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COMPANIES REGISTRATION	AVIATION LIMITED
16 OCT 1988	FINANCIAL STATEMENTS
MA OFFICE	12 1ST DECEMBER 1987

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FR Aviation Limited

Notice of Meeting

Notice is hereby given that the twenty-third annual general meeting of the Company will be held at Brook Road, Wimborne, Dorset on Thursday, 9th June 1988 at 3.30pm for the following purposes:

Resolution 1

To receive the report of the directors and the audited financial statements for the year ended 31st December 1987 and to declare a final dividend of £260,000.

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

3 May 1988

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 1987.

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 £400,000. The profit retained for the year of £979,117 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.

Throughout the year the Company's original fleet of ten Falcon 20 aircraft continued to perform satisfactorily providing realistic air defence training practice for the Royal Navy.

During the year the Company successfully introduced a further six Falcon 20 and a Cessna Conquest aircraft into service providing target towing and silent target services for the Royal Navy. These aircraft are continuing to perform satisfactorily.

The Company also successfully introduced two Dornier 228/200 aircraft into service providing offshore surveillance for the Ministry of Agriculture, Fisheries and Food.

The Company has continued to increase its extensive aircraft maintenance facilities which are 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 - Resigned 16th July 1987
P Richardson
R H N Rhodes

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 hangar and administration buildings and aircraft parts, to a value of £1,527,775.

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

A handwritten signature in dark ink, appearing to read 'P. Richardson', with a stylized flourish at the end.

P Richardson
Secretary

3 May 1988

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.

Payment 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.

Operating Leases

Operating lease payments for assets leased from third parties are charged to the profit and loss account as incurred.

FR Aviation Limited
Profit and Loss Account
for the year ended 31st December 1987

	Notes	1987 £	1986 £
Turnover	1	24,827,947	14,796,535
Cost of Sales		(21,809,017)	(12,942,014)
		-----	-----
Gross Profit		3,018,930	1,854,521
Selling and distribution costs		(120,677)	(85,905)
Administrative expenses		(882,401)	(688,248)
		-----	-----
Operating Profit	2	2,015,852	1,080,368
Net interest	3	50,924	(83,595)
Provision for share incentive scheme		(26,046)	(15,555)
Income from shares in group companies		55,000	-
		-----	-----
Profit on Ordinary Activities before Taxation		2,095,730	981,218
Tax on profit on ordinary activities	4	(716,613)	(504,995)
		-----	-----
Profit on ordinary activities after taxation		1,379,117	476,223
Dividends - paid		(140,000)	(80,000)
Dividends - proposed		(260,000)	(145,000)
		-----	-----
Profit retained for year	15	979,117	251,223
		-----	-----

FR AVIATION LIMITED

Balance Sheet

as at 31st December 1987

	Notes	1987	1986
		£	£
Fixed Assets			
Tangible assets	7	3,738,573	2,973,178
Investment in subsidiary companies	8	6	6
Current Assets			
Stock	9	646,133	929,981
Debtors	10	4,043,565	2,530,389
Cash at bank and in hand		2,410,872	1,005,502
		<u>7,100,570</u>	<u>4,465,872</u>
Creditors: amounts falling due within one year	11	(7,058,293)	(5,108,661)
Net Current Assets/ (Liabilities)		<u>42,277</u>	<u>(642,789)</u>
Total Assets Less Current Liabilities		3,780,856	2,330,395
Creditors: amounts falling due in more than one year	12	(1,526,437)	(1,007,087)
Provision for Liabilities and Charges	13	<u>(449,575)</u>	<u>(497,581)</u>
		<u>(1,976,012)</u>	<u>(1,504,668)</u>
		<u>1,804,844</u>	<u>825,727</u>
Capital and Reserves			
Called up share capital	14	1,000	1,000
Profit and loss account	15	<u>1,803,844</u>	<u>824,727</u>
Shareholders' Funds		<u>1,804,844</u>	<u>825,727</u>

These financial statements were approved by the board on 3 May 1988 and were signed on its behalf by:-

C F Jones
P Richardson

C F Jones
P Richardson

}
} Directors

FR Aviation Limited
Notes to the Financial Statements

	1987 £	1986 £
1 Geographical Analysis of Turnover		
United Kingdom	24,392,814	14,356,495
Other EEC countries	398,604	262,653
European non EEC countries	1,820	2,001
America	26,502	175,386
Other territories	8,207	-
	----- 24,827,947	----- 14,796,535
2 Operating Profit		
The operating profit is after charging:		
Depreciation	588,113	475,983
Auditors' remuneration	9,250	7,800
Hire of plant and machinery	3,371	3,737
Operating leases	6,792,659	4,839,655
Operating leases relates to aircraft and aircraft equipment. Details of future commitments are given in note 16.		
3 Net Interest		
Interest receivable:		
Bank	90,103	4,465
Other	3,792	-
Interest payable in respect of:		
Bank overdrafts	(11,145)	(50,527)
Intergroup	(37,297)	(37,533)
Interest paid included within Cost of Sales	5,471	-
	----- 50,924	----- (83,595)
4 Taxation		
Based on the results of the year:		
UK corporation tax at 35% (1986 - 36.25%)	763,165	405,633
Deferred taxation	(47,550)	(43,609)
Prior year adjustments	998	142,971
	----- 716,613	----- 504,995

