

Chelton (Electrostatics) Limited

Directors' Report and Financial Statements for the year ended 31 December 2004

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 2004.

Results and dividends

The company made a profit for the year after taxation of £11,655,000 (2003: £8,107,000). In 2004 the directors recommended the payment of a first interim dividend of £1,914,000 and proposed the payment of a second interim dividend of £8,107,000 making a total paid or to be paid of £10,021,000 (2003: £7,790,000). No final dividend is proposed (2003: £nil).

The order book remained strong at 31 December 2004. 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 2005 will again show a strong and profitable performance.

Directors

The following directors held office during the year:

T Bojarzin
M P Brierley
G R Browning
G C Cooper (resigned 20 June 2005)
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 the important area of research and development for the defence and civil aviation markets product needs.

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 56 days (2003: 52 days).

Statement of directors' responsibilities

The following statement, which should be read in conjunction with the report of the auditors set out on page 3, 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.

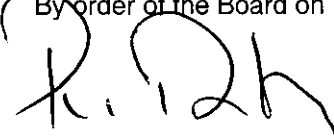
The directors consider that in preparing the financial statements on pages 4 to 15, the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates and that all accounting standards which they consider to be applicable have been 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.

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 21st October 2005


P D Long
Director

Chelton (Electrostatics) Limited

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

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes, which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

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.

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 2004 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

25 October 2005

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 measured at the fair value of the right to consideration and excludes value added tax and trade discounts. 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. In the case of long term contracts, turnover is recognised based upon the fair value of work performed to date.

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 give rise to an obligation to pay more taxation in future or a right to pay less taxation in the future. An asset is recognised to the extent that the transfer of economic benefit is considered more likely than not. 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 to their estimated residual values 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.

Research and development

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

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Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction, except in those instances where forward cover has been arranged, in which case the forward rate is used.

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 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 2004

	Notes	2004 £000	2003 £000
Turnover	1	48,550	45,307
Cost of sales		(22,319)	(23,051)
Gross profit		26,231	22,256
Distribution costs		(7,955)	(7,545)
Administrative expenses		(868)	(2,773)
Operating profit	2	17,408	11,938
Interest receivable	3	2,107	1,862
Interest payable	4	(2,640)	(2,155)
Profit on ordinary activities before taxation		16,875	11,645
Tax on profit on ordinary activities	5	(5,220)	(3,538)
Profit for the financial year	18	11,655	8,107
Dividends	6	(10,021)	(7,790)
Retained profit for the financial year	17	1,634	317

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.

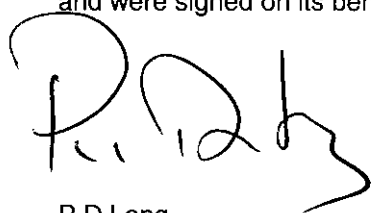
The profit for the financial year has been computed on the historical cost basis.

Chelton (Electrostatics) Limited

Balance sheet as at 31 December 2004

	Notes	2004 £000	2003 £000
Fixed assets			
Intangible Assets	9	890	873
Tangible assets	10	1,926	1,855
		2,816	2,728
Current assets			
Stocks	11	5,476	5,811
Debtors	12	58,376	51,734
Cash at bank and in hand		12,851	13,152
		76,703	70,697
Creditors: Amounts falling due within one year	13	(56,701)	(52,241)
Net current assets		20,002	18,456
Net assets		22,818	21,184
Capital and reserves			
Called up share capital	16	-	-
Profit and loss account	17	22,818	21,184
Equity shareholders' funds	18	22,818	21,184

The financial statements on pages 4 to 15 were approved by the board on *21st October 2005* and were signed on its behalf by:



P D Long
Director

Chelton (Electrostatics) Limited

Notes to the financial statements

1 Turnover

The turnover and profit on ordinary activities 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

	2004 £000	2003 £000
The operating profit is after charging / (crediting):		
Depreciation of owned tangible fixed assets	399	757
(Gain)/Loss on disposal of owned tangible fixed assets	(6)	103
Amortisation of licences, patents and know-how	116	42
Hire of plant and machinery	9	15
Other operating lease rentals	549	443
Research and development	3,284	3,306
Auditors' remuneration:		
Audit services	33	28
Non audit services	32	12

