

COMPANY REGISTRATION NUMBER 04113377

CELTIC AEROSPACE VENTURES LIMITED
FINANCIAL STATEMENTS
31st DECEMBER 2010

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CELTIC AEROSPACE VENTURES LIMITED

FINANCIAL STATEMENTS

YEAR ENDED 31st DECEMBER 2010

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CELTIC AEROSPACE VENTURES LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

The board of directors	D O McFarlane A D W Jones
Company secretary	Muckle Secretary Limited
Registered office	Time Central 32 Gallowgate Newcastle upon Tyne NE1 4BF
Auditor	Tait Walker LLP Chartered Accountants & Statutory Auditor Bulman House Regent Centre Gosforth Newcastle upon Tyne NE3 3LS
Bankers	HSBC Bank Plc 110 Grey Street Newcastle upon Tyne NE1 6JG Sunflower Bank 2070 South Ohio Street Salina Kansas 67401
Solicitors	Muckle LLP Time Central 32 Gallowgate Newcastle upon Tyne NE1 4BF

CELTIC AEROSPACE VENTURES LIMITED

THE DIRECTORS' REPORT

YEAR ENDED 31st DECEMBER 2010

The directors present their report and the financial statements of the group for the year ended 31st December 2010

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the company was that of a holding company for its subsidiaries - CAV Aerospace Limited and Prematec Corporation Ltd - companies incorporated in England and Wales

The principal activity of the group was the design and manufacture of a proprietary ice prevention system, major structural assemblies and components for the aerospace industry

2010, like 2009, was very much dominated by the economic downturn. Sales for the period at £50.7m were down £2.5m on 2009, this was due to two factors

- a) A split of the business in March 2009 whereby Ice Protection business became a separate trading identity
- b) A further reduction in aircraft build rates on 2009 volumes as a direct consequence of the economic downturn

Despite this fall in turnover, the business still performed significantly better than 2009. This improvement was achieved by reductions in overhead expenditure due to rigid cost control together with interest cost reductions.

In 2009 it was predicted that the group would begin to see the exit from the recession late in 2010 or early in 2011. This prediction was accurate and the business has seen a considerable improvement in volumes at the end of 2010. Unfortunately these increases were too late to impact upon 2010 trading results. However the group has made significant improvements in profitability in quarter one of 2011 and the expectation is that this improvement will continue throughout 2011.

Aircraft build rates as predicted by the major commercial manufacturers show continued strong growth, this coupled with substantial new business wins make the long term outlook for the business promising.

The ultimate parent company Shin Nippon Koki Co. Limited remains extremely supportive of the business and will continue that support through this very difficult economic cycle.

RESULTS AND DIVIDENDS

The loss for the year, after taxation, amounted to £2,939,009. The directors have not recommended a dividend.

CELTIC AEROSPACE VENTURES LIMITED

THE DIRECTORS' REPORT *(continued)*

YEAR ENDED 31st DECEMBER 2010

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The activities of the Group expose it to a number of financial risks including credit risk, exchange rate risk, interest rate risk, and liquidity risk. The group has adopted risk management policies that seek to mitigate these risks in a cost effective manner. Financial assets that expose the group to financial risk consist primarily of trade debtors and cash. Financial liabilities that expose the group to financial risk consist principally of trade creditors, loans, invoice discounting and hire purchase agreements.

Credit risk

The credit management policy of the Group ensures that the appropriate credit checks are made on customers prior to any sales being made.

Credit limits for individual customers are assigned by international credit-rating underwriters and implemented.

Exchange rate risk

This exposure arises due to the significant proportion of net total revenues denoted in US dollars. The position is reviewed regularly with the HSBC treasury team and protected forward rate products have been established to ensure that exchange rate risk is managed.

Interest rate risk

The Group has interest bearing assets and liabilities.

The majority of the liabilities (including intra-group) attract fixed rates and risk is mitigated on floating debt by way of a hedge via a callable swap product renewable on a quarterly basis.

Liquidity Risk

The funding needs of the business are reviewed in detail on a continuous basis as part of internal planning and forecasting processes.

The Group maintains a combination of long-term and short-term debt facilities to ensure that sufficient funds are available for operations and planned investment.

The current ratio has strengthened demonstrating an increased ability to meet short term liabilities as they fall due. The board consider that this ratio represents an acceptable benchmark.

RESEARCH AND DEVELOPMENT

Research and development is being undertaken by CAV Aerospace Inc, a subsidiary in U S A. The research and development is concentrating on the development of new products capable of generating greater turnover.

DIRECTORS

The directors who served the company during the year were as follows:

D O McFarlane

A D W Jones

DIRECTORS' RESPONSIBILITIES STATEMENT

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

CELTIC AEROSPACE VENTURES LIMITED

THE DIRECTORS' REPORT *(continued)*

YEAR ENDED 31st DECEMBER 2010

DIRECTORS' RESPONSIBILITIES STATEMENT *(continued)*

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the group and the profit or loss of the group for that year.

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 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 will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

DISABLED EMPLOYEES

The group's policy on recruitment is based on the ability of a candidate to perform the job. Full consideration is given to applications for employment from disabled persons where a handicapped or disabled person can adequately fulfil the requirements of the job.

Where an existing employee becomes disabled whilst in the group's employment and is no longer able to perform their normal duties, every effort will be made to offer suitable alternative employment, to provide assistance with retraining and to deal with their case as compassionately as possible.

It is the group's policy to encourage the training and development of all its employees where this is in the interests of the individual and the group.

EMPLOYEE INVOLVEMENT

During the year the policy of providing employees with information about the group has continued and employees have been encouraged to present suggestions and views on the group's performance. Meetings are held regularly between management and employees to allow a free flow of information and ideas.

