

**Chelton (Electrostatics) Limited**

**Directors' Report and Financial Statements  
for the year ended 31 December 2003**

**Company registration number 896823**



# **Chelton (Electrostatics) Limited**

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# **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 2003.

### **Results and dividends**

The company made a profit for the year after taxation of £8,107,000 (2002: £9,096,000). In 2003 the directors recommended the payment of a first interim dividend of £2,083,000 and a second interim dividend of £5,707,000, making a total of £7,790,000 (2002: £12,725,000). No final dividend is proposed (2002: £nil).

The order book remained strong at 31 December 2003. 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 2004 will again show a strong and profitable performance.

### **Directors**

The following directors held office during the year:

T Bojarzin (appointed 1 September 2003)  
M P Brierley  
G R Browning  
G C Cooper  
C J Esplin-Jones (resigned 1 September 2003)  
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.

# **Chelton (Electrostatics) Limited**

## **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.

## **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 52 days (2002: 53 days).

## **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.

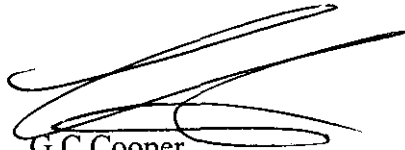
The directors have responsibility for ensuring that the company keeps accounting records which disclose with reasonable accuracy the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Act 1985. The directors have general responsibility 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 LLP are deemed re-appointed as auditors to the company for the forthcoming financial year.

By order of the Board on 6 October 2004.



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. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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.

### **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 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*PricewaterhouseCoopers LLP*

PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
Southampton

22 October 2004

# **Chelton (Electrostatics) Limited**

## **Accounting policies**

### **Accounting convention**

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom 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 revenue where the contractual obligations have been completed to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. Turnover is recognised at the point when substantially all of the risks and rewards of ownership are transferred to the customer; normally this is on despatch.

### **Taxation**

The charge for taxation is based on the results for the year. In accordance with FRS19, deferred taxation is recognised as a liability or asset if transactions have occurred at the balance sheet date that can give rise to an obligation to pay more taxation in future or a right to pay less taxation in the future. An asset is not recognised to the extent that the transfer of economic benefit is uncertain. Deferred tax assets and liabilities recognised have not been discounted.

### **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**

## **Research and development**

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

## **Foreign currencies**

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

Monetary 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.

All exchange differences are dealt with in the profit and loss account.

## **Pension costs**

Contributions to the group's defined benefit pension schemes are assessed by a qualified actuary based on the cost of providing pensions across all participating group companies. Costs are determined for each individual company and hence contributions are charged to the profit and loss account in the period they become payable.

Contributions to defined contribution schemes are charged to the profit and loss account in the period they become payable.

## **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.

## **Loan notes**

Loan notes are initially stated at the fair value at the date of inception. Finance charges are accrued at a constant rate over the term of the loan notes and charged to the profit and loss account in the period they are accrued. Accrued finance charges are added to the carrying value of the loan notes.



## **Chelton (Electrostatics) Limited**

### **Profit and loss account for the year ended 31 December 2003**

	Notes	2003 £000	2002 £000
<b>Turnover</b>	1	<b>45,307</b>	44,909
<b>Cost of sales</b>		<b>(23,051)</b>	(21,943)
<b>Gross profit</b>		<b>22,256</b>	22,966
Distribution costs		(7,545)	(7,055)
Administrative expenses		(2,773)	(2,903)
<b>Operating profit</b>	2	<b>11,938</b>	13,008
Interest receivable	3	1,862	1,841
Interest payable	4	(2,155)	(1,880)
<b>Profit on ordinary activities before taxation</b>		<b>11,645</b>	12,969
Tax on profit on ordinary activities	5	(3,538)	(3,873)
<b>Profit for the financial year</b>	18	<b>8,107</b>	9,096
Dividends	6	(7,790)	(12,725)
<b>Retained profit / (loss) for the financial year</b>	17	<b>317</b>	(3,629)

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

All the company's activities are classed as continuing.

