

Chelton (Electrostatics) Limited

Directors' Report and Financial Statements
for the year ended 31 December 2001

Company registration number 896823



A45
COMPANIES HOUSE

A1PMBF4G

0691
17/10/02

Chelton (Electrostatics) Limited

Contents

	<u>Page</u>
Directors' report	1
Independent auditors' report	4
Accounting policies	5
Profit and loss account	7
Balance sheet	8
Notes to the financial statements	9

Chelton (Electrostatics) Limited

Directors' report

The directors have pleasure in submitting their report, together with the financial statements of the company, for the year ended 31 December 2001.

Results and dividends

The company made a profit for the year after taxation of £8,114,000 (2000: £6,810,000). The directors recommend the payment of a second interim dividend of £1,910,000 (2000: 1,564,000) which, together with the first interim dividend of £1,051,000 (2000: £704,000), makes a total paid or to be paid of £2,961,000 (2000: £2,268,000). No final dividend is proposed (2000: £Nil).

Results for the year

Sales and profits both increased over 2000 results. The order book remained strong at 31 December 2001. The company continues to be the world's leading manufacturer of aircraft antennas, together with other related aerospace products.

Future developments

The directors are confident that 2002 will show continued growth.

Directors

The following directors held office during the year:

M P Brierley
G R Browning
G C Cooper
C J Esplin-Jones
P A Hogan
P D Long

The directors' shareholdings and interests are shown in note 7 to the financial statements.

Research and development

The company continues to invest in research and development for the defence and civil aviation markets. The directors remain confident that future growth of the company remains assured from this policy.

Employee involvement

Consultation with employees or their representatives has continued at all levels with the aim of ensuring that their views are taken into account when decisions are made which are likely to affect their interests.

Chelton (Electrostatics) Limited

Disabled persons

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the company continues and the appropriate training is arranged. It is the policy of the company that training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who is fortunate enough not to suffer from a disability.

Payments to suppliers

The company agrees terms and conditions for its business transactions with suppliers. Payment is generally made on those terms subject to the terms and conditions being met by the supplier and on average suppliers' accounts are settled within 41 days (2000: 40 days).

European monetary union

The company is aware of the implications of the UK joining the system of European Monetary Union and recognises the impact this would have on the company's systems. While it is considered uncertain that the UK will become part of such a system of monetary union in the short term, no difficulties are envisaged in achieving compliance should such a decision be taken.

Statement of directors' responsibilities

The following statement, which should be read in conjunction with the report of the auditors set out on page 4, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the financial statements.

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss for the financial year.

The directors consider that in preparing the financial statements on pages 5 to 17, the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates and that all accounting standards which they consider to be applicable have been followed. The financial statements have been prepared on a going concern basis.

The directors have responsibility for ensuring that the company keeps accounting records which disclose with reasonable accuracy the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Act 1985. The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Chelton (Electrostatics) Limited

Auditors

In accordance with Section 386 of the Companies Act 1985, as a result of an elective resolution PricewaterhouseCoopers are deemed re-appointed as auditors to the company for the forthcoming financial year.

By order of the Board on 27 September 2002.

A handwritten signature in black ink, consisting of several overlapping, fluid strokes that form a cursive representation of the name G C Cooper.

G C Cooper
Director

Chelton (Electrostatics) Limited

Independent auditors' report to the members of Chelton (Electrostatics) Limited

We have audited the financial statements on pages 5 to 17.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities on page 2.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board.

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 is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

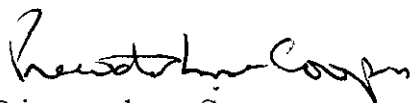
Basis of audit opinion

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 company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Southampton
4 Oct 2002

Chelton (Electrostatics) Limited

Accounting policies

Accounting convention

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

Turnover

Turnover is the total amount receivable by the company for goods despatched and for services provided in the ordinary course of business to external customers, excluding Value Added Tax and trade discounts, together with the sales value of work done on long term contracts.

Deferred taxation

Provision is made for deferred taxation, using the liability method, where there is a reasonable probability that it will become payable within the foreseeable future.