CELTIC AEROSPACE VENTURES LIMITED

THE DIRECTORS' REPORT *(continued)*

YEAR ENDED 31st DECEMBER 2010

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITOR

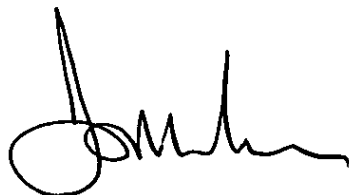
In so far as the directors are aware

- there is no relevant audit information of which the group's auditor is unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information

AUDITOR

A resolution to re-appoint Tait Walker LLP as auditor for the ensuing year will be proposed at the annual general meeting in accordance with section 485 of the Companies Act 2006

Signed on behalf of the directors



D O McFarlane
Director

Approved by the directors on 31 10 2011

CELTIC AEROSPACE VENTURES LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE COMPANY'S SHAREHOLDERS

YEAR ENDED 31st DECEMBER 2010

We have audited the group and parent company financial statements ("the financial statements") of Celtic Aerospace Ventures Limited for the year ended 31st December 2010 set out on pages 8 to 36. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's shareholders, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's shareholders 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 shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement set out on pages 3 to 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements

- give a true and fair view of the state of the group's and parent company's affairs as at 31st December 2010 and of the group's loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

EMPHASIS OF MATTER: GOING CONCERN

In forming our opinion we have considered the adequacy of the disclosures made in note 1 of the financial statements concerning the group's dependency upon the support of the ultimate controlling party, Shin Nippon Koki Co., Ltd. In view of the significance of this matter, we consider that it should be drawn to your attention but our opinion is not qualified in this respect.

CELTIC AEROSPACE VENTURES LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE COMPANY'S SHAREHOLDERS

(continued)

YEAR ENDED 31st DECEMBER 2010

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Tait Walker LLP

Mark Brunton BSc FCA (Senior Statutory Auditor)
For and on behalf of
Tait Walker LLP, Chartered Accountants & Statutory Auditor
Bulman House
Regent Centre
Gosforth
Newcastle upon Tyne
NE3 3LS

31.10.2011

CELTIC AEROSPACE VENTURES LIMITED

PROFIT AND LOSS ACCOUNT

YEAR ENDED 31st DECEMBER 2010

	Note	2010 £	2009 £
GROUP TURNOVER	3	50,691,905	53,217,599
Cost of sales		<u>29,330,299</u>	<u>33,530,397</u>
GROSS PROFIT		21,361,606	19,687,202
Distribution costs		<u>1,446,141</u>	<u>1,476,530</u>
Administrative expenses		<u>24,273,073</u>	<u>22,667,370</u>
Other operating income		<u>(56,345)</u>	<u>(55,349)</u>
OPERATING LOSS	4	(4,301,263)	(4,401,349)
Attributable to			
Operating loss before exceptional items		(3,656,793)	(2,555,211)
Exceptional items	4	<u>(644,470)</u>	<u>(1,846,138)</u>
		(4,301,263)	(4,401,349)
Loss on disposal of fixed assets	8	<u>–</u>	<u>(176,008)</u>
		(4,301,263)	(4,577,357)
Interest receivable		<u>7,909</u>	<u>3,239</u>
Interest payable and similar charges	9	<u>(3,219,455)</u>	<u>(3,231,756)</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(7,512,809)	(7,805,874)
Tax on loss on ordinary activities	10	<u>305</u>	<u>–</u>
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		(7,513,114)	(7,805,874)
Minority interests		<u>(4,574,105)</u>	<u>–</u>
LOSS ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY	11	(2,939,009)	(7,805,874)
LOSS FOR THE FINANCIAL YEAR		(2,939,009)	(7,805,874)

All of the activities of the group are classed as continuing
The company has taken advantage of section 408 of the Companies Act 2006
not to publish its own Profit and Loss Account

The notes on pages 15 to 36 form part of these financial statements

CELTIC AEROSPACE VENTURES LIMITED

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

YEAR ENDED 31st DECEMBER 2010

	2010	2009
	£	£
Loss for the financial year attributable to the shareholders of the parent company	(2,939,009)	(7,805,874)
Currency translation differences on foreign currency net investments	<u>(49,754)</u>	<u>(207,228)</u>
Total gains and losses recognised since the last annual report	<u>(2,988,763)</u>	<u>(8,013,102)</u>

The notes on pages 15 to 36 form part of these financial statements

CELTIC AEROSPACE VENTURES LIMITED

GROUP BALANCE SHEET

31st DECEMBER 2010

	Note	2010 £	2009 £
FIXED ASSETS			
Intangible assets	13		
Goodwill		13,849,647	4,717,867
Negative goodwill		(329,590)	(414,370)
		<u>13,520,057</u>	<u>4,303,497</u>
Other intangible assets		<u>1,077,007</u>	<u>1,408,002</u>
		14,597,064	5,471,499
Tangible assets	14	25,189,960	26,588,943
		<u>39,787,024</u>	<u>32,060,442</u>
CURRENT ASSETS			
Stocks	16	9,080,591	7,793,060
Debtors	17	12,049,783	12,580,895
Cash at bank and in hand		1,326,631	170,335
		<u>22,457,005</u>	<u>20,544,290</u>
CREDITORS: amounts falling due within one year	18	<u>19,755,730</u>	<u>22,716,927</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>2,701,275</u>	<u>(2,172,637)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>42,488,299</u>	<u>29,887,805</u>
CREDITORS: amounts falling due after more than one year	19	56,799,784	40,910,127
PROVISIONS FOR LIABILITIES			
Other provisions	24	325,000	600,000
Government grants	26	208,707	234,107
		<u>(14,845,192)</u>	<u>(11,856,429)</u>
CAPITAL AND RESERVES			
Called-up equity share capital	31	33,678,513	33,678,513
Profit and loss account	32	(48,523,705)	(45,534,942)
DEFICIT	33	<u>(14,845,192)</u>	<u>(11,856,429)</u>

These financial statements were approved by the directors and authorised for issue on 31 October 2011 and are signed on their behalf by

D O McFarlane
Director

The notes on pages 15 to 36 form part of these financial statements

CELTIC AEROSPACE VENTURES LIMITED
COMPANY REGISTRATION NUMBER 04113377

BALANCE SHEET

31st DECEMBER 2010

	Note	2010 £	2009 £
FIXED ASSETS			
Investments	15	41,379,500	30,210,158
CURRENT ASSETS			
Debtors	17	–	40,000
Cash in hand		2	2
		<u>2</u>	<u>40,002</u>
CREDITORS: amounts falling due within one year	18	<u>2,375</u>	<u>696,300</u>
NET CURRENT LIABILITIES		<u>(2,373)</u>	<u>(656,298)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>41,377,127</u>	<u>29,553,860</u>
CREDITORS: amounts falling due after more than one year	19	<u>28,151,189</u>	<u>15,050,703</u>
		<u>13,225,938</u>	<u>14,503,157</u>
CAPITAL AND RESERVES			
Called-up equity share capital	31	33,678,513	33,678,513
Profit and loss account	32	(20,452,575)	(19,175,356)
SHAREHOLDERS' FUNDS		<u>13,225,938</u>	<u>14,503,157</u>

