

Airwork Limited

Directors' report and financial statements

Registered number 322249

31 March 2004



Airwork Limited
Directors' report and financial statements

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Airwork Limited
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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 March 2004.

Principal activity

The company provides technical support, procurement services and technical training predominately in the field of military aircraft maintenance and repair.

Business review

The profit and loss account on page 5 of the financial statements shows a profit on ordinary activities after tax for the year of £1,271,000 (2003: £1,126,000).

Effective from 1 April 2003 the company's main contract with the Royal Air Force of Oman was novated across to its subsidiary company, Airwork Technical Services & Partners LLC ("ATS"). Airwork Limited continues to supply manpower to the contract under a subcontract arrangement with ATS.

During the year the subcontract to BAE Systems for the supply of manpower for the maintenance of the Kuwait Air Force Hawk & Tucano fleet expired and the customer did not take up the option of a further year's extension to the contract. There remains an outstanding debt of £2.6m due from the customer at the year end but, in the opinion of the directors, there is only a small risk that this will not be settled and hence no provision for bad debt in respect of this debt has been made.

The company sold two of its surplus freehold properties during the year realising a profit after disposal costs of £800,000.

Directors and directors' interests

The directors of the company during the year were as follows:

CJ Cundy
SE Tarrant

CJ Cundy and SE Tarrant are directors of VT Group plc and their interests in the shares of that company and their rights to subscribe for shares of that company are shown in its directors' report.

Dividends, reserves and transfers

No interim dividends have been paid during the year (2003: £Nil). The directors do not recommend a final dividend (2003: £1,000,000).

Policy and practice on payment of creditors

The company's policy, in relation to all of its suppliers, is to settle the terms of payment when agreeing the terms of the transaction provided always that it is satisfied the supplier has provided the goods or services in accordance with the agreed terms and conditions. The company does not follow any code or standard on payment practice.

At the year end, there were 34 days purchases in trade creditors (2003: 44 days).

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Directors' report *(continued)*

Employment of disabled persons

Full and fair consideration is given to employment applications from disabled persons having regard to their particular aptitude and abilities. If an appropriate vacancy is available then, where practicable, arrangements will be made to continue the employment of an employee who becomes disabled. Disabled employees are given fair consideration for training, career development and promotion.

Employment involvement

The company encourages the involvement of employees in its affairs by regular briefings from management and through consultation with representatives of trade unions.

Auditors

In accordance with section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board



PG Dawes
Secretary

17 May 2004

Airwork Limited
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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:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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 maintaining 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



KPMG Audit Plc

Dukes Keep
Marsh Lane
Southampton
Hampshire SO14 3EX

Report of the independent auditors to the members of Airwork Limited

We have audited the financial statements on pages 5 to 15.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of audit 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 March 2004 and of its profit 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 May 2004

Airwork Limited
Directors' report and financial statements

Profit and loss account

for the year ended 31 March 2004

	<i>Notes</i>	2004 £000	2003 £000
Turnover	2	19,536	25,401
Cost of sales		<u>(17,449)</u>	<u>(22,319)</u>
Gross profit		2,087	3,082
Administrative expenses		<u>(1,343)</u>	<u>(1,413)</u>
Operating profit		744	1,669
Profit on disposal of fixed assets	5	<u>800</u>	<u>-</u>
		1,544	1,669
Income from investments	6	<u>70</u>	<u>81</u>
		1,614	1,750
Interest receivable	7	14	154
Interest payable and similar charges	8	<u>(37)</u>	<u>-</u>
Profit on ordinary activities before taxation	9	1,591	1,904
Tax on profit on ordinary activities	10	<u>(320)</u>	<u>(778)</u>
Profit on ordinary activities after taxation		1,271	1,126
Dividend	11	<u>-</u>	<u>(1,000)</u>
Retained profit for the financial year	19	<u>1,271</u>	<u>126</u>

The above results all relate to continuing activities.

