flagship gave charitable donations of £3,178 during the year (2003: £240). Political contributions were £nil (2003: £nil).

Auditors

In accordance with section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP 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 8 June 2004



I G King
Director

Flagship Training Limited
Shore House
Compass Road
North Harbour
Portsmouth
Hampshire
PO6 4PR

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and Group and of the profit or loss for that 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group 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 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.



KPMG LLP

Dukes Keep
Marsh Lane
Southampton SO14 3EX
United Kingdom

Independent Auditors' Report to the Members of Flagship Training Limited

We have audited the financial statements on pages 5 to 25.

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 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 Group is not disclosed.

Basis of audit 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 Group'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 view of the state of affairs of the Company and the Group as at 31 March 2004 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in black ink that reads 'KPMG LLP'.

KPMG LLP
Chartered Accountants
Registered Auditor

28 January 2005

Consolidated Profit and Loss Account
for the year ended 31 March 2004

	<i>Note</i>	2004 £000	2003 £000
Turnover	2	112,435	81,152
Cost of sales		(94,155)	(66,055)
Gross profit		18,280	15,097
Administrative expenses		(6,017)	(5,346)
Operating profit		12,263	9,751
Interest receivable and similar income	5	1,216	1,265
Interest payable and similar charges	6	(210)	(286)
Profit on ordinary activities before taxation	7	13,269	10,730
Taxation on profit on ordinary activities	8	(4,023)	(3,053)
Profit for the financial year		9,246	7,677
Dividends	9	(9,019)	(7,501)
Retained profit for the year	18	227	176

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

There are no recognised gains and losses in the years other than those passing through the profit and loss account.

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

Consolidated Balance Sheet
at 31 March 2004

	<i>Note</i>	2004	2003
		£000	£000
Fixed assets			
Tangible assets	10	761	1,098
Current assets			
Stocks	12	5,548	6,484
Debtors	13	38,481	30,752
Cash on hand and at bank		21,652	19,790
		<u>65,681</u>	<u>57,026</u>
Creditors: amounts falling due within one year	14	<u>(64,128)</u>	<u>(55,630)</u>
Net current assets		1,553	1,396
Total assets less current liabilities		2,314	2,494
Creditors: amounts falling due after more than one year	15	<u>(2,206)</u>	<u>(2,613)</u>
Net assets/(liabilities)		108	(119)
Capital and reserves			
Called up share capital	17	500	500
Profit and loss account	18	(392)	(619)
Equity shareholders' funds/(deficiency)		108	(119)

These financial statements were approved by the Board of Directors on 8 June 2004 and were signed on its behalf by:


I G King
Director

Company Balance Sheet
 at 31 March 2004

	Note	2004 £000	2003 £000
Fixed assets			
Tangible assets	10	761	1,098
Investments	11	50	50
		<u>811</u>	<u>1,148</u>
Current assets			
Stocks	12	4,076	4,941
Debtors (including £566,000 (2003: £598,000) due after more than one year)	13	37,562	29,866
Cash on hand and at bank		20,912	19,126
		<u>62,550</u>	<u>53,933</u>
Creditors: amounts falling due within one year	14	<u>(62,842)</u>	<u>(54,386)</u>
Net current liabilities		<u>(292)</u>	<u>(453)</u>
Total assets less current liabilities		<u>519</u>	<u>695</u>
Creditors: amounts falling due after more than one year	15	<u>(19)</u>	<u>(195)</u>
Net assets		<u>500</u>	<u>500</u>
Capital and reserves			
Called up share capital	17	500	500
Profit and loss account	18	-	-
Equity shareholders' funds		<u>500</u>	<u>500</u>

These financial statements were approved by the Board of Directors on 8 June 2004 and were signed on its behalf by:



I G King
 Director

Consolidated Cash Flow Statement
for the year ended 31 March 2004

	<i>Note</i>	2004	2003
		£000	£000
Net cash inflow from operating activities	24	16,114	15,765
Returns on investments and servicing of finance			
Interest received		1,045	1,061
Interest element of finance lease payments		(38)	(85)
Net cash inflow from returns on investment and servicing of finance		1,007	976
Taxation		(3,523)	(3,432)
Capital expenditure			
Purchase of tangible fixed assets		(354)	(462)
Net cash outflow from capital expenditure		(354)	(462)
Equity dividends paid		(7,501)	(7,422)
Cash inflow before management of liquid resources and financing		5,743	5,425
Management of liquid resources			
Shareholder Loans		-	(20,000)
Restricted Accounts		16	(807)
Net cash inflow/(outflow) from management of liquid resources		16	(20,807)
Financing			
Capital element of finance lease rentals		(377)	(654)
Repayment of debt		(198)	(174)
Net cash outflow from financing		(575)	(828)
Increase/(decrease) in cash in year	25	5,184	(16,210)

Reconciliation of Net Cash Flow to Movement in Net Funds

	2004 £000	2003 £000
Increase/(decrease) in cash in the year	5,184	(16,210)
Cash outflow from decrease in debt and lease financing	575	828
Cash (inflow)/outflow from (decrease)/increase in liquid resources	(16)	20,807
	<hr/>	<hr/>
Movement in net funds in year	5,743	5,425
Net funds at 1 April	33,323	27,898
	<hr/>	<hr/>
Net funds at 31 March	39,066	33,323
	<hr/> <hr/>	<hr/> <hr/>

Reconciliations of Movements in Shareholders' Funds/(Deficiency)

for the year ended 31 March 2004

	Group 2004 £000	Group 2003 £000	Company 2004 £000	Company 2003 £000
Profit for the financial year	9,246	7,677	9,019	7,501
Dividends	(9,019)	(7,501)	(9,019)	(7,501)
	<hr/>	<hr/>	<hr/>	<hr/>
Net increase in shareholders' funds	227	176	-	-
Opening shareholders' funds/(deficiency)	(119)	(295)	500	500
	<hr/>	<hr/>	<hr/>	<hr/>
Closing shareholders' funds/(deficiency)	108	(119)	500	500
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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. The Group has followed the transitional arrangements of FRS 17 'Retirement benefits' in these 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 2004. 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 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 equipment	-	3 years
Office equipment	-	5 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 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. Contributions to the schemes are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the Company.

Long term contracts

The amount of profit attributable to the stage of completion of a long term contract is recognised when the outcome of the contract can be foreseen with reasonable certainty. Turnover for such contracts is stated at the cost appropriate to their stage of completion plus attributable profits, less amounts recognised in previous years. Provision is made for any losses as soon as they are foreseen.

Contract work in progress is stated at costs incurred, less those transferred to the profit and loss account, after deducting foreseeable losses and payments on account not matched with turnover.

Amounts recoverable on contracts are included in debtors and represent turnover recognised in excess of payments on account.

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.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers in accordance with the accounting policy on long term contracts.

2 Turnover - Group

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

	2004 £000	2003 £000
United Kingdom	108,729	79,622
Asia and Pacific	98	1,178
Rest of the World	3,608	352
	<hr/> 112,435 <hr/>	<hr/> 81,152 <hr/>

All turnover originates in the United Kingdom.

Notes (continued)

3 Remuneration of directors - Group

The amount paid to related parties for the services of directors was £ Nil (2003: £19,095).