These financial statements were approved by the directors and authorised for issue on ~~31 October 2011~~ and are signed on their behalf by

D O McFarlane
 Director

The notes on pages 15 to 36 form part of these financial statements

CELTIC AEROSPACE VENTURES LIMITED

GROUP CASH FLOW

YEAR ENDED 31st DECEMBER 2010

	2010		2009	
	£	£	£	£
NET CASH OUTFLOW FROM OPERATING ACTIVITIES		(3,583,416)		(1,612,874)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE				
Interest received	7,909		3,239	
Interest paid	(3,153,419)		(3,056,916)	
Interest element of hire purchase	(66,036)		(143,869)	
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(3,211,546)		(3,197,546)
TAXATION		(305)		—
CAPITAL EXPENDITURE				
Payments to acquire intangible fixed assets	(1,317,866)		(86,996)	
Payments to acquire tangible fixed assets	(63,051)		(1,442,082)	
NET CASH OUTFLOW FROM CAPITAL EXPENDITURE		(1,380,917)		(1,529,078)
ACQUISITIONS AND DISPOSALS				
Payments to acquire minority interests in subsidiaries	(40,500)		(60,000)	
Payments to acquire trades or businesses	—		(410,000)	
NET CASH OUTFLOW FOR ACQUISITIONS AND DISPOSALS		(40,500)		(470,000)
CASH OUTFLOW BEFORE FINANCING		(8,216,684)		(6,809,498)
FINANCING				
Repayment of bank loans	(5,879,885)		(518,681)	
Increase in bank loans	18,248,437		4,500,000	
Net inflow from group undertakings	708,647		9,220,812	
Repayment of unsecured loans	(48,384)		(111,975)	
Net outflow from invoice discounting	(2,353,226)		(3,917,149)	
Capital element of hire purchase	(1,248,382)		(1,566,287)	
Repayment of directors' loans	(61,401)		(245,486)	
Repayment of other loans	(94,209)		—	
NET CASH INFLOW FROM FINANCING		9,271,597		7,361,234
INCREASE IN CASH		1,054,913		551,736

The notes on pages 15 to 36 form part of these financial statements

CELTIC AEROSPACE VENTURES LIMITED

GROUP CASH FLOW

YEAR ENDED 31st DECEMBER 2010

RECONCILIATION OF OPERATING LOSS TO NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES

	2010	2009
	£	£
Operating loss	(4,301,263)	(4,401,349)
Amortisation	715,188	425,845
Depreciation	2,838,686	2,674,941
Amortisation of government grants	(25,400)	(25,401)
Foreign exchange movements	310,552	(2,385,053)
(Increase)/decrease in stocks	(1,287,531)	1,454,623
Decrease in debtors	531,112	1,190,832
Decrease/(Increase) in creditors	(2,089,760)	19,360
Decrease in provisions	(275,000)	(566,672)
Net cash outflow from operating activities	<u>(3,583,416)</u>	<u>(1,612,874)</u>

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2010	2009
	£	£
Increase in cash in the period	1,054,913	551,736
Net cash inflow from bank loans	(12,368,552)	(3,981,319)
Net cash inflow from group undertakings	(708,647)	(9,220,812)
Repayment of unsecured loans	48,384	111,975
Net outflow from invoice discounting	2,353,226	3,917,149
Cash outflow in respect of hire purchase	1,248,382	1,566,287
Cash outflow from directors' loans	61,401	245,486
Cash outflow from other loans	94,209	-
Change in net debt resulting from cash flows	(8,216,684)	(6,809,498)
New finance leases	(85,725)	-
Release of debt issue costs	-	(30,971)
Foreign exchange movements re net debt	(418,673)	2,305,254
Deferred consideration re acquisition of shares	(5,140,842)	470,000
Net debt at 1 January 2010	<u>(52,235,458)</u>	<u>(48,170,243)</u>
Net debt at 31 December 2010	<u>(66,097,382)</u>	<u>(52,235,458)</u>

The notes on pages 15 to 36 form part of these financial statements

CELTIC AEROSPACE VENTURES LIMITED

GROUP CASH FLOW

YEAR ENDED 31st DECEMBER 2010

ANALYSIS OF CHANGES IN NET DEBT

	At 1 Jan 2010 £	Cash flows £	Acquisitions £	Other £	At 31 Dec 2010 £
Net cash					
Cash in hand and at bank	170,335	1,156,296	—	—	1,326,631
Overdrafts	(671,048)	(101,383)	—	—	(772,431)
	<u>(500,713)</u>	<u>1,054,913</u>	<u>—</u>	<u>—</u>	<u>554,200</u>
Debt					
Debt due within 1 year	(9,743,528)	960,469	—	—	(8,783,059)
Debt due after 1 year	(38,326,820)	(11,480,448)	(5,140,842)	(418,673)	(55,366,783)
Hire purchase agreements	(3,664,397)	1,248,382	—	(85,725)	(2,501,740)
	<u>(51,734,745)</u>	<u>(9,271,597)</u>	<u>(5,140,842)</u>	<u>(504,398)</u>	<u>(66,651,582)</u>
Net debt	<u>(52,235,458)</u>	<u>(8,216,684)</u>	<u>(5,140,842)</u>	<u>(504,398)</u>	<u>(66,097,382)</u>

ACQUISITIONS AND DISPOSALS

On 13th July 2010 the group acquired the minority shareholding in CAV Aerospace Limited. The consideration was the issue of £5,140,842 of loan notes. Stamp duty of £40,500 was paid.

The notes on pages 15 to 36 form part of these financial statements

CELTIC AEROSPACE VENTURES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31st DECEMBER 2010

1. GOING CONCERN

The group financial statements have been prepared on a going concern basis which assumes the group will continue in operational existence for the foreseeable future. Whilst the group has had a very difficult year, the directors remain confident that the group will still prosper. With new business wins and significant build rate improvement announcements from the group's major customers, the directors are that confident that 2011 will again be a very significant improvement upon 2010. Therefore the directors are satisfied that the going concern approach is correct.

- The group still depends upon support from its principal shareholder and ultimate controlling party, Shin Nippon Koki Co. Ltd.

- Shin Nippon Koki Co. Ltd. have confirmed their continuing support of the business.

- The group meets its day to day working capital requirements through facilities provided by Burdale Financial Limited. The facilities comprise an invoice discounting and stock financing revolving facility together with loans secured against fixed assets and properties. These facilities were agreed in October 2010 for a period of 3 years.

- After making enquiries the directors believe that the group has adequate resources available for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing the annual report and accounts.

