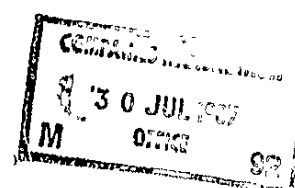


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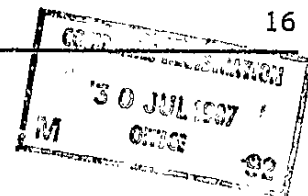
FR AVIATION LIMITED
FINANCIAL STATEMENTS
31ST DECEMBER 1986



FR Aviation Limited

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FR Aviation Limited

Notice of Meeting

Notice is hereby given that the twenty-second annual general meeting of the Company will be held at Brook Road, Wimborne, Dorset on Thursday 11th June 1987 at 3.30 p.m. for the following purposes:

Resolution 1

To receive the report of the directors and the audited financial statements for the year ended 31st December 1986.

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
Secretary
Brook Road
Wimborne
Dorset
BH21 2BJ



27th April 1987

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 1986.

Results for the Year

The Company's results for the year are set out in the profit and loss account on page 5. The directors recommend a dividend of £225,000. The profit retained for the year of £251,223 has been transferred to reserves.

Principal Activities and Business Review

The principal business of the Company continues to be flight operations and aircraft maintenance.

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 continued to perform satisfactorily providing realistic air defence training practice for the Royal Navy.

In August the Company was awarded a five year contract by the Ministry of Agriculture, Fisheries & Food which continues the coastal surveillance services previously performed and extends this surveillance further offshore using two new Dornier 228/200 aircraft.

In September the Company was awarded a five year contract by the Ministry of Defence which continues the low speed target towing services previously provided to the Royal Navy and increases these services into medium speed aircraft. This contract, which commenced in February 1987, required the provision of a further six Falcon 20 aircraft - all of which have now been acquired and are operating satisfactorily.

In addition, the Company has increased its extensive aircraft maintenance facilities which have been utilised for third party contracts and for providing in-house maintenance for all 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
F. E. Behennah
D. E. Lewis
D. E. Morgan
R. McQueen
P. Richardson

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 hardstanding and aircraft parts, to a value of £970,426.

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

27th April 1987

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 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 1986

	Notes	1986 £	1985 £
Turnover	1	14,796,535	11,717,589
Cost of sales		(12,942,014)	(10,520,854)
Gross profit		1,854,521	1,196,735
Selling and distribution costs		(85,905)	(25,144)
Administrative expenses		(688,248)	(427,973)
Operating Profit	2	1,080,368	743,618
Net interest	3	(83,595)	(82,602)
Provision for share incentive scheme		(15,555)	(9,223)
Profit on Ordinary Activities before Taxation		981,218	651,793
Tax on profit on ordinary activities	4	(504,995)	(239,822)
Profit on Ordinary Activities after Taxation		476,223	411,971
Dividends - paid		(80,000)	(50,000)
Dividends - proposed		(145,000)	(85,000)
Profit Retained for the Year		251,223	276,971

FR Aviation Limited

Balance Sheet

as at 31st December 1986

	Notes	£	1986 £	£	1985 £
Fixed Assets					
Tangible assets	7		2,973,178		2,541,031
Investment in subsidiary companies	8		6		6
Current Assets					
Stocks	9	929,981		418,034	
Debtors	10	2,530,389		2,897,425	
Cash at bank and in hand		1,005,502		44,177	
		4,465,872		3,359,636	
Creditors					
Amounts falling due within one year	11	(5,108,661)		(3,879,988)	
Net Current Liabilities			(642,789)		(520,352)
Total Assets Less Current Liabilities					
			2,330,395		2,020,685
Creditors: amounts due in more than one year	12	(1,007,087)		(1,007,087)	
Provision for Liabilities and Charges	13	(497,581)		(439,094)	
			(1,504,668)		(1,446,181)
Capital and Reserves					
Called up share capital	14		1,000		1,000
Profit & loss account	15		824,727		573,504
Shareholders' Funds			825,727		574,504

These financial statements were approved by the board on 27th April 1987 and were signed on its behalf by:-

C. F. Jones

P. Richardson

} Directors

FR Aviation Limited
Notes to the Financial Statements

	1986 £	1985 £
1 Geographical Analysis of Turnover		
United Kingdom	14,356,495	11,062,080
Other EEC countries	262,653	370,955
European non EEC countries	2,001	580
America	175,386	283,974
	14,796,535	11,717,589
2 Operating Profit		
The operating profit is after charging:		
Depreciation	475,983	289,380
Auditors' remuneration	7,800	3,500
Hire of plant and machinery	3,737	2,176
Operating leases	4,839,655	1,967,605
Operating leases relates to aircraft and aircraft equipment. Details of future commitments are given in note 16.		
3 Net Interest		
Interest receivable:-		
Bank	(4,465)	(11,094)
Intergroup	-	(9,468)
Interest payable in respect of:-		
Bank overdrafts	50,527	2,690
Intergroup	37,533	100,474
	83,595	82,602
4 Taxation		
Based on the results of the year:-		
UK corporation tax at a composite rate of 36.25% (1985 - 41.25%)	405,633	111,629
Deferred taxation	(43,609)	139,476
Prior year adjustments	142,971	(11,283)
	504,995	239,822