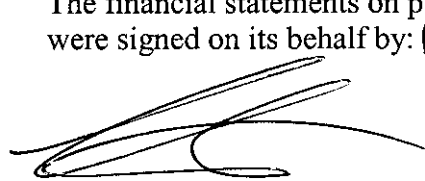
The profit for the financial year has been computed on the historical cost basis.

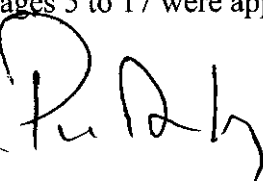
# Chelton (Electrostatics) Limited

## Balance sheet as at 31 December 2003

	Notes	2003 £000	2002 £000
<b>Fixed assets</b>			
Intangible Assets	9	873	86
Tangible assets	10	1,855	11,069
		<b>2,728</b>	<b>11,155</b>
<b>Current assets</b>			
Stocks	11	5,811	6,910
Debtors	12	51,734	37,838
Cash at bank and in hand		13,152	4,339
		<b>70,697</b>	<b>49,087</b>
<b>Creditors: Amounts falling due within one year</b>	13	<b>(52,241)</b>	<b>(39,375)</b>
<b>Net current assets</b>		<b>18,456</b>	<b>9,712</b>
<b>Total assets less current liabilities</b>		<b>21,184</b>	<b>20,867</b>
<b>Capital and reserves</b>			
Called up share capital	16	-	-
Profit and loss account	17	21,184	20,867
<b>Equity shareholders' funds</b>	18	<b>21,184</b>	<b>20,867</b>

The financial statements on pages 5 to 17 were approved by the board on 6 October 2004 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

	2003 £000	2002 £000
The operating profit is after charging / (crediting):		
Depreciation of owned tangible fixed assets	757	508
Loss on disposal of owned tangible fixed assets	103	(4)
Amortisation of licences, patents and know-how	42	10
Hire of plant and machinery	15	2
Other operating lease rentals	443	207
Research and development	3,306	2,588
<b>Auditors' remuneration:</b>		
Audit services	28	26
Non audit services	12	26

### 3 Interest receivable

	2003 £000	2002 £000
Interest receivable from group undertakings	1,791	1,819
Short term deposit interest	71	22
	<b>1,862</b>	<b>1,841</b>

### 4 Interest payable

	2003 £000	2002 £000
Bank loans and overdrafts	753	420
Interest payable to group undertakings	166	321
Finance charges payable to group undertakings – convertible discounted bond	594	1,139
Finance charges payable to group undertakings – loan notes	642	-
	<b>2,155</b>	<b>1,880</b>

## Chelton (Electrostatics) Limited

### 5 Tax on profit on ordinary activities

	2003 £000	2002 £000
Current tax:		
UK Corporation tax on profits for the year	3,508	3,895
Adjustments in respect of previous years	28	(7)
Total current tax	3,536	3,888
Deferred tax:		
Origination and reversal of timing differences	2	(15)
Total deferred tax (note 15)	2	(15)
	3,538	3,873

The tax assessed for the year is different to the standard rate of corporation tax in the UK of 30% (2002: 30%). The differences are explained below:

	2003 £000	2002 £000
Profit on ordinary activities before tax	11,645	12,969
Profit on ordinary activities multiplied by standard rate in the UK – 30% (2001:30%)	3,494	3,891
Effects of:		
Expenses not allowable as a tax deduction	104	35
Origination and reversal of timing differences	(2)	15
Expenditure qualifying for additional R&D tax deduction	(88)	(46)
Adjustments to tax charge in respect of prior years	28	(7)
	3,536	3,888

### 6 Dividends

	2003 £000	2002 £000
First interim dividend paid of £20,830 per share (2002: £20,180)	2,083	2,018
Second interim dividend paid of £57,070 per share (2002: £60,000)	5,707	6,000
Third interim dividend proposed of £ nil per share (2002: £47,070)	-	4,707
	7,790	12,725