If this basis proved to be invalid, the financial statements would have to be prepared on a break up basis in which the balance sheet would be restated to include all assets at estimated realisable values and all liabilities would become current and would have to be increased to include those liabilities contingent on the group ceasing to trade.

2. ACCOUNTING POLICIES

Basis of accounting

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

Basis of consolidation

The consolidated accounts incorporate the accounts of the company and all group undertakings. These are adjusted, where appropriate, to conform to group accounting policies. Acquisitions are accounted for under the acquisition method and goodwill on consolidation is capitalised and written off over 20 years from the year of acquisition. The results of companies acquired or disposed of are included in the profit and loss account after or up to the date that control passes respectively. As a consolidated profit and loss account is published, a separate profit and loss account for the parent company is omitted from the group accounts by virtue of section 408 of the Companies Act 2006.

Turnover

The turnover shown in the profit and loss account represents amounts invoiced during the year, exclusive of Value Added Tax.

CELTIC AEROSPACE VENTURES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31st DECEMBER 2010

2. ACCOUNTING POLICIES *(continued)*

Research and development

Research and development expenditure is written off in the year in which it is incurred, except that development expenditure incurred on clearly defined projects is carried forward when its future recoverability can be reasonably be regarded as assured. Any expenditure carried forward is amortised in line with the expected future sales from the related project.

Goodwill

Negative goodwill represents the excess of fair value over the cost of acquisitions of the separable net assets acquired. Goodwill is amortised through the profit and loss account in line with the depreciation policy of tangible fixed assets to which the negative goodwill relates. This is between 6 2/3% and 10% per annum.

Positive goodwill represents the excess consideration over the separable net assets of businesses acquired and that arising on consolidation. Goodwill is amortised through the profit and loss account in equal instalments over its useful life up to a maximum of 20 years. This length of time is presumed to be the maximum useful life of purchased goodwill because it is difficult to make projections beyond this period. Goodwill is reviewed for impairment at the end of the first full financial year following each acquisition and subsequently as and when necessary if circumstances emerge that indicate that the carrying value may not be recoverable.

Where a subsidiary is acquired and the business is subsequently transferred to another part of the group, leaving the subsidiary to be liquidated. On liquidation no goodwill is transferred to the consolidated profit and loss account, as would happen if the business were sold, because the goodwill attaches to the retained business, not to the legal entity.

Amortisation

Amortisation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Goodwill	- 6 2/3%-10% straight line & over 20 years
Patents	- 10% - 33 1/3% reducing balance

Fixed assets

All fixed assets are initially recorded at cost.

CELTIC AEROSPACE VENTURES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31st DECEMBER 2010

2. ACCOUNTING POLICIES *(continued)*

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows

Freehold Property	- 2% straight line
Leasehold Property	- over lease term
Plant & Machinery	- 6 2/3% - 10% straight line
Fixtures & Fittings	- 10% straight line
Motor Vehicles	- 25% straight line
Office Equipment	- 25% straight line
Aircraft	- 3 1/3% straight line

Stocks

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items

Work in progress

Work in progress is valued on the basis of direct costs plus attributable overheads based on normal level of activity. Provision is made for any foreseeable losses where appropriate. No element of profit is included in the valuation of work in progress.

Hire purchase agreements

Assets held under hire purchase agreements are capitalised and disclosed under tangible fixed assets at their fair value. The capital element of the future payments is treated as a liability and the interest is charged to the profit and loss account on a straight line basis.

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

Pension costs

The group companies operate defined contribution pension schemes for employees. The assets of the schemes are held separately from those of the companies. The annual contributions payable are charged to the profit and loss account.

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 pay less or to receive more tax, with the following exceptions:

CELTIC AEROSPACE VENTURES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31st DECEMBER 2010

2. ACCOUNTING POLICIES *(continued)*

Deferred taxation *(continued)*

Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) 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, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date or if appropriate at the forward contract rate. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward foreign currency contract. Exchange differences are taken into account in arriving at the operating profit.

Financial instruments

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as either financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

The finance cost recognised in the profit and loss account in respect of financial instruments other than equity shares is allocated to periods over the term of the instrument at a constant rate on the carrying amount.

Investments

Investments held as fixed assets are stated at cost less provision for permanent diminution in value. Investments held as current assets are stated at the lower of cost and net realisable value.

Deferred government grants

Deferred government grants in respect of capital expenditure are treated as deferred income and are credited to the profit and loss account over the estimated useful life of the assets to which they relate.

CELTIC AEROSPACE VENTURES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31st DECEMBER 2010

3. TURNOVER

The turnover and loss before tax are attributable to the one principal activity of the group
An analysis of turnover is given below

	2010 £	2009 £
United Kingdom	27,207,612	41,428,624
Overseas	23,484,293	11,788,975
	<u>50,691,905</u>	<u>53,217,599</u>

4. OPERATING LOSS

Operating loss is stated after charging/(crediting)

	2010 £	2009 £
Amortisation of government grants	(25,400)	(25,401)
Amortisation of intangible assets	715,188	427,757
Depreciation of owned fixed assets	2,422,311	2,089,640
Depreciation of assets held under hire purchase agreements	416,375	585,302
Operating lease costs		
- Plant and equipment	33,562	72,929
- Other	1,233,114	1,351,964
Net loss/(profit) on foreign currency translation	1,186,988	(1,410,555)
Auditor's remuneration - audit of the financial statements	59,500	71,284
Auditor's remuneration - other fees	19,778	302,630
Exceptional items (note 5)	<u>644,470</u>	<u>1,846,138</u>

	2010 £	2009 £
Auditor's remuneration - audit of the financial statements	<u>59,500</u>	<u>71,284</u>
Auditor's remuneration - other fees		
- Taxation services	17,213	38,755
- Corporate finance services	2,565	263,875
	<u>19,778</u>	<u>302,630</u>

CELTIC AEROSPACE VENTURES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31st DECEMBER 2010

5. EXCEPTIONAL ITEMS

Included in administrative expenses are the following items,

	2010 £	2009 £
Amounts not recoverable following Release of deferred costs relating to the Centre of Excellence	614,070	750,627
Other	30,400	1,095,512
	<u>644,470</u>	<u>1,846,139</u>

Other costs in 2009 included some costs of restructuring the group

6. PARTICULARS OF EMPLOYEES

The average number of staff employed by the group during the financial year amounted to

	2010 No	2009 No
Number of production staff	423	509
Number of distribution staff	53	20
Number of administrative staff	71	45
Number of management staff	53	40
	<u>600</u>	<u>614</u>