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 ultimate holding company were:-

	At 31st December 1987		At 31st December 1986	
	Ordinary Shares	4.2% Preference Shares	Ordinary Shares	4.2% Preference Shares
M. J. Cobham	4,818,707	-	4,918,570	-
- Non-beneficial	3,556,727	10,431	3,704,416	10,431
A. G. Irwin	4,755	-	802	-
- Non-beneficial	382,612	-	346,664	-
C. F. Jones	103	-	49	-
F. E. Behennah	894	-	750	-
D. E. Lewis	997	-	863	-
D. E. Morgan	50	-	-	-
P. Richardson	427	-	335	-
R. H. N. Rhodes	50	-	-	-

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, in shares of the ultimate holding company granted to directors of the Company under the group share option schemes, were outstanding at 31st December 1987:-

	Ordinary Shares	Price Range Pence	Option Exercisable Between
Executive Share Option Schemes			
A. G. Irwin	17,047	256.42-348.80	20.05.88-18.05.97
C. F. Jones	64,705	256.42-348.80	20.05.88-18.05.97
F. E. Behennah	50,715	102.64-348.80	10.06.85-18.05.97
D. E. Lewis	23,771	294.48-348.80	23.05.89-18.05.97
D. E. Morgan	23,771	294.48-348.80	23.05.89-18.05.97
P. Richardson	23,771	294.48-348.80	23.05.89-18.05.97
R. H. N. Rhodes	23,771	294.48-348.80	23.05.89-18.05.97

On 11th September 1987 A. G. Irwin exercised an option granted under the executive share option scheme over 63,867 ordinary shares at a price of 197.88p per share.

FR Aviation Limited

Notes to the Financial Statements continued

	Ordinary Shares	Price Pence	Date Exercisable
Savings Related Share Option Scheme			
M. J. Cobham	4,246	207.24	28.01.92-28.07.92
A. G. Irwin	3,750	234.65	01.01.93-01.08.93
C. F. Jones	3,346	263.00	01.02.94-01.08.94
F. E. Behennah	1,785	207.24	28.01.90-28.07.90
D. E. Lewis	1,061	207.24	28.01.92-28.07.92
D. E. Lewis	788	234.65	01.02.91-01.08.91
D. E. Lewis	1,210	226.00	01.02.93-01.08.93
P. Richardson	1,785	207.24	28.01.90-28.07.90
P. Richardson	1,406	263.00	01.02.92-01.08.92
D. E. Morgan	2,861	226.00	01.02.95-01.08.95
R. H. N. Rhodes	1,210	226.00	01.02.93-01.08.93

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

	1987 £	1986 £
The emoluments of the directors were:	229,580	212,584

The analysis of the directors' emoluments, excluding pension contributions, is:-

Chairman	Nil	Nil
Highest paid director	57,786	52,590

Other directors

	Number	Number
Nil	2	2
From £15,001-£20,000	1	-
From £20,001-£25,000	-	1
From £25,001-£30,000	-	4
From £30,001-£35,000	4	-

FR Aviation Limited

Notes to the Financial Statements continued

6 Employees

	1987	1986
	Number	Number
Average number of employees - UK	181	125
	£	£
Employment costs		
Wages and salaries	2,531,224	1,634,892
Social security costs	199,420	123,879
Other pension costs	187,455	129,876
	-----	-----
	2,918,099	1,888,647
	-----	-----

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, and in the opinion of the directors remains fully funded.

FR Aviation Limited

Notes to the Financial Statements continued

7 Tangible Fixed Assets

	Land & Buildings Long Leasehold	Plant & Machinery (including Vehicles)	Fixtures, Fittings, Tools & Equipment	Payments on Account & Assets under Construction	Total
	£	£	£	£	£
Cost					
At 01.01.87	976,759	2,809,526	239,376	109,558	4,135,219
Additions	733,285	637,461	157,029	-	1,527,775
Disposals	-	(217,526)	(44,975)	-	(262,501)
Transfers	109,558	-	-	(109,558)	-
	-----	-----	-----	-----	-----
At 31.12.87	1,819,602	3,229,461	351,430	-	5,400,493
	-----	-----	-----	-----	-----
Accumulated Depreciation					
At 01.01.87	(107,133)	(983,680)	(71,045)	(183)	(1,162,041)
Depreciation for the year	(27,016)	(487,313)	(73,784)	-	(588,113)
Disposals	-	77,434	10,800	-	88,234
Transfers	(183)	-	-	183	-
	-----	-----	-----	-----	-----
AT 31.12.87	(134,332)	(1,393,559)	(134,029)	-	(1,661,920)
	-----	-----	-----	-----	-----
Net Book Amount					
At 01.01.87	869,626	1,825,846	168,331	109,375	2,973,178
	-----	-----	-----	-----	-----
At 31.12.87	1,685,270	1,835,902	217,401	-	3,738,573
	-----	-----	-----	-----	-----

Capital Commitments

At 31st December 1987 the Company had authorised capital expenditure amounting to £78,000 (1986 - £130,000) all of which (1986 - All) had been committed with suppliers.

