

IR AVIATION LIMITED
FINANCIAL STATEMENTS
31ST DECEMBER 1985

IR AVIATION LIMITED

By the Board of Directors
of the Company
Signed: B. G. G. G.

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of the Company
Signed: B. G. G. G.

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FR AVIATION LIMITED

FINANCIAL STATEMENTS

31ST DECEMBER 1985

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FR Aviation Limited

Notice of Meeting

Notice is hereby given that the twenty-first annual general meeting of the company will be held at Brook Road, Wimborne, Dorset on Wednesday, 11th June 1986 at 3.30 pm for the following purposes:

Resolution 1

To receive the report of the directors and the audited financial statements for the year ended 31st December 1985.

Resolution 2

To re-appoint Price Waterhouse as auditors and to authorise the directors to fix their remuneration.

To transact any other business of an ordinary meeting.

Members of the company entitled to attend and vote are entitled to appoint one or more proxies to attend and on a poll to vote instead of them. A proxy need not be a member of the company.

By order of the board

P. Richardson

P. Richardson
Secretary
Brook Road
Wimborne
Dorset BH21 2BJ

28th April 1986

FR Aviation Limited
Report of the Directors

The directors have pleasure in submitting their report together with the financial statements of the company for the year ended 31st December 1985.

Re-registration

On 11th February 1985 the company changed its name from Flight Refuelling (Services) Limited to FR Aviation Limited.

Results for the Year

The company's results for the year are set out in the profit and loss account on page 6. The Directors recommend a dividend of £135,000. The profit retained for the year of £276,971 has been transferred to reserves.

Principal Activities and Business Review

From 1st January 1985 the principal business of the company was flight operations and airfield maintenance activities which hitherto were the responsibility of the airfield division of Flight Refuelling Limited.

The directors consider that the majority of the business of the company represents a single activity.

During the year the company's fleet of ten Falcon 20 aircraft have been modified and fitted with specialised equipment and underwing pods to enable them to provide realistic air defence training practice for the Royal Navy. This facility has been installed in a very restricted timescale and has already been proven and is working satisfactorily.

The company also operates other aircraft including aircraft to provide services of target towing for the Royal Navy and coastal surveillance for the Ministry of Agriculture, Fisheries and Food.

In addition the company has established extensive aircraft maintenance facilities which have been utilised for third party contracts in addition to providing in-house maintenance for the company's own aircraft.

Board of Directors

The following directors held office throughout the year, unless otherwise stated:

M.J. Cobham
A.G. Irwin
C.F. Jones

Mr. F.E. Behennah was appointed a director on 25th January 1985.

Mr. H.R. Harris resigned on 28th January 1985

Mr. D.E. Lewis, Mr. D.T.H. Morgan, Mr. D.E. Morgan and Mr. R. McQueen were appointed directors on 1st July 1985.

Mr. D.T.H. Morgan resigned on 28th October 1985.

Mr. P. Richardson was appointed a director on 28th October 1985.

Mr. R.H.N. Rhodes was appointed a director on 27th January 1986.

FR Aviation Limited

Report of the Directors continued

Board of Directors continued

The directors' shareholdings and interests are shown in note 5 to the financial statements.

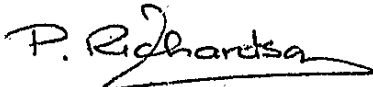
Fixed Assets

The company has continued to pursue its policy of investing in tangible fixed assets as a means of improving its operating capabilities and during the year purchased assets, mainly aircraft parts, to a value of £1,094,646.

Auditors

In accordance with Section 384 of the Companies Act 1985 a resolution to re-appoint Price Waterhouse as auditors will be proposed at the forthcoming annual general meeting.

By order of the board



P. Richardson
Secretary

28th April 1986

FR Aviation Limited

Accounting Policies

Accounting Convention

The financial statements have been prepared under the historical cost convention.

Turnover

Turnover is based on sales value exclusive of value added tax, together with the sales value of work done on long term contracts.

Deferred Taxation

Provision is made for deferred taxation, using the liability method, unless there is a reasonable probability that it will not become payable within the foreseeable future.

Tangible Fixed Assets

Fixed assets are depreciated on a straight line basis over their estimated useful lives. These lives are as follows:-

Leasehold Properties	-	50 years
Plant, Machinery, Fixtures, Fittings, Tools and Equipment	-	3 - 8 years
Aircraft	-	10 years

Stocks

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

In the case of long term contracts, the work in progress valuation includes profits attributable to the work done to date less provision for any foreseeable losses.

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.