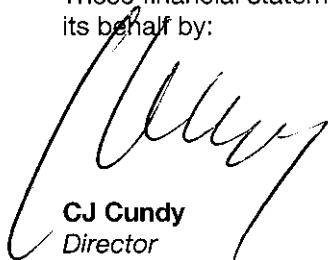
There are no recognised gains or losses other than the profit for the year reported above. There is also no difference between the profit on ordinary activities before taxation and the retained profit for the financial year stated above, and their historical cost equivalents.

Airwork Limited
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Balance sheet
at 31 March 2004

	<i>Notes</i>	2004 £000	2003 £000
Fixed assets			
Tangible assets	12	45	159
Investments	13	230	230
		275	389
Current assets			
Stocks	14	22	139
Debtors	15	11,950	12,043
Cash at bank and in hand		252	2,275
		12,224	14,457
Creditors: amounts falling due within one year	16	(6,746)	(9,742)
Net current assets		5,478	4,715
Total assets less current liabilities		5,753	5,104
Provisions for liabilities and charges	17	(229)	(851)
Net assets		5,524	4,253
Capital and reserves			
Called up share capital	18	20	20
Profit and loss account	19	5,504	4,233
Equity shareholder's funds	20	5,524	4,253

These financial statements were approved by the board of directors on 17 May 2004 and were signed on its behalf by:



CJ Cundy
Director

Airwork Limited

Directors' report and financial statements

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards under the historical cost convention.

The company is exempt by virtue of S228 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the company as an individual undertaking and not about its group.

Under Financial Reporting Standard 1 (1996 Revised) the company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary undertaking.

In addition advantage has been taken of the exemption available under Financial Reporting Standard 8 not to disclose details of transactions with VT Group plc or other group undertakings as the consolidated financial statements of VT Group plc in which the company is included are publicly available.

Depreciation

Depreciation is provided to write off the cost less estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	-	6 to 25 years
Plant and machinery	-	3 to 10 years

No depreciation is provided on freehold land.

Stocks

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

Long term contracts

The amount of profit attributable to the stage of completion of a long term contract is recognised when the outcome of the contract can be foreseen with reasonable certainty. Turnover for such contracts is recognised in accordance with the percentage of completion method of accounting. Degree of completion is determined by comparing the cost incurred to date with the total anticipated cost for the entire contract. The effect of changes to total estimated income for each contract is recognised in the period in which the determination is made. Provision is made for any losses as soon as they are foreseen.

Amounts recoverable on contracts are included in debtors and represent turnover recognised in excess of payments on account.

Airwork Limited

Directors' report and financial statements

Notes *(continued)*

1 Accounting policies *(continued)*

Foreign Currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Pension costs

The company participates in the VT Group plc group pension scheme. The scheme provides benefits based on final pensionable pay. The assets of the scheme are held separately from those of the group. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over the service lives of pensionable employees.

The company also operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged against profit represents the contributions payable to the scheme in respect of the accounting period.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred taxation is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS19.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers.

2 Analysis of turnover

Turnover and profits principally arise from activities and net assets in the Middle East.

3 Remuneration of directors

During the year and the previous period, the emoluments of the directors were borne by a fellow group company.

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Notes *(continued)*

4 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2004	2003
Management, supervisory and administration	13	14
Operational and technical	522	625
	535	639

The aggregate payroll costs of these persons were as follows:

	2004	2003
	£000	£000
<i>Wages and salaries</i>	12,070	13,751
Social security costs	92	124
Other pension costs (note 22)	73	87
	12,235	13,962

5 Profit on disposal of fixed assets

During the year the company made a profit of £800,000 relating to the disposal of two freehold properties that were surplus to the company's ongoing requirements.