There were no other amounts paid in respect of directors' remuneration (2003: £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	
	2004	2003
Overhead	84	71
Direct	1,185	1,097
	<hr/>	<hr/>
	1,269	1,168
	<hr/>	<hr/>

The aggregate payroll costs of these persons were as follows:

	2004	2003
	£000	£000
Wages and salaries	23,839	20,582
Social security costs	2,141	1,671
Other pension costs	1,870	1,449
	<hr/>	<hr/>
	27,850	23,702
	<hr/>	<hr/>

5 Other interest receivable and similar income

	2004	2003
	£000	£000
Receivable from group undertakings	-	80
Other	1,216	1,185
	<hr/>	<hr/>
	1,216	1,265
	<hr/>	<hr/>

Notes (continued)

6 Interest payable and similar charges

	2004 £000	2003 £000
On bank loans and overdrafts	172	182
On all other loans	-	-
Finance charges payable in respect of finance leases and hire purchase contracts	38	85
Other	-	19
	<u>210</u>	<u>286</u>

7 Profit on ordinary activities before taxation

	2004 £000	2003 £000
<i>Profit on ordinary activities before taxation is stated after charging</i>		
Auditors' remuneration:		
Group – audit	34	33
Group - other services	13	8
Company – audit	29	28
Company - other services	8	5
Depreciation and other amounts written off tangible fixed assets:		
Owned	345	294
Under finance lease	346	566
Operating lease rentals:		
Land and buildings	798	176
Other	4,336	3,866
	<u>4,336</u>	<u>3,866</u>

8 Taxation

Analysis of charge in period	2004 £000	2003 £000
<i>UK corporation tax</i>		
Current tax on income for the period	4,014	3,158
Adjustments in respect of prior periods	-	(6)
Total current tax	<u>4,014</u>	<u>3,152</u>
<i>Deferred tax (see note 16)</i>		
Reversal of timing differences	9	64
Adjustment in respect of previous years	-	(163)
	<u>9</u>	<u>(99)</u>
Tax on profit on ordinary activities	<u>4,023</u>	<u>3,053</u>

Notes (continued)

8 Taxation – Group (continued)

Factors affecting the tax charge for the current period

The current tax charge for the period is higher (2003: lower) than the standard rate of corporation tax in the UK 30% (2003: 30%). The differences are explained below.

	2004 £000	2003 £000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	13,269	10,730
	<hr/>	<hr/>
Current tax at 30% (2003: 30%)	3,981	3,219
<i>Effects of:</i>		
Expenses not deductible for tax purposes	66	33
Net difference between capital allowances and depreciation for the year	5	2
Small company relief	(15)	(15)
Movement in short-term timing differences	(23)	(81)
Adjustments to tax charge in respect of previous periods	-	(6)
	<hr/>	<hr/>
Total current tax charge (see above)	4,014	3,152
	<hr/>	<hr/>

Factors that may affect future tax charges

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

9 Dividends

	2004 £000	2003 £000
Final dividend proposed	9,019	7,501
	<hr/>	<hr/>

Notes (continued)

10 Tangible fixed assets - Group and Company

	Fixtures, fittings, tools and equipment £000
<i>Cost</i>	
At beginning of year	4,253
Additions	354
	<hr/>
At end of year	4,607
	<hr/>
<i>Depreciation</i>	
At beginning of year	3,155
Charge for year	691
	<hr/>
At end of year	3,846
	<hr/>
<i>Net book value</i>	
At 31 March 2004	761
	<hr/>
At 31 March 2003	1,098
	<hr/>

Included in the total net book value above is £202,871 (2003: £548,415) in respect of assets held under finance leases.

11 Fixed asset investments

Company	Shares in group undertaking £000
<i>Cost</i>	
At beginning and end of year	50
	<hr/>
<i>Provisions</i>	
At beginning and end of year	-
	<hr/>
<i>Net book value</i>	
At 31 March 2004 and 2003	50
	<hr/>

Details of the subsidiary undertaking are given in note 23.

Notes (continued)

12 Stocks

	Group	Group	Company	Company
	2004	2003	2004	2003
	£000	£000	£000	£000
Work in progress	5,548	6,484	4,076	4,941

13 Debtors

	Group	Group	Company	Company
	2004	2003	2004	2003
	£000	£000	£000	£000
Trade debtors	13,555	7,354	12,810	6,697
Amounts recoverable on contracts	2,554	1,779	2,554	1,779
Amounts owed by group undertakings	-	-	834	836
Amounts owed by related parties (see note 21)	897	96	897	96
Loans to parent companies	20,000	20,000	20,000	20,000
Other debtors	17	18	17	18
Prepayments and accrued income	838	876	293	307
Recoverable deferred taxation (see note 16)	620	629	157	133
	38,481	30,752	37,562	29,866

Company debtors include amounts owed by group undertakings of £566,000 (2003: £598,000) which is due after more than one year.

