

FLIGHTSPARES LIMITED  
(Registered Number 718149)

DIRECTORS' REPORT AND ACCOUNTS FOR  
THE YEAR ENDED 31 DECEMBER, 1997



FLIGHTSPARES LIMITED

REPORT OF THE DIRECTORS

The directors have pleasure in submitting their report together with the audited accounts for the year to 31 December, 1997.

ACTIVITIES

The principal activity of the company continues to be stockist of aircraft spares and equipment.

REVIEW OF THE BUSINESS

Subsequent to the year end, the company sold its HS748 inventory and business to a third party. The loss arising from this disposal, estimated at £1 million, has been included in the results for the year. Apart from this loss, the company had a satisfactory year.

RESULTS

	£
Loss on ordinary activities for the year before taxation	(897,698)
Taxation	405,618
Accumulated loss in year	(492,080)
Retained profit brought forward	6,986,197
Retained profit carried forward	6,494,117

DIRECTORS

The directors who served during the year were:-

Mr P J K Haslehurst	(Chairman)
Mr D B Martin	(Managing Director)
Mr J J Hobbs	
Mr R A Powell	(Retired 30 June 1997)
Mr B Cornett	(Resigned 31 January 1997)
Mr W J McKnight	
Mr A A Harding	
Mr M Liddle	(Appointed 24 March 1997)
Mr C Vandersluis	(Appointed 1 January 1997)

Subsequent to the year end the following directors were appointed on 1 June 1998.

Mr S P Dingle  
Mr D Coxon

FLIGHTSPARES LIMITED

REPORT OF THE DIRECTORS  
(contd.)

DIRECTORS' INTERESTS

Directors' interests in the share capital of the ultimate holding company, EIS Group PLC, as recorded in the register of directors' interests were:-

	<u>Interest in 25p ordinary shares</u>		<u>Options to acquire 25p ordinary shares</u>	
	<u>1997</u>	<u>1996</u>	<u>1997</u>	<u>1996</u>
Mr D B Martin	—	—	43,975	35,350
Mr W J McKnight	—	—	1,487	1,487
Mr A A Harding	—	—	—	—
Mr M Liddle	3,547	3,547	10,022	10,022
Mr C Vandersluis	—	—	—	—
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The interests of Mr P J K Haslehurst and Mr J J Hobbs in the share capital of the ultimate holding company are shown in the directors' report of that company. The directors' interests were beneficially owned.

With the exception of the interests disclosed above, no director had any interest in the shares or debentures of any group company at either 31st December 1997 or 31st December 1996.

PAYMENT POLICY

It is company's payment policy to negotiate terms with its suppliers in all sectors to ensure that they know the terms on which payment will take place when the business is agreed. It is our policy to abide by these terms.

POLITICAL AND CHARITABLE CONTRIBUTIONS

No charitable or political donations were made during the year.

By order of the board



M Liddle  
Secretary

30 September 1998

FLIGHTSPARES LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- (i) select suitable accounting policies and then apply them consistently;
- (ii) make judgements and estimates that are reasonable and prudent;
- (iii) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- (iv) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention of fraud and other irregularities.

REPORT OF THE AUDITORS TO THE MEMBERS OF FLIGHTSPARES LIMITED

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described above, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF 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 as at 31 December 1997 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*KPMG Audit Plc*