FR Aviation Limited

Notes to the Financial Statements continued

8 Investment in Subsidiary Companies

The investment in subsidiary companies related 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 principal business of Flight Refuelling (Services) Limited is the management of, and the provision of services to airfields. Both FR Flight Aviation Limited and FR Flight Operations Limited were dormant throughout 1987.

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.

9 Stock

	1987 £	1986 £
Work in progress	125,082	582,322
Raw materials and consumables	521,051	347,659
	-----	-----
	646,133	929,981
	-----	-----

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

10 Debtors

	1987 £	1986 £
Amounts falling due within one year		
Trade debtors	3,270,164	2,442,468
Other debtors	132,532	10,758
Prepayments and accrued income	50,107	32,636
Taxation recoverable	13,472	14,211
Owing by group companies	522,290	30,316
Dividends receivable from group companies	55,000	-
	-----	-----
	4,043,565	2,530,389
	-----	-----

FR Aviation Limited

Notes to the Financial Statements continued

11 Creditors

	1987 £	1986 £
Amounts falling due within one year		
Trade creditors	2,959,050	1,683,109
Payroll and other taxes, inc. social security	1,466,019	1,270,668
Other creditors	69,605	43,297
Accruals and deferred income	78,579	117,131
Unpaid dividends - intergroup	260,000	145,000
Taxation payable - UK corporation tax	1,143,479	501,990
Owing to holding company	12,802	87,289
Owing to group companies	1,068,759	1,260,177
	<u>7,058,293</u>	<u>5,108,661</u>

12 Creditors

Amount falling due after more than one year

Intercompany loan	1,007,087	1,007,087
Aircraft maintenance reserves	519,350	-
	<u>1,526,437</u>	<u>1,007,087</u>

The intercompany loan arose from a transfer of assets on 1 January 1985, there is no intention for the loan to be repaid and it does not attract interest.

13 Provision for Liabilities and Charges

	Deferred Taxation £
At 01.01.87	497,581
Utilised in year	(48,006)
At 31.12.87	<u>449,575</u>

The amount provided for represents full provision for accelerated capital allowances.

14 Called Up Share Capital

	1987 £	1986 £
Authorised, Allotted and Fully Paid 1000 ordinary shares of £1	<u>1,000</u>	<u>1,000</u>

FR Aviation Limited

Notes to the Financial Statements continued

15 Profit and Loss Account

	£
At 01.01.87	824,727
Profit retained for the year	979,117

At 31.12.87	1,803,844

16 Operating Leases

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

	£
1988	7,333,414
1989	7,333,414
1990	7,333,414
1991	7,333,414
1992	10,253,639
1993	5,079,048
1994	5,079,048
1995	3,562,982
1996	3,413,569

17 Contingent Liabilities

As a result of group registration for VAT purposes, the Company is contingently liable for VAT liabilities arising from other companies in the group totalling £30,447 (1986 - Nil).

18 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 1987

	1987 £	1986 £
Source of Funds		
Profit on ordinary activities before taxation	2,095,730	981,218
Adjustments for items not involving the movement of funds:-		
Depreciation	588,113	475,983
Written down value of assets disposed of	174,267	62,296
	-----	-----
Total Generated from Operations	2,858,110	1,519,497
Funds from other Sources		
Taxation recovered	14,211	74,788
	-----	-----
	2,872,321	1,594,285
Application of Funds		
Purchase of tangible fixed assets	1,527,775	970,426
Taxation paid	136,602	-
Dividends paid	285,000	165,000
	-----	-----
	1,949,377	1,135,426
	-----	-----
	922,944	458,859
Change in Working Capital		
(Decrease)/Increase in stock	(283,848)	511,947
Increase/(Decrease) in debtors	966,941	(32,961)
(Increase) in creditors	(1,978,398)	(1,051,117)
Increase/(Decrease) in amount owing by group companies	546,974	(166,712)
Decrease in amount owing to holding company	74,487	482,091
Decrease/(Increase) in amount owing to group companies	191,418	(750,755)
	-----	-----
	(482,426)	(1,007,507)
	-----	-----
Increase in Net Liquid Funds	1,405,370	1,466,366
	-----	-----
Representing:		
Increase in cash at bank and in hand	1,405,370	961,325
Decrease in bank overdraft	-	505,041
	-----	-----
	1,405,370	1,466,366
	-----	-----

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 1987 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 Accountant

Capital House
1 Houndwell Place
Southampton SO1 1HU

3 May 1988