### 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.

## Chelton (Electrostatics) 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 2003		At 31 December 2002, or date of appointment, if later.	
	Shares	Options	Shares	Options
P A Hogan	2,339	16,169	2,227	9,071
G R Browning	1,150	2,794	1,150	2,794
T Bojarzin	-	188	-	-

The following options were granted to these directors during the year:

Grants	Number	Exercise Price (P)	Exercise Period
P A Hogan	7,210	1,186	30/10/2006-30/10/2013
T Bojarzin	188	939	01/02/2007-01/08/2007

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

Exercise	Number	Exercise Price (P)	Exercise Date
P A Hogan	112	691	31/10/2003

### Directors' emoluments

	2003 £000	2002 £000
Aggregate emoluments	1,071	944
Company contributions paid to money purchase schemes	38	38

Retirement benefits are accruing to 4 (2002: 4) directors under a defined benefit scheme.

Retirement benefits are accruing to 2 (2002: 2) directors under money purchase pension schemes.

## Chelton (Electrostatics) Limited

### Highest paid director

	2003 £000	2002 £000
Total emoluments	497	435
Company contributions paid to money purchase schemes	34	33

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

### 8 Employees

	2003 £000	2002 £000
Employee costs		
Wages and salaries	8,632	8,199
Social security costs	852	708
Other pension costs (note 19)	786	798
	10,270	9,705

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

By activity	2003 £000	2002 £000
Direct labour	107	105
Engineering and production	132	129
Quality assurance	9	10
Maintenance	5	5
Management and administration	39	36
	292	285

### 9 Intangible assets

	Licences, Patents and Know-how £000
<b>Cost</b>	
At 1 January 2003	100
Additions	829
<b>At 31 December 2003</b>	<b>929</b>
<b>Amortisation</b>	
At 1 January 2003	14
Charge for the year	42
<b>At 31 December 2003</b>	<b>56</b>
<b>Net book amount</b>	
<b>At 31 December 2003</b>	<b>873</b>
At 31 December 2002	86

Purchased licenses, patents and know-how have been capitalised and are being amortised over a period of between 8 and 10 years which, in the directors' opinion, represents the estimated useful economic lives of the assets concerned.

## Chelton (Electrostatics) Limited

### 10 Tangible assets

	Land and Buildings			Plant and Machinery	Motor Vehicles	Total
	Freehold £000	Long Leasehold £000	Short Leasehold £000	£000	£000	£000
<b>Cost</b>						
At 1 January 2003	9,896	1,050	142	5,191	567	16,846
Additions	-	-	-	413	233	646
Disposals	(9,896)	-	-	(156)	(173)	(10,225)
<b>At 31 December 2003</b>	<b>-</b>	<b>1,050</b>	<b>142</b>	<b>5,448</b>	<b>627</b>	<b>7,267</b>
<b>Depreciation</b>						
At 1 January 2003	654	155	74	4,599	295	5,777
Charge for the year	242	13	12	333	157	757
Disposals	(896)	-	-	(87)	(139)	(1,122)
<b>At 31 December 2003</b>	<b>-</b>	<b>168</b>	<b>86</b>	<b>4,845</b>	<b>313</b>	<b>5,412</b>
<b>Net book amount</b>						
<b>At 31 December 2003</b>	<b>-</b>	<b>882</b>	<b>56</b>	<b>603</b>	<b>314</b>	<b>1,855</b>
<b>At 31 December 2002</b>	<b>9,242</b>	<b>895</b>	<b>68</b>	<b>592</b>	<b>272</b>	<b>11,069</b>

### Capital commitments

The company had no capital commitments at 31 December 2003 or 31 December 2002.

