

HAWKER SIDDELEY INDUSTRIES LIMITED
REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 1996
REGISTERED NO: 29533



HAWKER SIDDELEY INDUSTRIES LIMITED
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HAWKER SIDDELEY INDUSTRIES LIMITED
DIRECTORS' REPORT

The Directors present their report and accounts for the year ended 31 December 1996.

RESULTS AND DIVIDENDS

The profit for the financial year amounted to £9,340,000 (1995 - £9,336,000). The Directors recommend a dividend amounting to £5,117,000 (1995 - £Nil), which leaves a profit of £4,223,000 (1995 - £9,336,000) to be retained.

REVIEW OF THE BUSINESS

The Company operates in the Specialist Engineering sector. On 31 July 1996 the Company disposed of its Brush Electric Machines, Brush Electric Engineering, Brush Transformers, Hawker Siddeley Power Transformers and South Wales Transformers businesses to other BTR group companies.

Company development has been satisfactory and is expected to continue to be so.

RESEARCH AND DEVELOPMENT

The Company carries out research and development in support of its activities (refer to note 3 to the accounts).

DIRECTORS AND THEIR INTERESTS

The Directors who served during the year were as follows:

R C Brown
 C R Burns
 P H M Buysse
 D A Cruickshank
 J D Thom (Appointed 31 July 1996)

No Director had any interest in the shares of the Company. C R Burns and P H M Buysse are also Directors of BTR plc, the ultimate parent undertaking, and their interests in the shares of that company are disclosed in its accounts. The interests of the other Directors in the shares of BTR plc were:

	31 December 1996				1 January 1996 *			
	Listed	Warrants	Share Option Schemes Senior Executive	SAYE	Listed	Warrants	Share Option Schemes Senior Executive	SAYE
R C Brown	1,000	-	138,832	6,946	1,000	-	104,998	6,946
D A Cruickshank	9,097	211	154,999	12,394	5,527	211	129,999	11,795
J D Thom	355	390	75,500	10,101	355	390	75,500	8,304

* Or at date of appointment, whichever is later.

Share options related to the shares of BTR plc granted to, and exercised by, the other Directors of Hawker Siddeley Industries Limited during 1996, were as follows:

	Granted	Exercised	Lapsed
As part of the Senior Executive scheme:			
R C Brown	50,000	16,166	-
D A Cruickshank	25,000	-	-
As part of the SAYE scheme:			
D A Cruickshank	6,041	3,570	1,872
J D Thom	1,797	-	-

No Director was interested during or at the end of the year in any contract which was significant in relation to the Company's business.

HAWKER SIDDELEY INDUSTRIES LIMITED
DIRECTORS' REPORT (Continued)

GENERAL INFORMATION

Information concerning employees and their remuneration is given in note 5. Consultative procedures enable management and other employees to discuss matters of mutual interest, including health and safety. Through these procedures, departmental channels and the BTR group newspaper "BTR Business", employees are kept informed about Company and BTR group affairs.

It is the Company's policy to encourage the employment, training and career development of disabled persons. If employees become disabled every effort is made for them to continue in employment or receive appropriate training. In order to safeguard its employees, the Company pursues a policy designed to provide secure working environments and training standards at all operating locations.

AUDITORS

In accordance with s386 of the Companies Act 1985 a resolution to dispense with the obligation to appoint auditors annually was passed on 17 December 1990. Accordingly Ernst & Young shall be deemed to be re-appointed as auditors 28 days after the accounts are sent to the members.

By order of the Board.



Per pro BTR Secretaries Limited, Secretary

BTR House
Carlisle Place
London
SW1P 1BX

23 OCTOBER 1991

**HAWKER SIDDELEY INDUSTRIES LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES
IN RESPECT OF THE ACCOUNTS**

Company law requires the Directors to prepare accounts 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 of the Company for that period. In preparing those accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates which are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- prepare the accounts 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 enable them to ensure that the accounts comply with the Companies Act. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**REPORT OF THE AUDITORS
TO THE MEMBERS OF HAWKER SIDDELEY INDUSTRIES LIMITED**

We have audited the accounts on pages 6 to 16 which have been prepared under the historical cost convention and on the basis of the accounting policies set out on page 9.

