

Airwork Limited

Directors' report and financial statements

Registered number 322249

31 March 2003



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Airwork Limited
Directors' report and financial statements

Contents

Directors' report	1
Statement of directors' responsibilities	3
Report of the independent auditors to the members of Airwork Limited	4
Profit and loss account	5
Balance sheet	6
Notes	7

Airwork Limited

Directors' report and financial statements

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 March 2003.

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 £1,126,000 (2002: £2,724,000).

As a consequence of the war in Iraq, and upon advice from the British Embassy, in March 2003 the company temporarily withdrew its staff working on the Kuwait Air Force Hawk/Tucano maintenance contract from Kuwait for a period of just over three weeks. The costs of withdrawal amounted to approximately £70,000 with a potential further loss of revenue of around £30,000 as a result of deemed manpower shortfalls upon return to country. A provision to cover the total costs has been included in the current years' accounts.

The ongoing process of replacing Airwork expatriate staff with Omani service personnel on the company's main contract with the Royal Air Force of Oman continues to have an adverse impact on turnover and profit. Although the customer has determined to extend this contract for a further year to December 2004 the contract and the associated spares supply activity will be novated across to Airwork's subsidiary company, Airwork Technical Services & Partners LLC ("ATS"), with effect from 1 April 2003. However, Airwork Limited will continue to supply manpower to the contract under a subcontract arrangement with ATS.

During the year the Royal Army of Oman contract was not renewed.

Directors and directors' interests

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

CJ Cundy.
SE Tarrant (appointed 18.10.02)
GW Cameron (resigned 18.10.02)

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.

None of the other directors who held office at the end of the financial year had any disclosable interest in the shares of the company and any other group companies.

Dividends, reserves and transfers

No interim dividends have been paid during the year (2002: £Nil). The directors recommend a final dividend of £1,000,000 (2002: £500,000).

Airwork Limited
Directors' report and financial statements

Directors' report *(continued)*

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 44 days purchases in trade creditors (2002: 23 days).

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

19 May 2003

Airwork Limited
Directors' report and financial statements

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 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 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG Audit Plc
Chartered Accountants
Registered Auditor

19 May 2003

Airwork Limited
Directors' report and financial statements

Profit and loss account
for the year ended 31 March 2003

	<i>Notes</i>	2003 £000	2002 £000
Turnover	2	25,401	31,112
Cost of sales		<u>(22,319)</u>	<u>(26,778)</u>
Gross profit		3,082	4,334
Administrative expenses		<u>(1,413)</u>	<u>(559)</u>
Operating profit		1,669	3,775
Income from investments	5	81	-
Other interest receivable and similar income	6	154	221
Interest payable and similar charges	7	<u>-</u>	<u>(5)</u>
Profit on ordinary activities before taxation	8	1,904	3,991
Tax on profit on ordinary activities	9	<u>(778)</u>	<u>(1,267)</u>
Profit on ordinary activities after taxation		1,126	2,724
Dividend	10	<u>(1,000)</u>	<u>(500)</u>
Retained profit for the financial year	18	<u>126</u>	<u>2,224</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
Directors' report and financial statements

Balance sheet
at 31 March 2003

	Notes	2003 £000	2002 £000
Fixed assets			
Tangible assets	11	159	158
Investments	12	<u>230</u>	<u>230</u>
		<u>389</u>	<u>388</u>
Current assets			
Stocks	13	139	66
Debtors	14	12,043	7,823
Cash at bank and in hand		<u>2,275</u>	<u>4,645</u>
		<u>14,457</u>	<u>12,534</u>
Creditors: amounts falling due within one year	15	<u>(9,742)</u>	<u>(7,958)</u>
Net current assets		<u>4,715</u>	<u>4,576</u>
Total assets less current liabilities		5,104	4,964
Provisions for liabilities and charges	16	<u>(851)</u>	<u>(837)</u>
Net assets		<u>4,253</u>	<u>4,127</u>
Capital and reserves			
Called up share capital	17	20	20
Profit and loss account	18	<u>4,233</u>	<u>4,107</u>
Equity shareholder's funds	19	<u>4,253</u>	<u>4,127</u>

These financial statements were approved by the board of directors on 19 May 2003 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

Deferred taxation is recognised, without discounting, in respect of all timing differences between the treatment of certain tax 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

No directors received any emoluments relating to their services as directors of the company.