### 11 Stocks

	2003 £000	2002 £000
Raw materials and consumables	1,168	1,260
Work in progress	3,697	4,528
Finished goods and goods for resale	946	1,122
	<b>5,811</b>	<b>6,910</b>

### 12 Debtors

	2003 £000	2002 £000
<b>Amounts falling due within one year:</b>		
Trade debtors	4,952	5,593
Amount owed by fellow subsidiary undertakings	45,702	30,773
Prepayments and accrued income	690	1,373
Other debtors	293	-
Deferred taxation (note 15)	97	99
	<b>51,734</b>	<b>37,838</b>

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

## Chelton (Electrostatics) Limited

### 13 Creditors - Amounts falling due within one year

	2003 £000	2002 £000
Bank overdraft	20,198	11,032
Trade creditors	1,284	926
Amounts owed to ultimate parent undertaking – convertible discounted bonds	-	13,797
Amounts owed to ultimate parent undertaking – loan notes	15,034	-
Amounts owed to ultimate parent undertaking – other	296	-
Amounts owed to fellow subsidiary undertakings	4,929	5,174
Other creditors	-	83
Payroll and other taxes, including social security	560	482
Accruals and deferred income	2,639	1,419
Taxation payable	1,630	1,755
Proposed dividends	5,671	4,707
	<b>52,241</b>	<b>39,375</b>

The bank overdraft is secured by a bank guarantee under a group banking arrangement and is repayable on demand.

The convertible discounted bonds owed to the ultimate parent undertaking at 31 December 2002 were redeemable at the request of Cobham plc at any time after 3 January 1999 and at 31 December 2002 the redemption amount was £13,797,000 increasing on a constant yield basis to £14,391,599 on 3 July 2003, at which point they were repaid.

The loan note due 1 July 2004 in principal amount of £15,686,843 was issued on 3 July 2003 for £14,391,599. The discount accrues evenly over the term of the note.

### 14 Operating leases

Annual operating lease commitments of £270,000 (2002: £207,000) relating to land and buildings are due within one year. The commitments relating to the payments included in this sum expire as follows:

	2003 £000	2002 £000
Between two and five years	205	118
In more than five years	65	89
	<b>270</b>	<b>207</b>



## Chelton (Electrostatics) Limited

### 15 Deferred tax

Deferred taxation, fully provided for, represents:

	2003 £000	2002 £000
Accelerated depreciation	(97)	(99)
	(97)	(99)

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

Deferred taxation:

At 1 January 2003

(99)

Released to profit and loss account (note 5)

2

At 31 December 2003

(97)

### 16 Called up share capital

	2003		2002	
	Number	£000	Number	£000
<b>Authorised:</b>				
<b>Equity interests</b>				
Ordinary shares of £1 each	100	-	100	-
<b>Non-equity interests</b>				
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
<b>Allotted and fully paid:</b>				
<b>Equity interests</b>				
Ordinary shares of £1 each	100	-	100	-

### 17 Profit and loss account

	£000
At 1 January 2003	20,867
Retained profit for the financial year	317
At 31 December 2003	21,184

## Chelton (Electrostatics) Limited

### 18 Reconciliation of movements in shareholders' funds

	2003 £000	2002 £000
Profit for the financial year	8,107	9,096
Dividends	(7,790)	(12,725)
Net addition to / (reduction in) shareholders' funds	317	(3,629)
Opening shareholders' funds	20,867	24,496
Closing shareholders' funds	21,184	20,867

### 19 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 multi-employer 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 scheme is accounted for as though it was a defined contribution scheme. 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.

	2003 £000	2002 £000
<b>Pension contributions paid</b>		
Defined benefit scheme	725	760
Money purchase and stakeholders schemes	61	38
	786	798

### 20 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.

## **Chelton (Electrostatics) Limited**

### **21 Cash flow statement and related party disclosures**

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 FRS1 (revised 1996). 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.

### **22 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 2003 the company had performance and third party bank guarantees outstanding totalling £350,000 (2002: £4,000).