Foreign Currencies

Assets and liabilities in foreign currencies are expressed in sterling at the rates of exchange ruling at the balance sheet date.

Exchange differences are dealt with in the profit and loss account.

FR Aviation Limited
Profit and Loss Account
for the year ended 31st December 1985

	Notes	1985 £	1984 £
Turnover	1	11,717,589	3,877,753
Cost of sales		(10,520,854)	(3,499,828)
Gross profit		1,196,735	377,925
Selling and distribution costs		(25,144)	(2,600)
Administrative expenses		(427,973)	(44,503)
Operating Profit	2	743,618	330,822
Net interest	3	(82,602)	3,162
Provision for share incentive scheme		(9,223)	-
Profit on Ordinary Activities before Taxation		651,793	333,984
Tax on profit on ordinary activities	4	(239,822)	(82,747)
Profit on Ordinary Activities after Taxation		411,971	251,237
Dividends - Paid		(50,000)	-
Dividends - Proposed		(85,000)	-
Profit Retained for the Year		276,971	251,237

PK Aviation Limited

Balance Sheet

as at 31st December 1985

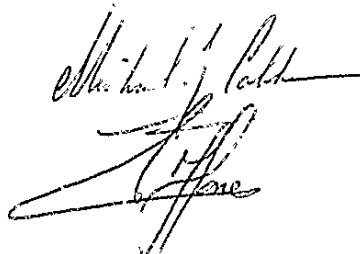
	Notes	1985 £	1984 £
Fixed Assets			
Tangible assets	7	2,541,031	916,103
Investment in subsidiary companies	8	6	-
Current Assets			
Stocks	9	418,034	30,060
Debtors	10	2,897,425	3,601,358
Cash at bank and in hand		44,177	5,061
		<u>3,359,636</u>	<u>3,636,479</u>
Creditors:			
Amounts falling due within one year	11	(3,879,988)	(4,016,863)
Net Current Liabilities		<u>(520,352)</u>	<u>(380,384)</u>
Total Assets Less Current Liabilities		<u>2,020,685</u>	<u>535,719</u>
Creditors: Amounts due in more than one year	12	(1,007,087)	-
Provision for Liabilities and Charges	13	<u>(439,094)</u>	<u>(238,186)</u>
		<u>(1,446,181)</u>	<u>(238,186)</u>
		<u>574,504</u>	<u>297,533</u>
Capital and Reserves			
Called up share capital	14	1,000	1,000
Profit and loss account	15	573,504	296,533
Shareholders' Funds		<u>574,504</u>	<u>297,533</u>

These financial statements were approved by the board on 28th April 1986 and were signed on its behalf by:

M.J. COBHAM

C.F. JONES

) Directors



FR Aviation Limited

Notes to the Financial Statements

1	Geographical Analysis of Turnover	1985 £	1984 £
	United Kingdom	11,062,080	3,877,753
	Other EEC Countries	370,955	-
	European non EEC Countries	580	-
	America	283,974	-
		11,717,589	3,877,753
2	Operating Profit	1985 £	1984 £
	The operating profit is after charging:		
	Depreciation	289,380	20,040
	Auditors' remuneration	3,500	2,000
	Hire of plant and machinery	2,176	-
	Operating leases	1,967,603	-
	Operating leases relates to aircraft and aircraft equipment. Details of future commitments are given in Note 16.		
3	Net Interest	1985 £	1984 £
	Interest receivable:		
	Bank	(11,094)	-
	Intergroup	(9,468)	(3,162)
	Interest payable in respect of:		
	Bank overdrafts	2,690	-
	Intergroup	100,474	-
		82,602	(3,162)
4	Taxation	1985 £	1984 £
	Based on the results of the year:		
	U.K. corporation tax at a composite rate of 41.25% (1984 - 46.25%)	111,629	(141,859)
	Deferred taxation	139,476	224,606
	Prior year adjustments	(11,283)	-
		239,822	82,747

PR Aviation Limited

Notes to the Financial Statements continued

5 Directors

Directors' Shareholdings and Interests

None of the directors held an interest in shares of the company.

Interests of the directors and their families in shares of the holding company were:

	At 31st December 1985		At 31st December 1984	
	4.2%		4.2%	
	Ordinary Shares	Preference Shares	Ordinary Shares	Preference Shares
M.J. Cobham	4,007,064	-	4,006,837	-
- Non-beneficial	3,120,702	10,431	3,154,818	10,431
A.G. Irwin	500	-	500	-
C.F. Jones	-	-	-	-
F.E. Behennah	406	-	295 *	-
D.E. Lewis	473	-	376 *	-
D.E. Morgan	-	-	- *	-
R. McQueen	-	-	- *	-
P. Richardson	209	-	209 *	-

* Holding at date of appointment

The non-beneficial shareholdings in which a director of the company has an interest are jointly held with at least one individual who is not a director.