14 Creditors: amounts falling due within one year

	Group	Group	Company	Company
	2004	2003	2004	2003
	£000	£000	£000	£000
Bank loans and overdrafts (secured)	186	3,459	-	3,306
Obligations under finance leases	192	392	192	392
Payments received on account	15,177	14,196	15,177	14,196
Trade creditors	9,814	4,801	9,814	4,798
Amounts owed to related parties (see note 21)	587	640	238	296
Corporation tax payable	2,107	1,616	2,058	1,590
Taxation and social security	2,145	1,830	1,982	1,650
Other creditors	120	654	120	116
Accruals and deferred income	24,781	20,541	24,242	20,541
Dividend proposed	9,019	7,501	9,019	7,501
	64,128	55,630	62,842	54,386

Notes (continued)

15 Creditors: amounts falling due after more than one year

	Group 2004 £000	Group 2003 £000	Company 2004 £000	Company 2003 £000
Bank loan (secured – see note 20)	2,187	2,418	-	-
Obligations under finance leases	19	195	19	195
	<u>2,206</u>	<u>2,613</u>	<u>19</u>	<u>195</u>

Analysis of debt:

	Group 2004 £000	Group 2003 £000	Company 2004 £000	Company 2003 £000
The bank loan can be analysed as falling due:				
In one year or less, or on demand	186	3,459	-	-
Between one and two years	178	164	-	-
Between two and five years	605	558	-	-
In five years or more	1,404	1,696	-	-
	<u>2,373</u>	<u>5,877</u>	<u>-</u>	<u>-</u>

The bank loan is secured to Barclays Bank plc (see note 20).

Amounts repayable in more than five years:

	2004 £000	2003 £000
Group		
Bank loan	<u>1,404</u>	<u>1,696</u>

The maturity of obligations under finance leases and hire purchase contracts is as follows:

	Group 2004 £000	Group 2003 £000	Company 2004 £000	Company 2003 £000
Within one year	192	392	192	392
In the second to fifth years	19	195	19	195
	<u>211</u>	<u>587</u>	<u>211</u>	<u>587</u>

Notes (continued)

16 Provisions for liabilities and charges – Deferred taxation

	Group	Company
	£000	£000
Asset at beginning of year (see note 13)	629	133
(Charge)/credit for the year	(9)	24
	<hr/>	<hr/>
Asset at end of year (see note 13)	620	157
	<hr/>	<hr/>
The elements of deferred taxation are as follows:		
Group	2004	2003
	£000	£000
Difference between accumulated depreciation and amortisation and capital allowances	153	138
Other timing differences	467	491
	<hr/>	<hr/>
	620	629
	<hr/>	<hr/>
 Company	 2004	 2003
	£000	£000
Difference between accumulated depreciation and amortisation and capital allowances	129	107
Other timing differences	28	26
	<hr/>	<hr/>
	157	133
	<hr/>	<hr/>

Notes (continued)

17 Called up share capital

	2004 £000	2003 £000
<i>Authorised, allotted, called up and fully paid</i>		
Equity: A Ordinary shares of £1 each	250	250
B Ordinary shares of £1 each	250	250
	<hr/>	<hr/>
	500	500
	<hr/>	<hr/>

All ordinary shares have the same rights.