6 Income from investments

	2004	2003
	£000	£000
Dividend from Airwork Technical Services & Partners LLC	70	81

7 Interest receivable

	2004	2003
	£000	£000
Bank interest receivable	14	154

8 Interest payable and similar charges

	2004	2003
	£000	£000
Interest on bank borrowings	12	-
Other interest payable	25	-
	37	-

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Notes *(continued)*

9 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging/(crediting):

	2004	2003
	£000	£000
Auditor's remuneration	22	25
Other fees paid to the auditors and its associates	8	4
Depreciation of owned tangible fixed assets	19	55
(Profit)/Loss on sale of fixed assets	(800)	2
Exchange losses	113	48
Operating lease rentals - plant and machinery	2	2
- other	508	532

10 Taxation

	2004	2003
	£000	£000
<i>Current tax</i>		
UK corporation tax on profits of the year	241	489
UK corporation tax underprovided in previous years	-	55
Double taxation relief	(60)	(303)
Total current tax	181	241
<i>Foreign tax</i>		
Current tax on income for the year	139	537
Tax on profit on ordinary activities	320	778

Factors affecting the tax charge for the current period

The current tax charge for the year is lower (2003: higher) than the standard rate of corporation tax in the UK of 30% (2003: 30%). The differences are explained below:

	2004	2003
	£000	£000
Profit on ordinary activities before tax	1,591	1,904
Profit on ordinary activities multiplied by standard rate in UK of 30% (2003: 30%)	477	571
<i>Effects of:</i>		
Double tax relief	(60)	(303)
Foreign tax payable	139	537
Expenses not deductible for tax purposes	1	6
Difference between capital allowances and depreciation	(42)	(55)
Other timing differences	(195)	(33)
Adjustments in respect of previous years	-	55
Current tax charge for the year	320	778

There is no significant tax attributable to the disposal of properties.

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Notes (continued)

11 Dividends

	2004 £000	2003 £000
Equity shares		
Final dividend proposed	-	1,000

12 Tangible fixed assets

	Freehold buildings £000	Plant and machinery £000	Total £000
Cost			
At beginning of year	698	179	877
Additions	-	11	11
Disposals	(127)	(183)	(310)
At end of year	571	7	578
Depreciation			
At beginning of year	625	93	718
Charge for year	16	3	19
Disposals	(112)	(92)	(204)
At end of year	529	4	533
Net book value			
At 31 March 2004	42	3	45
At 31 March 2003	73	86	159

13 Fixed asset investments

	Shares in group undertakings £000	Shares in associated undertakings £000	Total £000
Cost and net book value			
At beginning and end of year	212	18	230

The companies in which the company's interest at the year end is more than 20% are as follows:

	Country of incorporation	Principal activity	Class and percentage of shares held
Subsidiary undertakings			
Airwork Technical Services and Partners LLC	Oman	Maintenance of aircraft	Ordinary – 51%
Participating interests			
Airwork Advanced Group Co WLL	Abu Dhabi	Dormant	Ordinary – 49%

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Notes *(continued)*

13 Fixed asset investments *(continued)*

Airwork Limited is an equal partner with Vinnell Corp in a joint venture Airwork Vinnell, which undertook certain military tasks for the USAF in Oman and Bahrain and whose principal place of business was Seeb Airport, Oman. Its sole contract was terminated in July 2000.

The aggregate investment in all associated undertakings and joint ventures under the equity method of valuation was £165,000 (2003: £192,000).

14 Stocks

	2004 £000	2003 £000
Raw materials and consumables	12	9
Finished goods and goods for resale	10	130
	<u>22</u>	<u>139</u>

15 Debtors

	2004 £000	2003 £000
Trade debtors	3,427	4,169
Amounts owed by group undertakings	8,379	7,500
Amounts owed by related undertakings	17	20
Other debtors	124	271
Prepayments and accrued income	3	83
	<u>11,950</u>	<u>12,043</u>

16 Creditors: amounts falling due within one year

	2004 £000	2003 £000
Payments received on account	638	1,965
Trade creditors	401	899
Amounts owed to group undertakings	1,464	400
Amounts owed to related undertakings	117	136
Corporation tax	2,500	2,877
Other taxes and social security costs	16	25
Other creditors and accruals	1,610	2,440
Dividend proposed	-	1,000
	<u>6,746</u>	<u>9,742</u>

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Notes *(continued)*

17 Provisions for liabilities and charges

	Contract provisions £000
At beginning of year	851
Utilised during the year	(697)
Charge for the year	93
Amounts released unused	<u>(18)</u>
At end of year	<u>229</u>

Contract provisions are based on the assessment of future costs and claims with reference to past experience.