Respective responsibilities of Directors and auditors

As described on page 4, the Company's Directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts 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 accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company at 31 December 1996 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young

Ernst & Young
Chartered Accountants
Registered Auditor

London

24 October 1997

HAWKER SIDDELEY INDUSTRIES LIMITED
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1996

	Notes	<u>1996</u> £'000	<u>1996</u> £'000	<u>1995</u> £'000	<u>1995</u> £'000
TURNOVER	2				
Continuing operations		13,917		12,853	
Discontinued operations		76,626		130,471	
		<hr/>		<hr/>	
Other operating costs less other operating income	3		90,543 (81,553)		143,324 (130,254)
			<hr/>	<hr/>	
OPERATING PROFIT					
Continuing operations		2,910		2,000	
Discontinued operations		6,080		11,070	
		<hr/>		<hr/>	
			8,990		13,070
(Loss)/Profit on disposal of fixed assets			(1)		28
Profit on disposal of discontinued operations			391		-
			<hr/>	<hr/>	
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST			9,380		13,098
Interest receivable and similar income	6		20		24
Interest payable and similar charges	7		(45)		-
			<hr/>	<hr/>	
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2		9,355		13,122
Taxation	8		(15)		(3,786)
			<hr/>	<hr/>	
PROFIT FOR THE FINANCIAL YEAR			9,340		9,336
Dividends	9		(5,117)		-
			<hr/>	<hr/>	
RETAINED PROFIT FOR THE FINANCIAL YEAR	18		4,223		9,336
			<hr/>	<hr/>	

The notes on pages 9 to 16 form part of these accounts.

RECOGNISED GAINS AND LOSSES

There are no recognised gains or losses other than the profit for the financial year of £9,340,000 in the year ended 31 December 1996 and a profit of £9,336,000 in the year ended 31 December 1995.

HAWKER SIDDELEY INDUSTRIES LIMITED
BALANCE SHEET AS AT 31 DECEMBER 1996

	Notes	<u>1996</u> £'000	<u>1995</u> £'000
FIXED ASSETS			
Tangible assets	10	1,907	25,284
Investments	11	-	-
		<hr/>	<hr/>
		1,907	25,284
CURRENT ASSETS			
Inventories	12	1,029	27,057
Debtors - amounts falling due within one year	13	155,993	187,014
Debtors - amounts falling due after more than one year	13	-	271
Cash at bank and in hand		740	15,272
		<hr/>	<hr/>
		157,762	229,614
CREDITORS: Amounts falling due within one year	14	(139,425)	(225,261)
		<hr/>	<hr/>
NET CURRENT ASSETS		18,337	4,353
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		20,244	29,637
CREDITORS: Amounts falling due after more than one year	15	-	(13,616)
		<hr/>	<hr/>
		20,244	16,021
		<hr/>	<hr/>
CAPITAL AND RESERVES			
Called up share capital	17	5,000	5,000
Share premium account	18	279	279
Capital reserve	18	1,364	1,364
Profit and loss account	18	13,601	9,378
		<hr/>	<hr/>
		20,244	16,021
		<hr/>	<hr/>

Approved by the Board on 23 October 1997

JD Thom
 Director

The notes on pages 9 to 16 form part of these accounts.

**HAWKER SIDDELEY INDUSTRIES LIMITED
 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS
 FOR THE YEAR ENDED 31 DECEMBER 1996**

	Notes	<u>1996</u> £'000	<u>1995</u> £'000
PROFIT FOR THE FINANCIAL YEAR		9,340	9,336
Dividends	9	(5,117)	-
		<hr/>	<hr/>
NET ADDITION TO SHAREHOLDERS' FUNDS		4,223	9,336
Opening shareholders' funds		16,021	6,685
		<hr/>	<hr/>
Closing shareholders' funds		20,244	16,021
		<hr/>	<hr/>

HAWKER SIDDELEY INDUSTRIES LIMITED
NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

Basis of presentation

The accounts have been prepared using the historical cost convention and comply with all applicable UK accounting standards. Where changes in presentation have been made, comparatives are adjusted accordingly.