Intangible Assets

Expenditure on licences, patents and know-how is capitalised and amortised on a straight line basis over the estimated useful economic life of the assets concerned, up to 20 years.

Tangible fixed assets

Fixed assets are depreciated on a straight line basis over their estimated useful economic lives, as follows:

Freehold property	- Over 50 years
Leased assets	- Over the term of the lease
Plant and machinery	- Over 1 to 10 years
Motor vehicles	- Over 3 to 4 years

Operating leases

Payments made under operating leases are charged to the profit and loss account as incurred.

Stocks

Stocks and work in progress are stated at the lower of cost, which includes an appropriate proportion of production overheads, and net realisable value.

Payments received and receivable on account of work in progress are deducted from the cost of the work carried out at the balance sheet date to the extent of the valuation of the work done.

Chelton (Electrostatics) Limited

Long term contracts

Profit on long-term contracts is taken as the work is carried out if the final outcome can be assessed with reasonable certainty. The profit included is calculated on a prudent basis to reflect the proportion of work carried out at the year end, by recording turnover and related costs (as defined in Stocks above) as contract activity progresses. Turnover is calculated as that proportion of total contract value which costs incurred to date compared to total expected costs for that contract. Revenue derived from variations on contracts are recognised only when they have been accepted by the customer. Full provision is made for losses on all contracts in the year in which they are first foreseen.

Research and development

Research and development expenditure not chargeable to customers is written off in the year in which it is incurred.

Foreign currencies

Assets and liabilities in foreign currencies are expressed in sterling at the rates of exchange ruling at the balance sheet date, except in those instances where forward cover has been arranged, in which case the forward rate is used. Exchange differences are dealt with in the profit and loss account.

Pension costs

The cost of the pensions in respect of the company's defined benefit scheme is charged to the profit and loss account so as to spread the cost of the pensions over the service lives of employees. Actuarial surpluses and deficits are spread forward over the average remaining service lives of the employees. The pension cost is assessed in accordance with the advice of qualified actuaries.

The company also makes contributions for certain employees to individual personal pension schemes. Contributions are charged to the profit and loss account in the period to which they relate.

Discounted bonds

Discounted bonds are initially stated at the fair value of the consideration received after deduction of issue costs. Issue costs together with finance costs are charged to the profit and loss account over the term of the bonds and represent a constant proportion of the balance of capital repayments outstanding. Accrued finance charges and issue costs are added to the carrying value of the bonds.

Chelton (Electrostatics) Limited

Profit and loss account for the year ended 31 December 2001

	Notes	2001 £000	2000 £000
Turnover	1	45,524	38,080
Cost of sales		(23,833)	(19,072)
Gross profit		21,691	19,008
Distribution costs		(6,620)	(6,825)
Administrative expenses		(3,426)	(2,368)
Operating profit	2	11,645	9,815
Interest receivable	3	1,924	1,720
Interest payable	4	(1,937)	(1,782)
Profit on ordinary activities before taxation		11,632	9,753
Tax on profit on ordinary activities	5	(3,518)	(2,943)
Profit for the financial year	19	8,114	6,810
Dividends	6	(2,961)	(2,268)
Retained profit for the financial year	18	5,153	4,542

The company has no recognised gains or losses other than the profit above and therefore no separate statement of total recognised gains and losses has been prepared.

All the company's activities are classed as continuing.

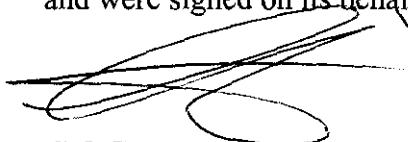
The profit for the financial year has been computed on the historical cost basis.