18 Reserves

	Group profit and loss account £000	Company profit and loss account £000
Deficit at 1 April 2003	(619)	-
Retained profit for year	227	-
	<hr/>	<hr/>
Deficit at 31 March 2004	(392)	-
	<hr/>	<hr/>

19 Commitments

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

	2004		2003	
Group	Land and Buildings £000	Other £000	Land and Buildings £000	Other £000
Operating leases which expire:				
Within one year	309	25	4	7
In the second to fifth years inclusive	274	396	199	122
Over five years	230	3,850	-	3,781
	<hr/>	<hr/>	<hr/>	<hr/>
	813	4,271	203	3,910
	<hr/>	<hr/>	<hr/>	<hr/>

Notes (continued)

19 Commitments (continued)

Company	2004		2003	
	Land and Buildings £000	Other £000	Land and Buildings £000	Other £000
Operating leases which expire:				
Within one year	309	25	4	7
In the second to fifth years inclusive	274	396	199	122
Over five years	230	-	-	-
	<u>813</u>	<u>421</u>	<u>203</u>	<u>129</u>

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

	2004 £000	2003 £000
Contracted	<u>35</u>	<u>75</u>

20 Contingent liabilities

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

The Company and Group have given performance guarantees of £252,866 (2003: £253,440).

Notes (continued)

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).

		Sales to related party £000	Purchases from related party £000	Amounts owed by related party £000	Amount owed to related party £000
Related party					
Vosper Thornycroft (UK) Limited and associated companies	2004	2,784	4,732	10,446	431
	2003	3,278	5,280	10,048	77
BAE Systems Electronics Limited and associated companies	2004	2,102	226	10,452	156
	2003	1,721	431	48	201

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

The Group was charged £182,698 (2003: £347,940) by its shareholders for staff services received; these charges were made at cost.

The Group was paid £730,192 (2003: £80,112) in interest payments by its shareholders. The Group made a loan of £10 million to each joint venture party on 11 February 2003 with quarterly interest rate of LIBOR less 12.5 basis points. The loans are repayable within 12 months. Interest of £730,192 was accrued and received in the year.

Notes (continued)

22 Pension schemes

The Group participated in two defined contribution pension schemes. The pension cost charge for the period represents contributions payable by the Group to the schemes and amounted to £435,250 (2003: £374,215).

The Group participated in four pension schemes providing benefits based on final pensionable pay. Details of the schemes are as follows:

The Group is a participating employer in the VT Group defined benefit scheme. Particulars of the most recent valuation, which was at 1 April 2001, are disclosed in the financial statements of VT Group plc for the year ended 31 March 2004. Contributions for the year ended 31 March 2004 amounted to £49,505 (2003: £48,187).

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, SSAP24 and FRS17 purposes. Details of the schemes and their latest valuation dates and the financial assumptions used are contained in the consolidated accounts of BAE SYSTEMS plc. The contributions paid by the Group are determined at BAE group 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 2004 were BAE SYSTEMS Pension Scheme, £31,577 (2003: £12,700); BAE SYSTEMS 2000 Pension Plan £38,596 (2003: £14,729).

The Group operates a pension scheme providing benefits based on final pensionable pay, contributions being charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the Group. 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 1 April 2003. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate return on investments (6.5% pre retirement, 5.5% post retirement) and the rates of increase in salaries and pensions (4.5%)

The most recent actuarial valuation showed that the market value of the scheme's assets was £6,192,000 at 1 April 2003 and that the actuarial value of those assets represented 83% 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 28.2% of earnings respectively.

The total pension charge for the period was £1,871,884 (2003: £1,448,668). There was a provision of £93,009 (2003: £88,033) in the balance sheet representing the difference between the amount charged in the profit and loss account and the amount paid into the pension schemes.

Whilst the Group continues to account for pension costs in accordance with Statement of Standard Accounting Practice 24 'Accounting for Pension costs', under FRS 17 'Retirement benefits' the following transitional disclosures are required for the Flagship Training Limited scheme. The other schemes are considered to be multi-employer schemes and the Group is unable to identify its share of the underlying assets and liabilities on a consistent and reasonable basis.