KPMG Audit Plc

Chartered Accountants  
Registered Auditor

*17 October 1998*

Ipswich

FLIGHTSPARES LIMITED

PROFIT AND LOSS ACCOUNT FOR  
THE YEAR ENDED 31 DECEMBER 1997

	<u>Notes</u>	<u>1997</u> £	<u>1996</u> £
TURNOVER	2	17,868,508	18,423,789
Cost of sales - Ongoing		(13,278,022)	(12,496,705)
- Exceptional	6	(1,000,000)	-
<b>GROSS PROFIT</b>		<b>3,590,486</b>	<b>5,927,084</b>
Distribution & Selling costs		(3,128,844)	(2,981,872)
Administration costs		(1,032,955)	(1,236,318)
Other operating income		1,200	-
<b>OPERATING (LOSS)/PROFIT</b>	<b>3</b>	<b>(570,113)</b>	<b>1,708,894</b>
Interest net	7	(327,585)	(387,604)
<b>(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<b>(897,698)</b>	<b>1,321,290</b>
Taxation on (loss)/profit on ordinary activities	8	405,618	(465,253)
<b>(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>		<b>(492,080)</b>	<b>856,037</b>
<b>ACCUMULATED (LOSS)/RETAINED PROFIT FOR THE YEAR</b>	<b>16</b>	<b>(492,080)</b>	<b>856,037</b>

The notes on pages 7 to 15 form part of these accounts.

FLIGHTSPARES LIMITED

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

There are no recognised gains and losses other than the profit or loss for the period.

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS FUNDS

	<u>1997</u>	<u>1996</u>
	£	£
(Loss)/Profit for the financial year	(492,080)	856,037
Dividends	—	—
	<hr/>	<hr/>
Opening shareholders' funds	(492,080) 7,078,177	856,037 6,222,140
	<hr/>	<hr/>
Closing shareholders' funds	6,586,097	7,078,177
	<hr/>	<hr/>

FLIGHTSPARES LIMITED

BALANCE SHEET AT 31 DECEMBER 1997

	<u>Note</u>	<u>1997</u> £	<u>1996</u> £
<b>FIXED ASSETS</b>			
Tangible assets	9	3,080,889	3,289,367
<b>CURRENT ASSETS</b>			
Stocks - Finished goods		21,908,025	23,447,638
Debtors	11	6,478,440	5,100,729
Cash at bank and in hand		—	10,015
		<u>28,386,465</u>	<u>28,558,382</u>
CREDITORS: amounts falling due within one year	12	(5,558,657)	(4,659,110)
<b>NET CURRENT ASSETS</b>		<u>22,827,808</u>	<u>23,899,272</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		25,908,697	27,188,639
CREDITORS: amounts falling due after one year	13	(17,713,423)	(18,590,963)
PROVISIONS FOR LIABILITIES AND CHARGES	14	(1,609,177)	(1,519,499)
		<u>6,586,097</u>	<u>7,078,177</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	15	50,000	50,000
Share premium account	16	41,980	41,980
Profit and loss account	16	6,494,117	6,986,197
<b>EQUITY SHAREHOLDERS' FUNDS</b>		<u>6,586,097</u>	<u>7,078,177</u>

The accounts were approved by the board of directors on 30 September 1998

A.A.H.L.  
A Harding  
Director

The notes on pages 7 to 15 form part of these accounts.

FLIGHTSPARES LIMITED

NOTES TO THE ACCOUNTS

1. PRINCIPAL ACCOUNTING POLICIES

The following accounting policies which are in accordance with applicable accounting standards have been applied consistently in dealing with items which are considered material in relation to the company's accounts.

The Company is exempt by virtue of S228 of the Companies Act 1985 from the requirement to prepare group accounts, because its results are included within the consolidated accounts of the EIS Group P.L.C. The financial statements present information about the undertaking as an individual company and not about its group.

a) Basis of accounting

The accounts have been prepared under the historical cost convention.

b) Depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost of each asset evenly over its expected useful life as follows:

Fixtures, fittings & equipment	10% to 20%
Freehold buildings	2%
Freehold land	Nil

c) Stocks

Stocks are stated at the lower of cost and net realisable value.

d) Research and development

Research and development expenditure is written off against profit in the year in which the expenditure arises.

e) Deferred taxation

Deferred taxation is provided at the future rate of taxation using the liability method in respect of the taxation effect of all timing differences to the extent that it is probable that liabilities will crystallise in the foreseeable future.

f) Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Balances denominated in a foreign currency are translated into sterling at the exchange rates ruling on the balance sheet date or where there are matching forward contracts in respect of trading transactions, the rates of exchange specified in the contracts are used. All realised differences are taken to the profit and loss account.