3 Interest receivable

	2004 £000	2003 £000
Interest receivable from group undertakings	1,961	1,791
Short term deposit interest	146	71
	2,107	1,862

4 Interest payable

	2004 £000	2003 £000
Bank loans and overdrafts	1,072	753
Interest payable to group undertakings	360	166
Finance charges payable to group undertakings – convertible discounted bond	-	594
Finance charges payable to group undertakings – loan notes	1,208	642
	2,640	2,155

Chelton (Electrostatics) Limited

5 Tax on profit on ordinary activities

	2004 £000	2003 £000
Current tax:		
UK Corporation tax on profits for the year	4,961	3,508
Adjustments in respect of previous years	320	28
Total current tax	5,281	3,536
Deferred tax:		
Origination and reversal of timing differences	95	2
Adjustments in respect of previous years	(156)	-
Total deferred tax (note 15)	(61)	2
	5,220	3,538

The tax assessed for the year is different to the standard rate of corporation tax in the UK of 30% (2003: 30%). The differences are explained below:

	2004 £000	2003 £000
Profit on ordinary activities before tax	16,875	11,645
Profit on ordinary activities multiplied by standard rate in the UK – 30% (2003:30%)	5,063	3,494
Effects of:		
Expenses not allowable as a tax deduction	71	104
Origination and reversal of timing differences	(95)	(2)
Expenditure qualifying for additional R&D tax deduction	(78)	(88)
Adjustments to tax charge in respect of prior years	320	28
	5,281	3,536

6 Dividends

	2004 £000	2003 £000
First interim dividend paid of £19,140 per share (2003: £20,830)	1,914	2,083
Second interim dividend paid of £81,070 per share (2003: £57,070)	8,107	5,707
	10,021	7,790

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.

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Directors (continued)

Interests of other directors and their families in the ultimate parent undertaking's ordinary shares of 25p each and their rights to subscribe for such shares were:

	At 31 December 2004		At 31 December 2003, or date of appointment, if later.	
	Shares	Options	Shares	Options
P A Hogan	2,339	19,872	2,339	16,169
G R Browning	1,150	2,794	1,150	2,794
T Bojarzin	-	188	-	188

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

Grants	Number	Exercise Price (P)	Exercise Period
P A Hogan	3,312	1,347	20/09/2007-20/09/2014
P A Hogan	391	939	01/02/2009-01/08/2009

Directors' emoluments

	2004 £000	2003 £000
Aggregate emoluments	1,153	1,071
Company contributions paid to money purchase schemes	46	38

Retirement benefits are accruing to 4 (2003: 4) directors under a defined benefit scheme. Retirement benefits are accruing to 2 (2003: 2) directors under money purchase pension schemes.

Highest paid director

	2004 £000	2003 £000
Total emoluments	532	497
Company contributions paid to money purchase schemes	35	34

The highest paid director, who is also a director of the ultimate parent undertaking, did not exercise any share options in the year.

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Employees

	2004	2003
Employee costs	£000	£000
Wages and salaries	9,229	8,632
Social security costs	924	852
Other pension costs (note 19)	874	786
	11,027	10,270

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

	2004	2003
Number by activity		
Direct labour	107	107
Engineering and production	131	132
Quality assurance	10	9
Maintenance	5	5
Management and administration	40	39
	293	292

9 Intangible assets

	Licences, Patents and Know-how £000
Cost	
At 1 January 2004	929
Additions	133
At 31 December 2004	1,062
Amortisation	
At 1 January 2004	56
Charge for the year	116
At 31 December 2004	172
Net book amount	
At 31 December 2004	890
At 31 December 2003	873

Purchased licences, 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	Motor	Total
	Long	Short	Machinery	Vehicles	
	Leasehold	Leasehold			
	£000	£000	£000	£000	£000
Cost					
At 1 January 2004	1,050	142	5,448	627	7,267
Additions	250	-	45	189	484
Disposals	-	-	-	(102)	(102)
At 31 December 2004	1,300	142	5,493	714	7,649
Depreciation					
At 1 January 2004	168	86	4,845	313	5,412
Charge for the year	13	12	226	148	399
Disposals	-	-	-	(88)	(88)
At 31 December 2004	181	98	5,071	373	5,723
Net book amount					
At 31 December 2004	1,119	44	422	341	1,926
At 31 December 2003	882	56	603	314	1,855

Capital commitments

The company had no capital commitments at 31 December 2004 or 31 December 2003.