The aggregate payroll costs of the above were

	2010 £	2009 £
Wages and salaries	13,869,856	15,398,620
Social security costs	1,402,564	806,477
Other pension costs	306,871	414,280
	<u>15,579,291</u>	<u>16,619,377</u>

7. DIRECTORS' REMUNERATION

The directors' aggregate remuneration in respect of qualifying services were

	2010 £	2009 £
Remuneration receivable	161,463	146,557
Value of company pension contributions to money purchase schemes	13,896	13,004
	<u>175,359</u>	<u>159,561</u>

CELTIC AEROSPACE VENTURES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31st DECEMBER 2010

7. DIRECTORS' REMUNERATION *(continued)*

The number of directors who accrued benefits under company pension schemes was as follows

	2010	2009
	No	No
Money purchase schemes	<u>1</u>	<u>1</u>

8. LOSS ON DISPOSAL OF FIXED ASSETS

	2010	2009
	£	£
Loss on disposal of fixed assets	<u>-</u>	<u>(176,008)</u>

	2010	2009
	£	£
Included in the above are the following		
Plant and machinery	-	(168,988)
Office equipment	-	(7,020)
	<u>-</u>	<u>(176,008)</u>

9. INTEREST PAYABLE AND SIMILAR CHARGES

	2010	2009
	£	£
Interest payable on bank borrowing	329,384	40,450
Finance charges	66,036	143,869
Interest on other loans	2,824,035	3,047,437
	<u>3,219,455</u>	<u>3,231,756</u>

Interest on other loans includes £2,792,573 (2009 - £2,246,751) paid on loans from group undertakings

10. TAXATION ON ORDINARY ACTIVITIES

(a) Analysis of charge in the year

	2010	2009
	£	£
Foreign tax		
Current tax on income for the year	305	-
Total current tax	<u>305</u>	<u>-</u>

CELTIC AEROSPACE VENTURES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31st DECEMBER 2010

10. TAXATION ON ORDINARY ACTIVITIES *(continued)*

(b) Factors affecting current tax charge

The tax assessed on the loss on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 28% (2009 - 28%)

	2010 £	2009 £
Loss on ordinary activities before taxation	<u>(7,512,809)</u>	<u>(7,805,874)</u>
Loss on ordinary activities by rate of tax	(2,103,586)	(2,185,645)
Items not deductible / (chargeable) for tax purposes	129,321	(78,086)
Capital allowances for period in excess of depreciation	178,391	574,153
Tax relief obtained and utilisation of tax losses	1,795,874	1,689,578
Sundry tax adjusting items	305	-
Total current tax (note 10(a))	<u>305</u>	<u>-</u>

(c) Factors that may affect future tax charges

Given that the group has significant losses to carry forward, there are not anticipated to be any tax charges in the immediate future

11. LOSS ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY

The loss dealt with in the financial statements of the parent company was £(1,277,219) (2009 - £77,359)

12. MINORITY INTERESTS

The minority interests in the group balance sheet at 31st December 2009 were calculated as being a debit balance of £3,998,020. In accordance with FRS2 this balance was not recognised in the balance sheet, as full provision was made to reflect the obligation of the group to provide finance that may not have been recoverable in respect of the accumulated losses attributable to the minority interest. The provision with respect to minority debit balances was set directly against the minority interests shown in the profit and loss account and in the balance sheet. During the year the group acquired the minority shareholdings and the provision was released to the profit and loss account.

CELTIC AEROSPACE VENTURES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31st DECEMBER 2010

13. INTANGIBLE FIXED ASSETS

Group	Negative Goodwill £	Goodwill £	Development Costs £	Other £	Total £
COST					
At 1st January 2010	(1,177,397)	7,530,574	2,692,559	74,411	9,120,147
Additions	–	9,755,447	63,051	–	9,818,498
Disposals	–	–	–	(77,080)	(77,080)
Foreign currency retranslation	–	–	42,809	2,669	45,478
At 31st December 2010	(1,177,397)	17,286,021	2,798,419	–	18,907,043
AMORTISATION					
At 1st January 2010	(763,027)	2,812,707	1,527,825	71,143	3,648,648
Charge for the year	(84,780)	623,667	172,916	3,385	715,188
Disposals	–	–	–	(77,080)	(77,080)
Foreign currency retranslation	–	–	20,671	2,552	23,223
At 31st December 2010	(847,807)	3,436,374	1,721,412	–	4,309,979
NET BOOK VALUE					
At 31st December 2010	(329,590)	13,849,647	1,077,007	–	14,597,064
At 31st December 2009	(414,370)	4,717,867	1,164,734	3,268	5,471,499

Goodwill is being amortised as follows

Goodwill arising on the acquisition of CAV Aerospace Inc is being amortised evenly over the directors' estimate of its useful economic life of 20 years

Goodwill arising on the acquisition of Prematec Corporation Ltd is being amortised evenly over the directors' estimate of its useful economic life of 20 years. The business of Prematec Corporation Ltd was subsequently transferred to another part of the group, leaving the subsidiary to be liquidated. On liquidation of Prematec Corporation Ltd no goodwill was transferred to the consolidated profit and loss account, as would happen if the business were sold, because the goodwill attaches to the retained business, not to the legal entity.

Goodwill arising on the acquisition of Castillion Aerospace Limited is being amortised evenly over the directors' estimate of its useful economic life of 20 years. The business of Castillion Aerospace Limited was subsequently transferred to another part of the group, leaving the subsidiary to be liquidated. On liquidation of Castillion Aerospace Limited no goodwill was transferred to the consolidated profit and loss account, as would happen if the business were sold, because the goodwill attaches to the retained business, not to the legal entity.

CELTIC AEROSPACE VENTURES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31st DECEMBER 2010

13. INTANGIBLE FIXED ASSETS *(continued)*

Goodwill arising on the acquisition of T K S (Aircraft De-icing) Limited is being amortised evenly over the directors' estimate of its useful economic life of 2 years and at the year end is now fully amortised

Goodwill arising on the acquisition of RCL Components Limited is being amortised evenly over the directors' estimate of its useful economic life of 20 years

Goodwill arising on the acquisition of further shares in CAV Aerospace Limited is being amortised evenly over the directors' estimate of its useful economic life of 20 years. The goodwill is calculated using an estimate of deferred consideration that is reasonably expected to be payable. The deferred consideration payable is contingent and could potentially increase if sales of subsidiary companies occur before 31st December 2011. Initial estimates of deferred consideration will be revised as further and more certain information becomes available.