Foreign currencies

Monetary assets and liabilities denominated in foreign currency are translated at the rates ruling at the year end. Exchange differences arising from the retranslation of foreign currency denominated assets and liabilities together with other differences arising in the year are included in the profit and loss account.

Research and Development

Research and development expenditure is generally expensed as incurred, except where a major project is undertaken and it is reasonably anticipated that certain expenditure will be recovered through future commercial development.

Pension costs

The expected costs of pensions are charged to the profit and loss account so as to spread the costs over the service lives of the participating employees. The costs are assessed in accordance with the advice of actuaries, and provision is made in the accounts along with the associated deferred taxation effect.

Depreciation of tangible assets

Tangible assets, with the exception of land, are depreciated over their estimated useful lives at the following rates applied to original cost:

Freehold and Long Leasehold Buildings	2%
Short Leasehold Buildings	Remaining lease period
Plant and Machinery	7.5% - 35%

Investments

The investments in unlisted companies are included at cost less amounts written off and provisions for permanent diminution in value.

Inventories

Inventories are valued at the lower of cost or net realisable value. Cost comprises the actual cost of raw materials and an appropriate proportion of labour and overheads in the case of work in progress and finished goods. Provision is made for obsolete and slow moving items.

Taxation

Provision for deferred taxation is made for liabilities which may arise in the foreseeable future.

HAWKER SIDDELEY INDUSTRIES LIMITED
NOTES TO THE ACCOUNTS (Continued)

2. TURNOVER AND PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Turnover which is stated net of value added tax, represents amounts invoiced to third parties and arises from goods produced in the United Kingdom.

An analysis of turnover by geographical market is as follows:

	<u>Turnover</u>	
	<u>1996</u> £'000	<u>1995</u> £'000
United Kingdom	35,897	56,067
Europe	6,744	15,952
The Americas	25,103	39,675
Australia and Far East	12,581	17,020
Africa and Middle East	10,218	14,610
	90,543	143,324

An analysis of turnover and profit on ordinary activities before taxation by business segment is as follows:

	<u>Turnover</u>		<u>Profit before Tax</u>	
	<u>1996</u> £'000	<u>1995</u> £'000	<u>1996</u> £'000	<u>1995</u> £'000
Specialist Engineering	13,917	12,853	2,909	2,000
Disposal Group	76,626	130,471	6,080	11,098
Finance Costs	-	-	(25)	24
Corporate Activities	-	-	391	-
	90,543	143,324	9,355	13,122

3. OPERATING COSTS LESS OTHER OPERATING INCOME

	<u>1996</u> £'000	<u>1995</u> £'000
Change in stocks of finished goods and works in progress	(2,725)	(3,776)
Raw materials and consumables	37,594	60,289
Other external charges	15,060	23,131
Staff costs (Note 5)	29,400	47,643
Depreciation	2,224	2,967
	81,553	130,254

Operating costs less other income are stated after charging:

	<u>1996</u> £'000	<u>1995</u> £'000
Auditors' remuneration - audit fees	79	77
Depreciation of owned fixed assets	2,224	2,967
Research and development expenditure written off	971	1,258
Operating lease rentals	359	1,082
- plant and machinery		
- land and buildings	2,269	3,643

Remuneration of the auditors for non-audit services supplied to the Company amounted to £2,000 (1995 - £2,000).

HAWKER SIDDELEY INDUSTRIES LIMITED
NOTES TO THE ACCOUNTS (Continued)

4. DIRECTORS' REMUNERATION

None of the Directors received any emoluments from the Company during the year (1995 - Nil).