There is no liability for deferred taxation at 31 March 2004 (2003: £Nil). The unprovided deferred tax asset is set out below:

	Unprovided deferred tax asset	
	2004	2003
	£000	£000
Accelerated capital allowances	132	172
Other timing differences	<u>161</u>	<u>366</u>
	<u>293</u>	<u>538</u>

18 Called up share capital

	2004	2003
	£000	£000
Authorised		
Equity: Ordinary shares of £1 each	<u>20</u>	<u>20</u>
Allotted, called up and fully paid		
Equity: Ordinary shares of £1 each	<u>20</u>	<u>20</u>

19 Reserves

	Profit and loss account £000
At beginning of year	4,233
Retained profit for the financial year	<u>1,271</u>
At end of year	<u>5,504</u>

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Notes (continued)

20 Reconciliation of movements in shareholder's funds

	2004 £000	2003 £000
Profit for the financial year	1,271	1,126
Dividends	-	(1,000)
Net addition to shareholder's funds	1,271	126
Opening shareholder's funds	4,253	4,127
Closing shareholder's funds	5,524	4,253

21 Commitments under operating leases

Annual commitments under non-cancellable operating leases are as follows:

	2004		2003	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire				
Within one year	-	-	180	-

22 Pension scheme

The company has continued to account for pensions in accordance with Statement of Standard Accounting Practice 24 'Accounting for Pension Costs' and the disclosures in (a) below are those required under the standard. The transitional disclosures in (b) are required under the standard Financial Reporting Standard 17 'Accounting for Retirement Benefits'.

a) SSAP 24 disclosure

The company participates in the VT Group plc group pension scheme. The pension scheme is administered by independent trustees and the funds are separate from the company's finances. The scheme is of the defined benefits type and actuarial valuations are undertaken every three years. The rates at which the company contributes to the scheme have been determined in accordance with the advice of independent qualified actuaries. The latest valuation of the scheme, of which most employees are members, was at 1 April 2001 using the attained age method. The principal assumption in this valuation was that investment returns would be 2% higher than the rate of annual pay increases. The market value of the assets was £182 million, and the actuarial value of the assets was sufficient to cover 120% of the benefits accruing to members after allowing for expected future pay increases. The surplus revealed by the actuarial valuation will be spread over the expected remaining service lives of scheme members currently employed by the company.

The pension charge for the year was £72,000 (2003: £85,000) and there was a creditor of £3,000 (2003: £5,000) in the balance sheet at 31 March 2004 representing the difference between the amount charged in the profit and loss account and the amount paid to the pension scheme.

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Directors' report and financial statements

Notes *(continued)*

22 Pension scheme *(continued)*

The company also operated a defined contribution pension scheme. The pension cost charge for the year includes contributions made by the company to that fund amounting to £1,000 (2003: £2,000).

b) FRS 17 disclosure

Because the company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 '*Retirement Benefits*' the scheme will be accounted for by the company when the accounting standard is fully adopted by the company as if the scheme was a defined contribution scheme.

23 Ultimate parent company

The company is a subsidiary undertaking of VT Support Services Limited, a company incorporated in Great Britain and registered in England and Wales.

The largest group in which the results of the company are reported is that headed by VT Group plc. The consolidated financial statements are available to the public at that company's registered office of Grange Drive, Hedge End, Southampton. No other financial statements include the results of the company.