FLIGHTSPARES LIMITED

NOTES TO THE ACCOUNTS

(contd.)

g) Pensions

The company operates a defined contribution pension scheme for certain employees, and also contributes to selected employee's personal pension schemes.

The Company also contributes to the EIS Group pension scheme which provides benefits based on final pensionable pay. The assets of the Scheme are held separately from those of the group, being invested with insurance companies. Contributions to the Scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the group. During the year the majority of employees transferred to the EIS Group pension scheme.

h) Cash flow statement

The company has not produced a Cash Flow Statement as it is a wholly owned subsidiary of EIS Group P.L.C., whose accounts include a consolidated Cash Flow Statement.

i) Leases

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease'. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is the shorter. Future instalments under such leases, net of finance charges, are included with creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as 'operating leases' and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease.

2. TURNOVER

Turnover represents invoiced sales during the year exclusive of value added tax.

All of the company's turnover and profit on ordinary activities before taxation relate to the company's principal activity.

FLIGHTSPARES LIMITED

NOTES TO THE ACCOUNTS  
(contd.)

2. TURNOVER (Contd.)

The geographic analysis of turnover is as follows:

	<u>1997</u>	<u>1996</u>
	£	£
United Kingdom	9,244,770	9,006,243
Asia, Far East and Australia	2,567,194	2,045,947
North, South & Central America	2,352,249	3,123,887
Europe	2,265,954	2,229,674
Africa	1,312,436	1,909,920
Middle East	125,905	108,118
	<hr/>	<hr/>
	17,868,508	18,423,789
	<hr/>	<hr/>

3. OPERATING (LOSS)/PROFIT

Operating (loss)/profit is stated after charging the following items:

	<u>1997</u>	<u>1996</u>
	£	£
Auditors' remuneration - Audit	25,402	18,250
Depreciation	292,362	279,336
Operating lease charges - buildings	57,062	-
	<hr/>	<hr/>

In 1996 the directors reviewed the method of provisioning for stock, in particular the expected lives of the aircraft supported. As a result of this review stock provisions were reduced by £2,200,000.

4. DIRECTORS' EMOLUMENTS

	<u>1997</u>	<u>1996</u>
	£	£
Emoluments for services as directors	179,000	228,928
Company contributions to defined benefit schemes	13,643	26,166
	<hr/>	<hr/>
	192,643	255,094
	<hr/>	<hr/>

	<u>1997</u>	<u>1996</u>
	No.	No.
Members of defined benefit schemes	3	3
	<hr/>	<hr/>

5. STAFF COSTS

The average weekly number of employees, including directors, during the year was as follows:

	<u>1997</u>	<u>1996</u>
	No.	No.
Sales, administration and distribution	99	95
	<hr/>	<hr/>

FLIGHTSPARES LIMITED

NOTES TO THE ACCOUNTS  
(contd.)

5. STAFF COSTS (contd.)

The aggregate payroll costs of these persons were as follows:

	<u>1997</u>	<u>1996</u>
	£	£
Wages and salaries	1,742,525	1,790,856
Social security costs	130,832	142,295
Other pension costs	71,910	56,996
	<u>1,945,267</u>	<u>1,990,147</u>

6. EXCEPTIONAL ITEM

Subsequent to the year end, the company sold its entire holding of HS748 aircraft inventory and related business to a third party. The loss on the disposal is estimated at £1m and full provision has been made in the accounts.

7. INTEREST

	<u>1997</u>	<u>1996</u>
	£	£
Interest Receivable	44,885	57,773
Interest Payable:		
Bank loans and overdrafts	(334,364)	(394,686)
Capitalised leases	(38,106)	(50,691)
Interest net	<u>(327,585)</u>	<u>(387,604)</u>

8. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	<u>1997</u>	<u>1996</u>
	£	£
Based on the profit for the year:		
Corporation tax at 31.5% (1996:33%)	153,500	(700,000)
Deferred taxation (credit)/charge	(396,552)	1,179,012
	<u>(243,052)</u>	479,012
Taxation relating to prior years:		
Corporation tax	(648,796)	(13,759)
Deferred taxation	486,230	—
	<u>(405,618)</u>	<u>465,253</u>

FLIGHTSPARES LIMITED

NOTES TO THE ACCOUNTS  
(contd.)