5. EMPLOYEES	<u>1996</u> £'000	<u>1995</u> £'000
Wages and salaries	27,132	43,645
Social security costs	2,528	4,121
Other pension costs	(260)	(123)
	<hr/> 29,400	<hr/> 47,643

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

	<u>1996</u> No	<u>1995</u> No
Administration	210	365
Production	1,320	2,017
Marketing	115	178
Research and development	25	28
	<hr/> 1,670	<hr/> 2,588

6. INTEREST RECEIVABLE AND SIMILAR INCOME

	<u>1996</u> £'000	<u>1995</u> £'000
Other interest receivable	20	2
Foreign currency gain	-	22
	<hr/> 20	<hr/> 24

7. INTEREST PAYABLE AND SIMILAR CHARGES

	<u>1996</u> £'000	<u>1995</u> £'000
Foreign exchange loss	45	-
	<hr/> 45	<hr/> -

HAWKER SIDDELEY INDUSTRIES LIMITED
NOTES TO THE ACCOUNTS (Continued)

8. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	<u>1996</u> £'000	<u>1995</u> £'000
Corporation tax at 33% (1995 - 33%)	-	3,784
	-	3,784
Adjustments in respect of prior years	15	2
	15	3,786

If full provision had been made for deferred tax for the year, the taxation charge would have been increased by £63,000 (1995 - £597,000).

9. DIVIDENDS

	<u>1996</u> £'000	<u>1995</u> £'000
Ordinary - Final proposed of £1.02 per share (1995 - £Nil)	5,117	-

10. TANGIBLE ASSETS

	<u>Land & Buildings</u> £'000	<u>Plant & Machinery</u> £'000	<u>Total</u> £'000
Cost			
At 1 January 1996	1,426	57,652	59,078
Additions	393	2,787	3,180
Disposals	(1,819)	(54,771)	(56,590)
	-	5,668	5,668
Depreciation			
At 1 January 1996	(121)	(33,673)	(33,794)
Charge for the year	(18)	(2,206)	(2,224)
Disposals	139	32,118	32,257
	-	(3,761)	(3,761)
Net book value			
At 1 January 1996	1,305	23,979	25,284
	-	1,907	1,907

HAWKER SIDDELEY INDUSTRIES LIMITED
NOTES TO THE ACCOUNTS (Continued)

10. TANGIBLE ASSETS (Continued)

The net book value of land and buildings comprises:

	<u>1996</u> £'000	<u>1995</u> £'000
Long leasehold improvements	-	1,239
Short leasehold improvements	-	66
	<hr/>	<hr/>
	-	1,305
	<hr/>	<hr/>

11. INVESTMENTS

	<u>Shares in unlisted companies</u> £'000
Cost	
At 1 January 1996 and at 31 December 1996	452
Provision	
At 1 January 1996 and at 31 December 1996	(452)
Net book value	
At 1 January 1996 and at 31 December 1996	-
	<hr/>

12. INVENTORIES

	<u>1996</u> £'000	<u>1995</u> £'000
Raw materials and consumables	388	7,328
Work in progress	537	21,586
Finished goods	104	273
	<hr/>	<hr/>
	1,029	29,187
Less: Progress payments	-	(2,130)
	<hr/>	<hr/>
	1,029	27,057
	<hr/>	<hr/>

The difference between the estimated replacement cost of inventories and the purchase price or production cost is not material.

HAWKER SIDDELEY INDUSTRIES LIMITED
NOTES TO THE ACCOUNTS (Continued)

13. DEBTORS		<u>1996</u>	<u>1995</u>
Amounts falling due within one year		£'000	£'000
Trade debtors		1,034	38,077
Amounts due from parent and fellow subsidiary undertakings		154,888	144,112
Other debtors		3	3,857
Prepayments		68	968
		<hr/>	<hr/>
		155,993	187,014
		<hr/>	<hr/>
		<u>1996</u>	<u>1995</u>
Amounts falling due after more than one year		£'000	£'000
Trade debtors		-	271
		<hr/>	<hr/>
14. CREDITORS: Amounts falling due within one year		<u>1996</u>	<u>1995</u>
		£'000	£'000
Bank loans		-	559
Trade creditors		1,158	20,869
Amounts due to parent and fellow subsidiary undertakings		131,434	192,705
Current corporation tax		156	1,490
Other taxes and social security		148	2,441
Other creditors		1,128	4,379
Accruals and deferred income		284	2,818
Proposed dividend		5,117	-
		<hr/>	<hr/>
		139,425	225,261
		<hr/>	<hr/>
15. CREDITORS: Amounts falling due after more than one year		<u>1996</u>	<u>1995</u>
		£'000	£'000
Amounts due to parent and fellow subsidiary undertakings		-	13,616
		<hr/>	<hr/>
16. DEFERRED TAXATION		<u>Provided</u>	<u>Not Provided</u>
		<u>1996</u>	<u>1995</u>
		£'000	£'000
Capital allowances		-	-
Other differences		-	-
		<hr/>	<hr/>
		-	-
		<hr/>	<hr/>
		3,156	3,093
		<hr/>	<hr/>