Negative purchased goodwill is being amortised between 6 2/3% and 10% per annum to match the depreciation of the fixed assets to which the negative purchased goodwill relates.

Patents are being amortised evenly over their useful economic lives.

Development expenditure incurred on an individual project is carried forward when its future recoverability can be foreseen with reasonable assurance. Any expenditure carried forward is amortised in line with sales from the related project.

CELTIC AEROSPACE VENTURES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31st DECEMBER 2010

14. TANGIBLE FIXED ASSETS

Group	Freehold Property £	Leasehold Property £	Office Equip £	Plant & Machinery £	Other Assets £	Total £
COST						
At 1 Jan 2010	901,234	3,594,962	1,445,477	45,452,456	471,087	51,865,216
Additions	4,100	–	322,002	1,068,685	8,804	1,403,591
Foreign currency retranslation	–	4,745	1,653	33,267	5,351	45,016
At 31 Dec 2010	905,334	3,599,707	1,769,132	46,554,408	485,242	53,313,823
DEPRECIATION						
At 1 Jan 2010	136,556	450,213	858,293	23,556,083	275,128	25,276,273
Charge for the year	13,168	68,503	106,105	2,614,585	36,325	2,838,686
Foreign currency retranslation	–	171	28	5,160	3,545	8,904
At 31 Dec 2010	149,724	518,887	964,426	26,175,828	314,998	28,123,863
NET BOOK VALUE						
At 31 Dec 2010	755,610	3,080,820	804,706	20,378,580	170,244	25,189,960
At 31 Dec 2009	764,678	3,144,749	587,184	21,896,373	195,959	26,588,943

Hire purchase agreements

Included within the net book value of £25,189,960 is £4,722,114 (2009 - £6,216,486) relating to assets held under hire purchase agreements. The depreciation charged to the financial statements in the year in respect of such assets amounted to £416,375 (2009 - £585,302).

CELTIC AEROSPACE VENTURES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31st DECEMBER 2010

15. INVESTMENTS

Company	Group companies £
COST	
At 1st January 2010	39,969,873
Additions	11,169,342
Disposals	(9,759,715)
At 31st December 2010	<u>41,379,500</u>
AMOUNTS WRITTEN OFF	
At 1st January 2010	9,759,715
Written off in prior years written back	(9,759,715)
At 31st December 2010	<u>-</u>
NET BOOK VALUE	
At 31st December 2010	<u>41,379,500</u>
At 31st December 2009	<u>30,210,158</u>

CELTIC AEROSPACE VENTURES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31st DECEMBER 2010

15. INVESTMENTS *(continued)*

	Country of incorporation	Holding	Proportion of voting rights & shares held	Nature of business
Subsidiary undertakings				
Direct holdings:				
CAV Aerospace Limited	England and Wales	Ordinary shares Ordinary A shares	100% 100%	Aerospace components
CAV Ice Protection Limited	England and Wales	Ordinary shares	100%	Aerospace components
CAV Advanced Technologies Limited	England and Wales	Ordinary shares	100%	Aerospace components
Indirect holdings:				
CAV Aerospace Inc	U S A	Ordinary shares	100%	Aerospace components
T K S (Aircraft De-icing) Limited	England and Wales	Ordinary shares	100%	Dormant
RCL Industries Limited	England and Wales	Ordinary shares Ordinary A shares	100% 100%	Aerospace components
CAV Cambridge Limited	England and Wales	Ordinary shares	100%	Aerospace components

All of the above subsidiary undertakings are included within the consolidated accounts

In July 2010 as a result of group reorganisation CAV Ice Protection Limited and CAV Advanced Technologies Limited became direct subsidiaries of Celtic Aerospace Ventures Limited

In October 2010 Prematec Corporation Ltd was struck off

On 13th July 2010 the group acquired the remaining shares in CAV Aerospace Limited, an existing subsidiary, for consideration of £5,181,342 satisfied by deferred consideration. Goodwill arising on the acquisition of CAV Aerospace Limited has been capitalised and will be amortised over 20 years. The investment in CAV Aerospace Limited has been included in the company's balance sheet at its fair value at the date of acquisition. Previously CAV Aerospace Limited had been consolidated as a subsidiary undertaking and a minority interest had been accounted for. The acquisition eliminates the minority interest.

CELTIC AEROSPACE VENTURES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31st DECEMBER 2010

15. INVESTMENTS *(continued)*

Analysis of the acquisition of shares in CAV Aerospace Limited from minority interests

	£
Net assets acquired from minority interests	(4,574,105)
Fair value adjustment	—
Fair value of net assets acquired from minority interests	(4,574,105)
Fair value of deferred consideration	5,181,342
Goodwill on acquisition of minority interests	9,755,447

16. STOCKS

	Group		Company	
	2010	2009	2010	2009
	£	£	£	£
Raw materials	7,252,704	6,119,913	—	—
Work in progress	1,827,887	1,673,147	—	—
	<u>9,080,591</u>	<u>7,793,060</u>	<u>—</u>	<u>—</u>

17. DEBTORS

	Group		Company	
	2010	2009	2010	2009
	£	£	£	£
Trade debtors	7,870,213	7,497,730	—	—
VAT recoverable	263,060	483,929	—	—
Other debtors	432,997	1,280,673	—	40,000
Prepayments and accrued income	3,483,513	3,318,563	—	—
	<u>12,049,783</u>	<u>12,580,895</u>	<u>—</u>	<u>40,000</u>

CELTIC AEROSPACE VENTURES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31st DECEMBER 2010

18. CREDITORS: amounts falling due within one year

	Group		Company	
	2010	2009	2010	2009
	£	£	£	£
Other loans	28,667	48,384	—	—
Invoice discounting	1,273,117	3,626,343	—	—
Bank loans and overdrafts	7,951,988	5,775,136	—	—
Trade creditors	4,248,410	6,433,580	—	—
Amounts owed to group undertakings	301,718	903,312	—	693,300
Hire purchase agreements	1,068,739	1,081,090	—	—
Directors' loan accounts	—	61,401	—	—
Other creditors including taxation and social security				
PAYE and social security	349,259	1,385,334	—	—
Other creditors	90,510	89,133	—	—
Accruals and deferred income	4,443,322	3,313,214	2,375	3,000
	<u>19,755,730</u>	<u>22,716,927</u>	<u>2,375</u>	<u>696,300</u>

The following liabilities disclosed under creditors falling due within one year are secured by the company