9. TANGIBLE FIXED ASSETS

	<u>Freehold Land and buildings</u>	<u>Fixtures fittings &amp; equipment</u>	<u>Total</u>
	£	£	£
COST			
At 1 January, 1997	2,933,293	1,824,222	4,757,515
Additions	—	91,506	91,506
Disposals	—	(693,201)	(693,201)
	<hr/>	<hr/>	<hr/>
At 31 December, 1997	2,933,293	1,222,527	4,155,820
	<hr/>	<hr/>	<hr/>
DEPRECIATION			
At 1 January, 1997	309,200	1,158,948	1,468,148
Charge for the year	49,158	243,204	292,362
Disposals	—	(685,579)	(685,579)
	<hr/>	<hr/>	<hr/>
At 31 December, 1997	358,358	716,573	1,074,931
	<hr/>	<hr/>	<hr/>
NET BOOK VALUE			
At 31 December, 1997	2,574,935	505,954	3,080,889
	<hr/>	<hr/>	<hr/>
At 31 December, 1996	2,624,093	665,274	3,289,367
	<hr/>	<hr/>	<hr/>

The net book value of fixtures, fittings and equipment includes £386,368 (1996: £439,850) in respect of assets held under hire purchase contracts. Depreciation charged during the year in respect of these assets amounted to £53,483 (1996: £53,482).

Included in the cost of land and buildings is an amount of £221,000 (1996: £221,000) of interest capitalised together with associated amortisation of £25,047 (1996: £20,627), this represents the interest cost associated with the building of the premises at Aviation Way, Southend Airport.

Included within freehold land and buildings is an amount of £412,000 (1996: £412,000) in respect of freehold land which is not depreciated.

FLIGHTSPARES LIMITED

NOTES TO THE ACCOUNTS  
(contd.)

10. INVESTMENTS

	£
Wholly-owned subsidiary undertakings:	
Cost:	
Flightspares International Inc., California, 20,000 shares of \$1 each	11,834
Flightspares International Inc., Florida, 500 shares of \$1 each	360
	<hr/>
At 31 December 1996 and 1997	12,194
	<hr/>
	£
Provisions:	
At 31 December 1996 and 1997	12,194
	<hr/>
Net book value:	
At 31 December 1996 and 1997	NIL
	<hr/>

The principal activity of Flightspares International Inc., Florida is that of stockists of aircraft spares and equipment. Flightspares International Inc., California is a dormant company. Both subsidiaries are incorporated in the United States of America.

The company has given a \$225,000 (1996: \$225,000) guarantee in favour of its principal subsidiary.

11. DEBTORS

	<u>1997</u>	<u>1996</u>
	£	£
Amounts falling due within one year:		
Trade debtors	3,397,154	3,100,115
Amounts owed by group undertakings	2,725,668	38,869
VAT recoverable	49,553	80,965
Corporation tax recoverable	-	700,000
Prepayments and accrued income	306,065	322,273
	<hr/>	<hr/>
	6,478,440	4,242,222
Amounts falling after more than one year:		
Amounts owed by group undertakings	-	858,507
	<hr/>	<hr/>
	6,478,440	5,100,729
	<hr/>	<hr/>

FLIGHTSPARES LIMITED

NOTES TO THE ACCOUNTS  
(contd.)