FR 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 1986		At 31st December 1985	
	Ordinary Shares	4.2% Preference Shares	Ordinary Shares	4.2% Preference Shares
M. J. Cobham	4,918,570	-	4,007,064	-
- Non-beneficial	3,704,416	10,431	3,120,702	10,431
A. G. Irwin	802	-	500	-
- Non-beneficial	346,664	-	-	-
C. F. Jones	49	-	-	-
F. E. Behennah	750	-	406	-
D. E. Lewis	863	-	473	-
D. E. Morgan	-	-	-	-
R. McQueen	61	-	-	-
P. Richardson	335	-	209	-
R. H. N. Rhodes	-	-	- *	-

* 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 the group share option schemes, were outstanding at 31st December 1986:-

	Ordinary Shares	Price	Date Granted	Date Exercisable
Executive Share Option Schemes				
A. G. Irwin	63,867	197.88	31.08.84	31.08.87 - 30.08.94
A. G. Irwin	2,480	256.42	20.05.85	20.05.88 - 19.05.95
A. G. Irwin	9,115	294.48	23.05.86	23.05.89 - 22.05.96
C. F. Jones	55,806	256.42	20.05.85	20.05.88 - 19.05.95
C. F. Jones	5,208	294.48	23.05.86	23.05.89 - 22.05.96
F. E. Behennah	8,370	102.64	09.06.82	10.06.85 - 09.06.89
F. E. Behennah	9,300	147.10	06.06.83	07.06.86 - 06.06.90
F. E. Behennah	19,842	197.88	31.08.84	31.08.87 - 30.08.94
F. E. Behennah	2,232	256.42	20.05.85	20.05.88 - 19.05.95
F. E. Behennah	9,673	294.48	23.05.86	23.05.89 - 22.05.96
D. E. Lewis	14,571	294.48	23.05.86	23.05.89 - 22.05.96
D. E. Morgan	14,571	294.48	23.05.86	23.05.89 - 22.05.96
R. McQueen	14,571	294.48	23.05.86	23.05.89 - 22.05.96
P. Richardson	14,571	294.48	23.05.86	23.05.89 - 22.05.96
R. H. N. Rhodes	14,571	294.48	23.05.86	23.05.89 - 22.05.96

FR Aviation Limited

Notes to the Financial Statements continued

	Ordinary Shares	Price	Date Granted	Date Exercisable
Savings Related Share Option Scheme				
M. J. Cobham	4,246	207.24	07.12.84	28.01.92 - 28.07.92
A. G. Irwin	3,750	234.65	04.12.85	01.02.93 - 01.08.93
C. F. Jones	3,346	263.00	03.12.86	01.02.94 - 01.08.94
F. E. Behennah	1,785	207.24	07.12.84	28.01.90 - 28.07.90
D. E. Lewis	1,061	207.24	07.12.84	28.01.92 - 28.07.92
D. E. Lewis	788	234.65	04.12.85	01.02.91 - 01.08.91
R. McQueen	750	234.65	04.12.85	01.02.93 - 01.08.93
P. Richardson	1,785	207.24	07.12.84	28.01.90 - 28.07.90
P. Richardson	1,406	263.00	03.12.86	01.02.92 - 01.08.92

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

Directors' emoluments

	1986 £	1985 £
The emoluments of the directors were	212,584	112,547
The analysis of the directors' emoluments, excluding pension contributions is:-		
Chairman	Nil	Nil
Highest paid director	52,590	47,870
Other directors	Number	Number
Nil	2	3
Up to £5,000	-	1
From £5,001 - £10,000	-	1
From £10,001 - £15,000	-	3
From £20,001 - £25,000	1	-
From £25,001 - £30,000	4	-

FR Aviation Limited

Notes to the Financial Statements continued

6 Employees

	Number	Number
Average number of employees - UK	125	157
	£	£
Employment costs		
Wages and salaries	1,634,892	1,580,229
Social security costs	123,879	109,045
Other pension costs	129,876	136,019
	1,888,647	1,825,293

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, in April 1985, the fund was considered to be fully funded.