	Group		Company	
	2010	2009	2010	2009
	£	£	£	£
Bank loans and overdrafts	7,951,988	5,775,137	—	—
Amounts owed to group undertakings	63,421	367,347	—	—
Invoice discounting	1,273,117	3,626,343	—	—
Hire purchase agreements	1,068,739	1,081,090	—	—
	<u>10,357,265</u>	<u>10,849,917</u>	<u>—</u>	<u>—</u>

The company's bankers hold fixed and floating charges over the undertaking, all property and assets of the company on deeds dated 31st August 2005

Loans totalling £63,421 (2009 - £367,347) from Shin Nippon Koki Co , Ltd, included in amounts owed to group undertakings, are secured upon the assets to which the loans relate

Hire purchase creditors are secured by the assets to which the agreement relates

CELTIC AEROSPACE VENTURES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31st DECEMBER 2010

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

	Group		Company	
	2010	2009	2010	2009
	£	£	£	£
Debenture loans	5,140,842	–	5,140,842	–
Bank loans and overdrafts	10,909,755	616,672	–	–
Amounts owed to group undertakings	39,316,186	37,587,272	23,010,347	15,050,703
Hire purchase agreements	1,433,001	2,583,307	–	–
Other creditors	–	122,876	–	–
	<u>56,799,784</u>	<u>40,910,127</u>	<u>28,151,189</u>	<u>15,050,703</u>

Loan notes 2010 represent amounts payable relating the acquisition of shares in CAV Aerospace Limited on 13th July 2010. The amounts due are contingent and could potentially increase if sales of subsidiary companies occur before 31st December 2011. Initial estimates of deferred consideration will be revised as further and more certain information becomes available.

Loan notes 2010 are due for redemption in full on 31st December 2012. Interest was deemed to have accrued from 31st March 2009 to 31st December 2010 at 6% per annum, but under the terms of the share purchase agreement has been netted off claw back. No interest shall accrue from 1st January 2011.

The following liabilities disclosed under creditors falling due after more than one year are secured by the company:

	Group		Company	
	2010	2009	2010	2009
	£	£	£	£
Debenture loans	5,140,842	–	5,140,842	–
Bank loans and overdrafts	10,909,755	616,672	–	–
Amounts owed to group undertakings	39,316,186	37,587,272	16,327,922	15,050,703
Hire purchase agreements	1,433,001	2,583,307	–	–
	<u>56,799,784</u>	<u>40,787,251</u>	<u>21,468,764</u>	<u>15,050,703</u>

The company's bankers hold fixed and floating charges over the undertaking, all property and assets of the company on deeds dated 31st August 2005.

Included within amounts due to group undertakings are loans due to Shin Nippon Koki Co., Ltd totalling £39,316,186 (2009 - £37,587,272), which are secured upon the assets to which the loans relate.

Hire purchase creditors are secured by the assets to which the agreement relates.

Loan notes 2010 are secured by a guarantee by a group company.

CELTIC AEROSPACE VENTURES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31st DECEMBER 2010

19 CREDITORS: Amounts falling due after more than one year *(continued)*

The following aggregate liabilities disclosed under creditors falling due after more than one year are due for repayment after more than five years from the balance sheet date

	Group		Company	
	2010	2009	2010	2009
	£	£	£	£
Bank loans and overdrafts	<u>845,751</u>	<u>—</u>	<u>—</u>	<u>—</u>

Both bank loans have an interest rate of 3.25% per annum above the LIBOR rate, and are repayable in monthly instalments until October 2018

20. CREDITORS - CAPITAL INSTRUMENTS

Creditors include finance capital which is due for repayment as follows

	Group		Company	
	2010	2009	2010	2009
	£	£	£	£
Amounts repayable				
In one year or less or on demand	9,317,192	9,817,211	—	—
In more than one year but not more than two years	8,720,398	3,558,636	5,140,842	—
In more than two years but not more than five years	45,800,635	34,673,974	16,327,922	15,050,703
In more than five years	<u>845,751</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>64,683,976</u>	<u>48,049,821</u>	<u>21,468,764</u>	<u>15,050,703</u>

21. COMMITMENTS UNDER HIRE PURCHASE AGREEMENTS

Future commitments under hire purchase agreements are as follows

	Group		Company	
	2010	2009	2010	2009
	£	£	£	£
Amounts payable within 1 year	1,068,739	1,081,090	—	—
Amounts payable between 1 and 2 years	1,041,485	803,007	—	—
Amounts payable between 3 and 5 years	<u>391,516</u>	<u>1,780,300</u>	<u>—</u>	<u>—</u>
	<u>2,501,740</u>	<u>3,664,397</u>	<u>—</u>	<u>—</u>

CELTIC AEROSPACE VENTURES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31st DECEMBER 2010

22. PENSIONS

The group operates defined contribution pension schemes for the directors and employees. The assets of the schemes are held separately from those of the group companies in independently administered funds. The pension cost charges represent contributions payable by the group companies and amounted to £306,871 (2009 - £414,820). Included in Other creditors is £61,615 (2009 - £68,905), an amount payable to the independently administered funds at the balance sheet date.

23. DEFERRED TAXATION

The group's provision for deferred taxation consists of the tax effect of timing differences in respect of

Group	2010		2009	
	Provided £	Unprovided £	Provided £	Unprovided £
Excess of taxation allowances over depreciation on fixed assets	900,000	20,000	2,070,000	40,000
Tax losses available	(900,000)	(6,410,000)	(2,050,000)	(3,850,000)
Other timing differences	-	(70,000)	(20,000)	(160,000)
	<u>-</u>	<u>(6,460,000)</u>	<u>-</u>	<u>(3,970,000)</u>

Tax losses available have been offset against timing differences re fixed assets. Losses in excess of these have not been provided as an asset due to uncertainty as to when they will be utilised. Tax losses from Castillion Aerospace Limited and Prematec Corporation Ltd hived into CAV Aerospace Limited can only be offset against taxable profits from the Leicester and Llantrisant branches respectively. These losses are expected to take a number of years to clear, as a result the losses have been discounted when calculating the potential deferred tax asset.

24. OTHER PROVISIONS

	Group		Company	
	2010 £	2009 £	2010 £	2009 £
Other provisions	<u>325,000</u>	<u>600,000</u>	<u>-</u>	<u>-</u>

A group company has made a provision for the costs of restructuring the company. It is expected that these costs will all have been incurred within one year of the balance sheet date.