The following options, granted to directors of the company under group share option schemes, were outstanding at 31st December 1985:

	Ordinary Shares	Price	Date Granted	Date Exercisable
Executive share option schemes				
A.G. Irwin	51,500	245.40	31.8.84	31.8.87 - 30.8.94
A.G. Irwin	2,000	318.00	20.5.85	20.5.88 - 19.5.95
C.F. Jones	45,000	318.00	20.5.85	20.5.88 - 19.5.95
F.E. Behennah	6,750	127.29	9.6.82	10.6.85 - 9.6.89
F.E. Behennah	7,500	182.43	6.6.83	7.6.86 - 6.6.90
F.E. Behennah	16,000	245.40	31.8.84	31.8.87 - 30.8.94
F.E. Behennah	1,800	318.00	20.5.85	20.5.88 - 19.5.95

Savings related share option scheme

M.J. Cobham	3,424	257.00	7.12.84	28.1.92 - 28.7.92
A.G. Irwin	3,024	291.00	4.12.85	1.2.93 - 1.8.93
F.E. Behennah	1,439	257.00	7.12.84	28.1.90 - 28.7.90
D.E. Lewis	856	257.00	7.12.84	28.1.92 - 28.7.92
D.E. Lewis	635	291.00	4.12.85	1.2.91 - 1.8.91
R. McQueen	604	291.00	4.12.85	1.2.93 - 1.8.93
P. Richardson	1,439	257.00	7.12.84	28.1.90 - 28.7.90

The number of ordinary shares and prices shown in respect of share options have been adjusted, where appropriate, for capitalisation issues to date.

FR Aviation Limited

Notes to the Financial Statements continued

Directors' Emoluments

	1985 £	1984 £
The emoluments of the directors were	112,547	-
The analysis of the directors' emoluments, excluding pension contributions is:-		
Chairman	-	-
Highest paid director	47,870	-
Other directors	Number	Number
Nil	3	2
Up to £5,000	1	-
From £5,001 - £10,000	1	-
From £10,001 - £15,000	3	-

6	Employees	1985 Number	1984 Number
	Average number of employees - U.K.	157	185
	Employment costs	£	£
	Wages and salaries	1,580,229	1,645,141
	Social security costs	109,045	130,843
	Other pension costs	136,019	112,907
		1,825,293	1,888,891

Pension

The company makes contributions to a retirement benefits plan which covers the majority of employees. The contributions are based on periodic actuarial calculations and are charged against profits as incurred. At the last valuation, April 1982, the fund was considered to be fully funded.

7 Tangible Fixed Assets

	Land and Buildings Long Lease £	Plant and Machinery (including Vehicles) £	Fixtures, Fittings, Tools and Equipment £	Payments on Account and Assets under Construction £	Total £
Cost					
At 1st January 1985	-	933,327	3,877	-	937,204
Additions	94,249	803,224	47,092	150,081	1,094,646
Intergroup transfers	439,847	744,094	29,021	-	1,212,962
At 31st December 1985	534,096	2,480,645	79,990	150,081	3,244,812

FR Aviation Limited

Notes to the Financial Statements continued

	Land and Buildings Long Lease £	Plant and Machinery (including Vehicles) £	Fixtures, Fittings, Tools and Equipment £	Payments on Account and Assets under Construction £	Total £
Accumulated Depreciation					
At 1st January 1985	-	20,148	953	-	21,101
Depreciation for the year	7,941	268,447	12,742	250	289,380
Intergroup transfers	83,168	293,902	16,230	-	393,300
At 31st December 1985	91,109	582,497	29,925	250	703,781
Net Book Amount					
At 1st January 1985	-	913,179	2,924	-	916,103
At 31st December 1985	442,987	1,898,148	50,065	149,831	2,541,031

Capital Commitments

At 31st December, 1985 the company had authorised capital expenditure amounting to £178,544 (1984 - Nil) of which £178,544 (1984 - Nil) had been committed with suppliers.

8 Investments in Subsidiaries

The investment in subsidiaries relates solely to the total issued share capital of £2.00 each in respect of the following companies, acquired at cost during the year.

Flight Refuelling (Services) Limited,
FR Flight Aviation Limited,
FR Flight Operations Limited.