11 Stocks

	2004	2003
	£000	£000
Raw materials and consumables	1,590	1,168
Work in progress	3,084	3,697
Finished goods and goods for resale	802	946
	5,476	5,811

12 Debtors

	2004	2003
	£000	£000
Amounts falling due within one year:		
Trade debtors	7,152	4,952
Amount owed by fellow subsidiary undertakings	50,344	45,702
Other debtors	42	293
Prepayments and accrued income	680	690
Deferred taxation (note 15)	158	97
	58,376	51,734

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

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13 Creditors - Amounts falling due within one year

	2004 £000	2003 £000
Bank overdraft	15,979	20,198
Trade creditors	1,061	1,284
Amounts owed to ultimate parent undertaking – loan notes	16,242	15,034
Amounts owed to ultimate parent undertaking – other	-	296
Amounts owed to fellow subsidiary undertakings	9,686	4,929
Payroll and other taxes, including social security	436	560
Accrued pension contributions	167	-
Taxation payable	2,829	1,630
Accruals and deferred income	2,194	2,639
Proposed dividends	8,107	5,671
	56,701	52,241

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

The loan note issued on 1 July 2004 for £15,686,843 with a principal sum of £15,963,619 was repaid on 1 October 2004.

The loan note issued on 1 October 2004 for £15,963,619 with a principal sum of £16,796,351 is due for repayment on 1 July 2005. The discount accrues evenly over the term of the note. At 31 December 2004 the redemption amount was £16,242,217.

14 Operating leases

The following annual operating lease commitments existed at the year end:

	Land and Buildings	
	2004 £000	2003 £000
Annual commitments which expire:		
Between one and five years	220	205
In five years or more	73	65
	293	270

15 Provisions for liabilities and charges

	Deferred taxation	
	£000	
At 1 January 2004		(97)
(Charged) / Released to profit and loss account (note 5)		(61)
At 31 December 2004		(158)
Deferred tax assets where relevant are shown within debtors (note 12).		
	2004 £000	2003 £000
Deferred taxation, fully provided for, represents:		
Accelerated depreciation	-	(97)
Accelerated capital allowances	58	-
Other timing differences	(216)	-
	(158)	(97)

Chelton (Electrostatics) Limited

16 Called up share capital

	2004 Number	2004 £000	2003 Number	2003 £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, issued and fully paid:				
Equity interests				
Ordinary shares of £1 each	100	-	100	-

17 Profit and loss account

	£000
At 1 January 2004	21,184
Retained profit for the financial year	1,634
At 31 December 2004	22,818

18 Reconciliation of movements in shareholders' funds

	2004 £000	2003 £000
Profit for the financial year	11,655	8,107
Dividends	(10,021)	(7,790)
Net addition to shareholders' funds	1,634	317
Opening shareholders' funds	21,184	20,867
Closing shareholders' funds	22,818	21,184

Chelton (Electrostatics) Limited

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 2004 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 7.1% pre retirement and 5.3% post retirement and the annual increase in pensionable salaries and pensions in payment would be 3.5% and 2.5% respectively. The market value of the assets of the scheme as at the date of the actuarial valuation was £25,145,000 and the actuarial value of the assets of the scheme was sufficient to cover 129% of the benefits that had accrued to members after allowing for expected future increases in pensionable remuneration.

	2004 £000	2003 £000
Pension contributions paid		
Defined benefit scheme	648	725
Money purchase and stakeholders schemes	59	61
	707	786

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.

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 2004 the company had performance and third party bank guarantees outstanding of £350,000 (2003: £350,000).