CELTIC AEROSPACE VENTURES LIMITED

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YEAR ENDED 31st DECEMBER 2010

25. DERIVATIVES

Fair Value of Derivatives

Derivative financial instruments held to manage the interest rate and currency profile

	2010		2009
	£	£	£
Interest rate swaps and forward rate agreements	(47,519)		(35,530)

Extent and nature of derivatives

Interest rate swap from Aug 2005 to August 2011, against a loan of £3,000,000 hedging against movements in the LIBOR above 4.92%

Interest rate cap from March 2006 to March 2013 on £2,000,000 hedging against the LIBOR being above 5.5%

Interest rate swap from March 2010 to February 2013 on £3,600,000 hedging against the LIBOR being above 3.585%

26. GOVERNMENT GRANTS

	Group		Company	
	2010	2009	2010	2009
	£	£	£	£
Received and receivable:				
At 1st January 2010	2,205,575	2,205,575	—	—
At 31st December 2010	2,205,575	2,205,575	—	—
Amortisation:				
At 1st January 2010	1,971,468	1,946,067	—	—
Credit to profit and loss account	25,400	25,401	—	—
At 31st December 2010	1,996,868	1,971,468	—	—
Net balance at 31st December 2010	208,707	234,107	—	—

CELTIC AEROSPACE VENTURES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31st DECEMBER 2010

27. COMMITMENTS UNDER OPERATING LEASES

At 31st December 2010 the group had annual commitments under non-cancellable operating leases as set out below

Group	2010		2009	
	Land and buildings £	Other items £	Land and buildings £	Other items £
Operating leases which expire				
Within 1 year	236,619	18,312	236,619	32,983
Within 2 to 5 years	169,020	64,440	182,757	20,720
After more than 5 years	235,000	-	235,000	-
	<u>640,639</u>	<u>82,752</u>	<u>654,376</u>	<u>53,703</u>

28. CONTINGENCIES

Company

In the previous year there was a company unlimited multilateral guarantee, with a maximum potential contingent liability at the balance sheet date, of £1,813,343 in favour of HSBC Bank plc between the company and other group companies CAV Ice Protection Limited, CAV Cambridge Limited, CAV Advanced Technologies Limited, Celtic Aerospace Ventures Limited, and Prematec Corporation Ltd

Group

At the end of the year the group has a contingent liability of £249,000 (2009 - £2,205,575), being Regional Selective Assistance grants which could become repayable should there be defaults on the criteria met to initiate their receipt The contingency period ends in December 2013

29. TRANSACTIONS WITH THE DIRECTORS

During the year the group was charged £35,065 (2009 - £79,648) for professional fees and recharges of expenses by Willis Jones chartered accountants A D W Jones is a partner of Willis Jones All transactions were on normal commercial terms At the year end included in trade creditors is a balance of £17,472 (2009 - £30,696)

In 2007 the group acquired the remaining shares in RCL Industries Limited from D O McFarlane The consideration was £860,000 and £Nil was outstanding at 31st December 2010 (2009 - £61,401) Interest paid during the year amounted to £717 (2009 - £11,940)

In 2010 the group acquired the remaining shares in CAV Aerospace Limited from D O McFarlane The consideration was loan notes totalling £5,140,842, which were all outstanding at 31st December 2010 No interest was paid during the year

CELTIC AEROSPACE VENTURES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31st DECEMBER 2010

30. RELATED PARTY TRANSACTIONS

Shin Nippon Koki Co.,Ltd

Shin Nippon Koki Co ,Ltd is the ultimate parent company of Celtic Aerospace Ventures Limited

During the previous year a subsidiary of Celtic Aerospace Ventures Limited novated £15,128,062 of loans due to Shin Nippon Koki Co ,Ltd to Celtic Aerospace Ventures Limited During the year Celtic Aerospace Ventures Limited was charged interest of £990,080 (2009 - £161,450) The majority of loans are in foreign currencies At 31st December 2010 amounts owed to Shin Nippon Koki Co ,Ltd by Celtic Aerospace Ventures Limited were £16,327,922 (2009 - £15,050,703)

During the year subsidiaries of Celtic Aerospace Ventures Limited received loans totalling £5,494,637 (2009 - £7,207,204), made loan repayments totalling £6,724,941 (2009 - £381,063), were charged interest of £1,802,493 (2009 - £2,085,301) The majority of loans are in foreign currencies At 31st December 2010 amounts owed to Shin Nippon Koki Co ,Ltd by subsidiaries of Celtic Aerospace Ventures Limited were £22,912,882 (2009 - £22,903,915)

SNK - Europe Aussenhandels GmbH

SNK - Europe Aussenhandels GmbH is a subsidiary company of Shin Nippon Koki Co ,Ltd

During the year the subsidiaries of Celtic Aerospace Ventures Limited had the following transactions with SNK - Europe Aussenhandels GmbH The subsidiaries made purchases totalling £248,887 (2009 - £541,584) At 31st December 2010 amounts owed to SNK-Europe Aussenhandels GmbH by subsidiaries of Celtic Aerospace Ventures Limited were £377,099 (2009 - £519,079)

31. SHARE CAPITAL

Allotted, called up and fully paid:

	2010		2009	
	No	£	No	£
33,678,513 Ordinary shares of £1 each	<u>33,678,513</u>	<u>33,678,513</u>	<u>33,678,513</u>	<u>33,678,513</u>

32. RESERVES

Group	Profit and loss account £
Balance brought forward	(45,534,942)
Loss for the year	(2,939,009)
Exchange difference on retranslation of subsidiary undertakings	(49,754)
Balance carried forward	<u>(48,523,705)</u>

CELTIC AEROSPACE VENTURES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31st DECEMBER 2010

32. RESERVES *(continued)*

Company	Profit and loss account £
Balance brought forward	(19,175,356)
Loss for the year	(1,277,219)
Balance carried forward	<u>(20,452,575)</u>

33. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2010 £	2009 £
Loss for the financial year	(2,939,009)	(7,805,874)
Exchange difference on retranslation of subsidiary undertakings	<u>(49,754)</u>	<u>(207,228)</u>
Net reduction to shareholders' deficit	(2,988,763)	(8,013,102)
Opening shareholders' deficit	<u>(11,856,429)</u>	<u>(3,843,327)</u>
Closing shareholders' deficit	<u>(14,845,192)</u>	<u>(11,856,429)</u>

34. ULTIMATE CONTROLLING PARTY

In the opinion of the directors the ultimate controlling party is Shin Nippon Koki Co ,Ltd, a company incorporated in Japan