Chelton (Electrostatics) Limited

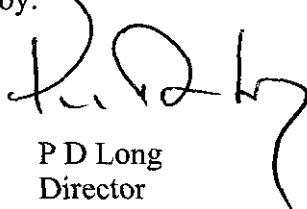
Balance sheet as at 31 December 2001

	Notes	2001 £000	2000 £000
Fixed assets			
Intangible Assets	9	96	-
Tangible assets	10	11,231	12,087
		11,327	12,087
Current assets			
Stocks	11	6,937	6,786
Debtors	12	40,522	33,398
Cash at bank and in hand		2,066	1,571
		49,525	41,755
Creditors: Amounts falling due within one year	13	(23,698)	(22,840)
Net current assets		25,827	18,915
Total assets less current liabilities		37,154	31,002
Creditors: Amounts falling due after more than one year			
- convertible discounted bonds	14	(12,658)	(11,613)
Provisions for liabilities and charges	16	-	(46)
		24,496	19,343
Capital and reserves			
Called up share capital	17	-	-
Profit and loss account	18	24,496	19,343
Equity shareholders' funds	19	24,496	19,343

The financial statements on pages 5 to 17 were approved by the board on 27 September 2002 and were signed on its behalf by:



G C Cooper
Director



P D Long
Director

Chelton (Electrostatics) Limited

Notes to the financial statements

1 Turnover

The turnover and profit before taxation is attributable to one activity, the design, development and manufacture of aircraft antennas and other navigation and communication equipment.

No analysis of sales by geographical area has been disclosed since the directors consider that such disclosure would be seriously prejudicial to the interests of the company.

2 Operating profit

	2001 £000	2000 £000
The operating profit is after charging:		
Depreciation of owned tangible fixed assets	1,170	623
Amortisation of licences, patents and know-how	4	-
Hire of plant and machinery	8	7
Other operating lease rentals	184	87
Research and development	2,369	2,214
Auditors' remuneration:		
Audit services	25	25
Non audit services	14	19

3 Interest receivable

	2001 £000	2000 £000
Interest received from group undertakings	1,891	1,680
Short term deposit interest	33	40
	1,924	1,720

4 Interest payable

	2001 £000	2000 £000
On bank loans and overdrafts	478	439
Interest payable to group undertakings	414	384
Finance charges payable to group undertakings	1,045	959
	1,937	1,782

Chelton (Electrostatics) Limited

5 Tax on profit on ordinary activities

	2001 £000	2000 £000
Taxation on the profit for the year		
UK Corporation tax at 30% (2000: 30%)	3,683	3,024
Deferred tax (note 16)	(158)	(71)
Prior year adjustments – corporation tax	(35)	(10)
– deferred tax (note 16)	28	-
	3,518	2,943

6 Dividends

	2001 £000	2000 £000
First interim dividend of £10,510 per share (2000: £7,040)	1,051	704
Proposed second interim dividend of £19,100 per share (2000: £15,640)	1,910	1,564
	2,961	2,268

7 Directors

Directors' shareholdings and interests

None of the directors held an interest in the company's shares or rights to subscribe for such shares.

Interests of M P Brierley and P D Long and their families in the shares of the ultimate parent undertaking and their rights to subscribe for such shares are disclosed in the financial statements of Chelton Limited.

Interests of G C Cooper and his family in the shares of the ultimate parent undertaking and their rights to subscribe for such shares are disclosed in the financial statements of that undertaking.

Interests of other directors and their families in the ultimate parent undertaking's ordinary shares and their rights to subscribe for such shares were:

	At 31 December 2001		At 31 December 2000	
	Shares	Options	Shares	Options
C J Esplin-Jones	1,211	7,662	-	5,615
P A Hogan	2,000	8,683	-	10,573
G R Browning	1,150	2,794	1,150	2,794

Chelton (Electrostatics) Limited

The following options were granted to these directors during the year, or were already held at the date of appointment:

Grants	Number	Exercise Price (P)	Exercise Period
C J Esplin-Jones	1,695	1,083	20/11/2004 – 20/10/2011
	352	840	01/02/2005 – 01/08/2005
P A Hogan	1,893	1,083	20/11/2004 – 20/10/2011
	529	840	01/02/2005 – 01/08/2005

The following options were exercised by these directors during the year:

Exercise	Number	Exercise Price (P)	Exercise Date
P A Hogan	4,312	320	13/02/2001

Directors' emoluments

	2001 £000	2000 £000
Aggregate emoluments	838	777
Company contributions paid to money purchase schemes	34	24

Retirement benefits are accruing to 4 (2000: 5) directors under a defined benefit scheme.
Retirement benefits are accruing to 2 (2000:2) directors under money purchase pension schemes.