The valuation at 1 April 2003 has been updated by the actuary on an FRS 17 basis as at 31 March 2004. The major assumptions used in this valuation were:

	2004	2003	2002
Rate of increase in salaries	4.5%	4.0%	4.25%
Rate of increase in pensions in payments	2.85%	2.5%	2.75%
Discount rate	5.5%	5.5%	6.25%
Inflation assumption	3%	2.5%	2.75%

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.

Notes (continued)

22 Pension schemes (continued)

The fair value of the scheme's assets, which are not intended to be realised in the short term and 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 2004 £000	Long term rate of return	Value at 31 March 2003 £000	Long term rate of return	Value at 31 March 2002 £000
Equities	8%	7,142	8.5%	4,315	7.5%	4,745
Gilts	4.75%	760	4.5%	479	5.0%	527
		<hr/>		<hr/>		<hr/>
		7,902		4,794		5,272
Present value of scheme liabilities		(10,954)		(7,781)		(5,636)
		<hr/>		<hr/>		<hr/>
Deficit in the scheme – Pension liability		(3,052)		(2,987)		(364)
Related deferred tax asset		916		896		109
		<hr/>		<hr/>		<hr/>
Net pension liability		(2,136)		(2,091)		(255)
		<hr/>		<hr/>		<hr/>

The amount of this net pension liability would have a consequential effect on reserves.

Movement in deficit during the year

	Value at 31 March 2004 £000	Value at 31 March 2003 £000
Deficit in scheme at beginning of year	(2,987)	(364)
Current service cost	(1,212)	(1,097)
Contributions paid	1,099	1,081
Acquisitions	(250)	-
Other finance income/ (cost)	(22)	35
Actuarial gain/(deficit)	320	(2,642)
	<hr/>	<hr/>
Deficit in the scheme at end of year	(3,052)	(2,987)
	<hr/>	<hr/>

If FRS 17 had been fully adopted in these financial statements the pension costs for defined benefit schemes would have been:

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

	2004 £000	2003 £000
Current service cost	1,212	1,097
	<hr/>	<hr/>

Notes (continued)

22 Pension schemes (continued)

Analysis of amounts included in other finance income/costs:

	2004 £000	2003 £000
Expected return on pension scheme assets	451	425
Interest on pension scheme liabilities	(473)	(390)
	<u>(22)</u>	<u>35</u>

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

	2004 £000	2003 £000
Actual return less expected return on scheme assets	1,111	(1,854)
Percentage of year end scheme assets	14%	39%
Changes in assumptions underlying the present value of scheme liabilities	(791)	(788)
Percentage of present value of year end scheme liabilities	7%	10%
	<u>320</u>	<u>(2,642)</u>
Actuarial gain loss recognised in statement of total recognised gains and losses	320	(2,642)
Percentage of present value of year end scheme liabilities	3%	34%

23 Principal subsidiary undertaking

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

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

	2004 £000	2003 £000
Operating profit	12,263	9,751
Depreciation charge	691	860
Decrease/(increase) in stocks	936	(3,670)
(Increase)/decrease in debtors	(7,738)	334
Increase in creditors	9,962	8,490
	<u>16,114</u>	<u>15,765</u>
Net cash inflow from operating activities	16,114	15,765

Notes (continued)

25 Analysis of changes in net funds

	1 April 2003 £000	Cash flows £000	Other non- cash changes £000	31 March 2004 £000
Cash in hand and at bank	18,824	1,878	-	20,702
Overdrafts	(3,306)	3,306	-	-
	<u>15,518</u>	<u>5,184</u>	<u>-</u>	<u>20,702</u>
Debt due in less than one year	(198)	198	(167)	(167)
Debt due after one year	(2,373)	-	167	(2,206)
Finance leases	(588)	415	(38)	(211)
Current asset investments	20,966	(16)	-	20,950
	<u>33,325</u>	<u>5,781</u>	<u>(38)</u>	<u>39,068</u>