9 Stocks

	1985 £	1984 £
Long term contract work in progress	360,106	-
Related progress payments	(305,870)	-
	54,236	-
Other work in progress	74,252	30,060
Raw materials and consumables	289,546	-
	418,034	30,060

FR Aviation Limited

Notes to the Financial Statements continued

Profit is included in long term contract work in progress in accordance with Statement of Standard Accounting Practice No. 9. The inclusion of such profit is a departure from the statutory valuation rules for current assets and is required to enable the financial statements to give a true and fair view. The amount of profit included in the net work in progress is £21,692 (1984 - Nil).

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

10 Debtors:

	1985 £	1984 £
Amounts falling due within one year		
Trade debtors	2,357,943	836,945
Other debtors	152,175	40,701
Prepayments and accrued income	8,705	-
Taxation recoverable	145,146	141,859
Deferred tax asset	-	14,705
Owing by group companies	197,028	2,567,148
Amounts falling due after more than one year	2,860,997	3,601,358
Advance corporation tax recoverable	36,428	-
	2,897,425	3,601,358

11 Creditors:

	1985 £	1984 £
Amounts falling due within one year		
Trade creditors	1,656,371	369,222
Payroll and other taxes, inc. social security	238,785	90,890
Other creditors	85,819	970,242
Accruals and deferred income	82,113	88,741
Unpaid dividends - intergroup	85,000	-
Taxation payable - UK corporation tax	90,200	36,412
Advance corporation tax payable	57,857	-
Bank overdraft	505,041	2,397,495
Owing to holding company	569,380	63,861
Owing to group companies	509,422	-
	3,879,988	4,016,863

12 Creditors:

Amounts falling due after more than one year

The amount falling due after more than one year represents an intercompany balance with a group company following the transfer of assets from that company on 1st January 1985. There is no intention for the loan to be repaid and it does not attract interest.

FR Aviation Limited

Notes to the Financial Statements continued

13 Provisions for Liabilities and Charges

Deferred Taxation
£

At 1st January 1985	238,186
Provided in year	139,476
Movement on deferred tax asset	(14,705)
Intergroup transfer	76,137

At 31st December 1985	<u>439,094</u>
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The amount provided for represents full provision for accelerated capital allowances. The provision has been established at a taxation rate of 35%, being the proposed rate of tax for the periods when reversal is expected to take place.

14 Share Capital

The share capital of the company consists of 1,000 authorised, allotted and fully paid ordinary shares of £1 each.

15 Profit and Loss Account

£

At 1st January 1985	296,533
Profit retained for the year	276,971

At 31st December 1985	<u>573,504</u>
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16 Operating Leases

At the balance sheet date the company has the following obligations in respect of operating leases relating to aircraft:-

£

1986	2,176,146
1987	2,051,918
1988	2,051,918
1989	2,051,918
1990	2,051,918
1991 onwards	8,720,652

17 Holding Company

The ultimate holding company is FR Group plc, incorporated in Great Britain.

FR Aviation Limited

Source and Application of Funds
for the year ended 31st December 1985

	1985 £	1984 £
Source of Funds		
Profit on ordinary activities before taxation		
Adjustments for items not involving the movement of funds:	651,793	333,984
Depreciation	289,380	20,040
Intergroup transfer of deferred taxation	76,137	-
Total Generated from Operations	1,017,310	354,024
Application of Funds		
Purchase of tangible fixed assets	1,914,308	918,624
Taxation paid	28,416	14,212
Investment in subsidiaries	6	-
Dividends paid	50,000	-
	1,992,730	932,836
	(975,420)	(578,812)
Change in Working Capital		
Increase in stocks	387,974	27,468
Increase in debtors	1,641,177	508,841
(Increase) in creditors	(543,993)	(1,234,987)
(Decrease) Increase in amount owing by group companies	(2,370,120)	2,567,148
(Increase) in amount owing to holding company	(505,519)	(1,641)
(Increase) in amount owing to group companies	(1,516,509)	-
	(2,906,990)	1,866,829
Increase (Decrease) in Net Liquid Funds	1,931,570	(2,445,641)
Representing:		
Increase (Decrease) in cash at bank and in hand	39,116	(48,146)
Decrease (Increase) in bank overdraft	1,892,454	(2,397,495)
	1,931,570	(2,445,641)

FR Aviation Limited

Report of the Auditors

To the Members of FR Aviation Limited

We have audited the financial statements on pages 5 to 14 in accordance with approved Auditing Standards.

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31st December 1985 and of its profit and source and application of funds for the year then ended and comply with the Companies Act 1985.

Price Waterhouse

PRICE WATERHOUSE
Chartered Accountants

Capital House
1 Houndwell Place
Southampton SO1 1HU

28th April 1986