Highest paid director

	2001 £000	2000 £000
Total emoluments	366	355
Company contributions paid to money purchase schemes	28	16

The highest paid director, who is also a director of the ultimate parent undertaking, exercised share options in the year.

Chelton (Electrostatics) Limited

8

Employees

	2001 £000	2000 £000
Employee costs		
Wages and salaries	7,995	7,920
Social security costs	696	721
Other pension costs (note 20)	587	645
	9,278	9,286

The average monthly number of persons (including executive directors) employed by the company during the year was:

By activity	2001	2000
Direct labour	112	121
Engineering and production	130	132
Quality assurance	10	10
Maintenance	5	6
Management and administration	35	35
	292	304

9

Intangible assets

Licences, Patents and Know-how £000

Acquired in the year	100
Amortisation	(4)
At 31 December 2001	96

10

Tangible assets

Land and Buildings

	Freehold £000	Long Leasehold £000	Short Leasehold £000	Plant and Machinery £000	Motor Vehicles £000	Total £000
Cost						
At 1 January 2001	9,896	1,050	91	4,777	529	16,343
Additions	-	-	57	164	112	333
Disposals	-	-	-	-	(114)	(114)
At 31 December 2001	9,896	1,050	148	4,941	527	16,562
Depreciation						
At 1 January 2001	40	127	51	3,860	178	4,256
Charge for the year	614	14	11	396	135	1,170
Disposals	-	-	-	-	(95)	(95)
At 31 December 2001	654	141	62	4,256	218	5,331
Net book amount						
At 31 December 2001	9,242	909	86	685	309	11,231
At 31 December 2000	9,856	923	40	917	351	12,087

Chelton (Electrostatics) Limited

Capital commitments

The company had no capital commitments at 31 December 2001 or 31 December 2000.

11 Stocks

	2001 £000	2000 £000
Raw materials and consumables	1,301	1,206
Work in progress	4,780	4,460
Finished goods and goods for resale	856	1,120
	6,937	6,786

There is no significant difference between the replacement cost and the value of stocks shown.

12 Debtors

	2001 £000	2000 £000
Amounts falling due within one year:		
Trade debtors	4,912	3,368
Amount owed by fellow subsidiary undertakings	34,227	29,597
Other debtors	-	42
Prepayments and accrued income	1,299	391
Deferred taxation (note 16)	84	-
	40,522	33,398

Amounts owed by fellow subsidiary undertakings are unsecured and have no fixed repayment date.

13 Creditors - Amounts falling due within one year

	2001 £000	2000 £000
Bank loans and overdrafts	7,594	6,796
Payments received on account	79	1,566
Trade creditors	796	922
Amounts owed to ultimate parent undertaking	1,978	1,970
Amounts owed to fellow subsidiary undertakings	6,702	5,914
Other creditors	35	463
Payroll and other taxes, including social security	565	489
Accruals and deferred income	1,940	1,161
Taxation payable	2,099	1,995
Proposed dividends	1,910	1,564
	23,698	22,840

The bank overdraft is secured and is repayable on demand.

Chelton (Electrostatics) Limited

14 Creditors: Amounts falling due after one year

Convertible Discounted Bonds

	2001 £000	2000 £000
Amounts owed to parent undertaking	12,658	11,613

Amounts owed to parent undertaking represent convertible discounted bonds 2003 which are issued to the company's ultimate parent undertaking and are convertible at the option of Cobham plc on 3 July 2003 into 14,391,599 9% non-redeemable cumulative preference shares of £1 each.

The bonds are redeemable at the request of Cobham plc at any time after 3 January 1999 and at 31 December 2001 the redemption amount was £12,658,000 (2000: £11,613,038) increasing on a constant yield basis to £14,391,599 on 3 July 2003.

Cobham plc have confirmed to the company that it is not their intention to request repayment within one year of the balance sheet date.