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	<u>1997</u>	<u>1996</u>
	£	£
Bank loans and overdrafts	2,038,233	1,954,091
Hire purchase loans	137,816	126,816
Trade creditors	2,318,683	1,943,503
Corporation tax	153,500	—
Amounts owed to group undertakings	93,154	77,686
Dividends payable	—	—
Accruals and deferred income	817,271	557,411
	<u>5,558,657</u>	<u>4,659,110</u>

13. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	<u>1997</u>	<u>1996</u>
	£	£
Bank loans between 1 and 2 years	165,000	2,119,091
between 2 and 5 years	495,000	330,000
after 5 years	—	165,000
Hire purchase loans:		
repayable between 1 and 2 years	229,088	287,006
repayable between 2 and 5 years	—	79,909
Amounts owed to group undertakings	16,824,335	15,609,957
	<u>17,713,423</u>	<u>18,590,963</u>

Included in bank loans is a bank loan repayable by 2007 in quarterly instalments with interest at 9.6% and a bank loan repayable by 1998 in equal instalments with interest at 9.2%. They are secured by a fixed and floating charge over the freehold property and other assets.

14. PROVISION FOR LIABILITIES AND CHARGES

	<u>Amount Provided</u>	
	<u>1997</u>	<u>1996</u>
	£	£
Deferred taxation:		
Accelerated capital allowances	69,580	93,232
Other timing differences	1,539,597	1,426,267
	<u>1,609,177</u>	<u>1,519,499</u>

The amount provided represents the full potential liability for deferred tax.

FLIGHTSPARES LIMITED

NOTES TO THE ACCOUNTS  
(contd.)

14. PROVISION FOR LIABILITIES AND CHARGES (Contd.)

	£
<u>Movement in year</u>	
Balance at 1 January 1997	1,519,499
Amount charged to profit and loss account for the year	89,678
	1,609,177
Balance at 31 December 1997	1,609,177

15. SHARE CAPITAL

	<u>1997 and 1996</u>			
	<u>Authorised</u>		<u>Allotted, called up and fully paid</u>	
	No.	£	No.	£
Ordinary shares of 10p each	500,000	50,000	500,000	50,000

16. RESERVES

	<u>Share premium</u>	<u>Profit and loss account</u>	<u>Total</u>
	£	£	£
At 1 January 1997	41,980	6,986,197	7,028,177
Accumulated loss for year	—	(492,080)	(492,080)
	41,980	6,494,117	6,536,097
At 31 December 1997	41,980	6,494,117	6,536,097

17. PENSIONS

The company operates a defined contribution pension scheme for certain employees. The pension cost charge for the period represents contributions payable by the company to the funds, the company also contributes to selected employee's personal pension schemes.

The Company also contributes to the EIS Group pension scheme providing benefits on final pensionable pay. The assets of the scheme are held separately from those of the company being invested with an insurance company. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent valuation was at 6th April 1997 and showed that the market value of the scheme's assets were £66.7m and that the actuarial value of those assets represented 120% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The valuation assumed that the investment return would be 2.5% higher than the rate of annual salary increase and that present and future pensions would increase at a rate of 3% per annum.

FLIGHTSPARES LIMITED

NOTES TO THE ACCOUNTS  
(contd.)

17. PENSIONS (Contd.)

The pension charge for the period was £71,910 (1996: £56,996) and has been determined over the average remaining service lives of the employees. There may be some increase in pension costs in future years as a consequence of the recent Pensions Act.

18. RELATED PARTY DISCLOSURE

The company is a wholly owned subsidiary of EIS Group P.L.C. In accordance with paragraph 3(c) of FRS 8, "Related Party Transactions", the company is exempt from disclosing details of arrangements with other companies in the EIS Group.

19. ULTIMATE HOLDING COMPANY

At 31 December 1997 the ultimate holding company was EIS Group P.L.C., a company incorporated in England. On 19 May 1998, EIS Group P.L.C. was acquired by TI Group plc, a company incorporated in England. Copies of the group accounts of both EIS Group P.L.C. and TI Group plc are available from:

The Registrar of Companies  
Companies House  
Crown Way  
Cardiff  
CF4 3HZ

20. POST BALANCE SHEET EVENTS

Subsequent to the year end the directors have undertaken a review of the types of aircraft that the company will continue to support for the foreseeable future. The review encompassed a revision of the provisioning in respect of the inventory of these aircraft types.