HAWKER SIDDELEY INDUSTRIES LIMITED
NOTES TO THE ACCOUNTS (Continued)

17. CALLED UP SHARE CAPITAL

**Authorised,
 Allotted, Called-up
 and Fully Paid**

1996 1995
£'000 £'000

5,000,000 ordinary shares of £1 each	5,000	5,000
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18. RESERVES

Share Premium Capital Reserve Profit and Loss
Account Account Account
£'000 £'000 £'000

At 1 January 1996	279	1,364	9,378
Retained profit for the financial year			4,223

At 31 December 1996	279	1,364	13,601
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19. CAPITAL COMMITMENTS

1996 1995
£'000 £'000

Contracted	-	595
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- 1,603

20. OPERATING LEASE COMMITMENTS

At 31 December 1996, the Company had commitments under operating leases to make payments in 1997 under agreements expiring as below:

**Land and
 Buildings Other**
£'000 £'000

within two to five years	-	19
over five years	465	-

465 19

HAWKER SIDDELEY INDUSTRIES LIMITED
NOTES TO THE ACCOUNTS (Continued)

21. CONTINGENT LIABILITIES

The Company has cross guarantee arrangements guaranteeing the bank overdrafts of certain other BTR companies.

In accordance with provisions contained in the Value Added Tax Act 1983, the Company has entered into a joint and several guarantee for Group Registrations.

The Company has contingent liabilities arising in the ordinary course of business from which it is anticipated that no material liabilities will arise.

22. PENSIONS

The UK employees of Hawker Siddeley Industries Limited are eligible for membership of the BTR plc Group Pension Scheme, a funded defined benefit scheme, and contributions are made in accordance with the recommendations of independent actuaries based on pension cost across the eligible group.

A valuation of the scheme was performed by the actuaries as at 6 April 1994. The actuarial surplus identified is being spread over the average remaining services lives of the current employees. Further details of the valuation are included in the accounts of BTR plc.

23. CASH FLOW STATEMENT

As the Company is a wholly owned subsidiary undertaking of BTR plc, a company registered in England and Wales, which prepares a consolidated cash flow statement, the Company has taken advantage of the exemption provided under the scope of FRS 1 (Revised 1996) not to prepare a cash flow statement.

24. RELATED PARTY TRANSACTIONS

As the Company is a wholly owned subsidiary undertaking of BTR plc, a company registered in England and Wales, which prepares published consolidated financial statements, the Company has pursuant to paragraph 17 of FRS 8 "Related Party Disclosures" not included details of transactions with other companies which are subsidiaries of the BTR Group. There are no other related party transactions.

Disclosure of the Directors' interests in the shares of the company and BTR plc is made in the Directors' Report

25. IMMEDIATE PARENT UNDERTAKING

The immediate parent undertaking of Hawker Siddeley Industries Limited is Hawker Siddeley Management Limited.

26. ULTIMATE PARENT UNDERTAKING

The ultimate parent undertaking of Hawker Siddeley Industries Limited is BTR plc, a company registered in England and Wales. Copies of the group accounts of BTR plc, the parent undertaking of the only group preparing group accounts which include Hawker Siddeley Industries Limited, can be obtained from the Company Secretarial Department, BTR plc, BTR House, Carlisle Place, London SW1P 1BX.