15 Operating leases

Annual operating lease commitments of £207,000 (2000: £201,000) relating to land and buildings are due within one year. The commitments relating to the payments included in this sum expire as follows:

	2001 £000	2000 £000
Between two and five years	118	-
In more than five years	89	201
	207	201

16 Provisions for liabilities and charges

Deferred taxation, fully provided for, represents:

	2001 £000	2000 £000
(Accelerated depreciation) / Accelerated capital allowances	(84)	113
Short term timing differences	-	(67)
	(84)	46

Deferred tax assets where relevant are shown within debtors (note 12)

Deferred taxation:

At 1 January 2001	46	117
Released to profit and loss account (note 5)	(130)	(71)
At 31 December 2001	(84)	46

Chelton (Electrostatics) Limited

17 Called up share capital

	2001		2000	
	Number	£000	Number	£000
Authorised:				
Equity interests				
Ordinary shares of £1 each	100	-	100	-
Non-equity interests				
Non-redeemable cumulative preference shares of £1 each (9% preference shares)	14,391,599	14,392	14,391,599	14,392
		14,392		14,392
Allotted and fully paid:				
Equity interests				
Ordinary shares of £1 each	100	-	100	-

18 Profit and loss account

	£000
At 1 January 2001	19,343
Retained profit for the financial year	5,153
At 31 December 2001	24,496

19 Reconciliation of movements in shareholders' funds

	2001 £000	2000 £000
Profit for the financial year	8,114	6,810
Dividends	(2,961)	(2,268)
Net addition to shareholders' funds	5,153	4,542
Opening shareholders' funds	19,343	14,801
Closing shareholders' funds	24,496	19,343

Chelton (Electrostatics) Limited

20 Pension commitments

The company operates a funded, defined benefit pension scheme, the assets of which are held in a separate trustee administered fund. This is a group scheme including employees of other group companies. It is not considered possible to allocate the scheme's assets and liabilities between the various companies, and accordingly the new transitional disclosures noted within Financial Reporting Standard (FRS) 17 are not presented within these financial statements. The relevant disclosures required under FRS17 relating to the group scheme can be found in the financial statements of the ultimate parent undertaking, Cobham plc.

The latest actuarial valuation of the scheme was carried out on 6 April 2001 by an independent professionally qualified actuary using the market related valuation method. The principal actuarial assumptions adopted in that valuation were that the long term annual rate of return on investment would be 7% pre retirement and 6% post retirement and the annual increase in pensionable salaries and pensions in payment would be 5% and 3% respectively. The market value of the assets of the scheme as at the date of the actuarial valuation was £9,632,100 and the actuarial value of the assets of the scheme was sufficient to cover 102% of the benefits that had accrued to members after allowing for expected future increases in pensionable remuneration.

The total pension cost for the year was £553,000 (2000: £629,000), and at 31 December the amount of contribution yet to be paid over to the scheme was £nil (2000: £259,000).

Contributions to employees' individual personal pension schemes for the year were £34,000 (2000: £24,000)

21 Ultimate parent undertaking

The company's immediate parent undertaking is Chelton (Holdings) Limited and its ultimate parent undertaking is Cobham plc. The smallest and largest group for which group financial statements are prepared is Cobham plc and copies of its financial statements may be obtained from The Secretary, Cobham plc, Brook Road, Wimborne, Dorset BH21 2BJ.

22 Cash flow statement

The company is a wholly-owned subsidiary of Chelton (Holdings) Limited and is included in the consolidated financial statements of Cobham plc, which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard ("FRS") 1 (revised 1996).

23 Contingent liabilities

The company is a participant in a Group banking arrangement under which all surplus cash balances are held as collateral for bank facilities advanced to group members. In addition, the company has issued an unlimited guarantee to the bank to support these group facilities.

At 31 December 2001 the company had performance and third party bank guarantees outstanding totalling £9,000 (2000: £1,654,000).

Chelton (Electrostatics) Limited

24 Forward exchange contracts

At 31 December 2001 the Company had entered into forward exchange contracts to sell US Dollars to the value of £9,865,000 (2000: £10,459,000) at a rate of 1.42 (2000: rates between 1.52 and 1.57).

25 Related party transactions

The company has taken advantage of the exemption provided by Paragraph 3(c) of FRS 8 not to disclose transactions with entities that are part of the Cobham plc group.

The company is controlled by Chelton (Holdings) Limited, the company's immediate parent undertaking. The ultimate controlling company is Cobham plc.