7 Tangible Fixed Assets

	Land & Buildings Long Lease	Plant & Machinery (including Vehicles)	Fixtures, Fittings, Tools & Equipment	Payments on Account & Assets under Construction	Total
	£	£	£	£	£
Cost					
At 01.01.86	534,096	2,480,645	79,990	150,081	3,244,812
Additions	292,582	405,850	162,436	109,558	970,426
Disposals	-	(59,333)	(3,050)	-	(62,383)
Intergroup transfers	150,081	(17,636)	-	(150,081)	(17,636)
At 31.12.86	976,759	2,809,526	239,376	109,558	4,135,219

FR Aviation Limited

Notes to the Financial Statements continued

	Land & Buildings Long Lease	Plant & Machinery (including Vehicles)	Fixtures, Fittings, Tools & Equipment	Payments on Account & Assets under Construction	Total
	£	£	£	£	£
Accumulated Depreciation					
At 01.01.86	91,109	582,497	29,925	250	703,781
Depreciation for the year	15,774	418,550	41,476	183	475,983
Disposals	-	(8,781)	(356)	-	(9,137)
Intergroup transfers	250	(8,586)	-	(250)	(8,586)
At 31.12.86	107,133	983,680	71,045	183	1,162,041
Net Book Amount					
At 01.01.86	442,987	1,898,148	50,065	149,831	2,541,031
At 31.12.86	869,626	1,825,846	168,331	109,375	2,973,178

Capital Commitments

At 31st December 1986 the Company had authorised capital expenditure amounting to £130,000 (1985 - £178,544) all of which (1985 - All) 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.

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

The accounts of the subsidiaries have not been consolidated because the Company itself is a wholly owned subsidiary of a company incorporated in Great Britain.

FR Aviation Limited

Notes to the Financial Statements continued

9 Stocks

	1986 £	1985 £
Long term contract work in progress	-	360,106
Related progress payments	-	(305,870)
	-	54,236
Other work in progress	582,322	74,252
Raw materials and consumables	347,659	289,546
	929,981	418,034

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 1985 net work in progress is £21,692.

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

10 Debtors

	1986 £	1985 £
Amounts falling due within one year		
Trade debtors	2,442,468	2,357,943
Other debtors	10,758	152,175
Prepayments and accrued income	32,636	8,705
Taxation recoverable	14,211	145,143
Owing by group companies	30,316	197,028
	2,530,389	2,860,997
Amounts falling due after more than one year		
Advance corporation tax recoverable	-	36,428
	2,530,389	2,897,425

FR Aviation Limited

Notes to the Financial Statements continued

11 Creditors

	1986 £	1985 £
Amounts falling due within one year		
Trade creditors	1,683,109	1,656,371
Payroll and other taxes, inc. social security	1,270,668	238,785
Other creditors	43,297	85,819
Accruals and deferred income	117,131	82,113
Unpaid dividends - intergroup	145,000	85,000
Taxation payable - UK corporation tax	501,990	90,200
Advance corporation tax payable	-	57,857
Bank overdraft	-	505,041
Owing to holding company	87,289	569,380
Owing to group companies	1,260,177	509,422
	5,108,661	3,879,988

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.

13 Provisions for Liabilities and Charges

	Deferred Taxation £
At 01.01.86	439,094
Provided in year	(43,609)
Prior year adjustment	102,096
At 31.12.86	497,581

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.

FR Aviation Limited

Notes to the Financial Statements continued

15 Profit and Loss Account

	£
At 01.01.86	573,504
Profit retained for the year	251,223
At 31.01.86	824,727

16 Operating Leases

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

	£
1987	4,560,067
1988	4,542,067
1989	4,542,067
1990	4,542,067
1991	4,542,067
1992 onwards	17,251,868

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 1986

Source of Funds	1986 £	1985 £
Profit on ordinary activities before taxation	981,218	651,793
Adjustments for items not involving the movement of funds:-		
Depreciation	475,983	289,380
Written down value of assets disposed of	62,296	-
Total Generated from Operations	1,519,497	941,173
Funds from other Sources		
Intergroup transfer of deferred taxation	-	76,137
Taxation recovered	74,788	-
	1,594,285	1,017,310
Application of Funds		
Purchase of tangible fixed assets	970,426	1,914,308
Taxation paid	-	28,416
Investment in subsidiaries	-	6
Dividends paid	165,000	50,000
	1,135,426	1,992,730
	458,859	(975,420)
Change in Working Capital		
Increase in stocks	511,947	387,974
(Decrease)/Increase in debtors	(32,961)	1,641,177
(Increase) in creditors	(1,051,117)	(543,993)
(Decrease) in amount owing by group companies	(166,712)	(2,370,120)
Decrease/(Increase) in amount owing to holding company	482,091	(505,519)
(Increase) in amount owing to group companies	(750,755)	(1,516,509)
	(1,007,507)	(2,906,990)
Increase in Net Liquid Funds	1,466,366	1,931,570
Representing:		
Increase in cash at bank and in hand	961,325	39,116
Decrease in bank overdraft	505,041	1,892,454
	1,466,366	1,931,570

FR Aviation Limited
Report of the Auditors

To the Members of FR Aviation Limited

We have audited the financial statements on pages 4 to 15 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 1986 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

27th April 1987