Airwork Limited
Directors' report and financial statements

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	
	2003	2002
Management, supervisory and administration	14	15
Operational and technical	625	829
	639	844

The aggregate payroll costs of these persons were as follows:

	2003	2002
	£000	£000
Wages and salaries	13,751	16,548
Social security costs	124	130
Other pension costs (note 21)	87	66
	13,962	16,744

5 Income from investments

	2003	2002
	£000	£000
Dividend from Airwork Technical Services & Partners LLC	81	-

6 Other interest receivable and similar income

	2003	2002
	£000	£000
Bank interest receivable	154	221

7 Interest payable and similar charges

	2003	2002
	£000	£000
Interest on loans from group companies	-	5

Airwork Limited
Directors' report and financial statements

Notes *(continued)*

8 Profit on ordinary activities before taxation

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

	2003	2002
	£000	£000
Auditor's remuneration	25	20
Other fees paid to the auditors and its associates	4	4
Depreciation of owned tangible fixed assets	55	50
Loss/(profit) on sale of fixed assets	2	(3)
Exchange losses	48	65
Operating lease rentals - plant and machinery	2	2
- other	532	662
	<hr/>	<hr/>

9 Taxation

	2003	2002
	£000	£000
<i>Current tax</i>		
UK corporation tax on profits of the year	489	1,068
UK corporation tax underprovided in previous years	55	-
Double taxation relief	(303)	(792)
	<hr/>	<hr/>
Total current tax	241	276
<i>Foreign tax</i>		
Current tax on income for the year	537	991
	<hr/>	<hr/>
Tax on profit on ordinary activities	778	1,267

Factors affecting the tax charge for the current period

The current tax charge for the year is higher (2002: higher) than the standard rate of corporation tax in the of UK 30% (2002: 30%). The differences are explained below:

	2003	2002
	£000	£000
Profit on ordinary activities before tax	<hr/> 1,904	<hr/> 3,991
Profit on ordinary activities multiplied by standard rate in UK of 30% (2002: 30%)	571	1,197
<i>Effects of:</i>		
Double tax relief	(303)	(792)
Foreign tax payable	537	991
Expenses not deductible for tax purposes	6	2
Capital allowances for period in excess of depreciation	(55)	(70)
Other timing differences	(33)	(61)
Adjustments in respect of previous years	55	-
	<hr/>	<hr/>
Current tax charge for the year	778	1,267

Airwork Limited
Directors' report and financial statements

Notes (continued)

10 Dividends

	2003 £000	2002 £000
Equity shares		
Final dividend proposed	<u>1,000</u>	<u>500</u>

11 Tangible fixed assets

	Freehold buildings £000	Plant and machinery £000	Total £000
Cost			
At beginning of year	698	123	821
Additions	-	59	59
Disposals	-	(3)	(3)
At end of year	<u>698</u>	<u>179</u>	<u>877</u>
Depreciation			
At beginning of year	601	62	663
Charge for year	24	31	55
At end of year	<u>625</u>	<u>93</u>	<u>718</u>
Net book value			
At 31 March 2003	<u>73</u>	<u>86</u>	<u>159</u>
At 31 March 2002	<u>97</u>	<u>61</u>	<u>158</u>

12 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	<u>212</u>	<u>18</u>	<u>230</u>

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%

Airwork Limited
Directors' report and financial statements

Notes (continued)

12 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 £192,000 (2002: £212,000).

13 Stocks

	2003 £000	2002 £000
Raw materials and consumables	9	10
Finished goods and goods for resale	<u>130</u>	<u>56</u>
	<u>139</u>	<u>66</u>

14 Debtors

	2003 £000	2002 £000
Amounts recoverable on contracts	-	41
Trade debtors	4,169	4,623
Amounts owed by group undertakings	7,500	2,481
Amounts owed by related undertakings	20	12
Other debtors	271	238
Prepayments and accrued income	<u>83</u>	<u>428</u>
	<u>12,043</u>	<u>7,823</u>

15 Creditors: amounts falling due within one year

	2003 £000	2002 £000
Payments received on account	1,965	240
Trade creditors	899	488
Amounts owed to group undertakings	400	-
Amounts owed to related undertakings	136	99
Corporation tax	2,877	3,161
Other taxes and social security costs	25	32
Other creditors and accruals	2,440	3,438
Dividend proposed	<u>1,000</u>	<u>500</u>
	<u>9,742</u>	<u>7,958</u>

Airwork Limited
Directors' report and financial statements

Notes (continued)

16 Provisions for liabilities and charges

	Contract provisions £000
At beginning of year	837
Utilised during the year	(6)
Charge for the year	283
Amounts released unused	<u>(263)</u>
At end of year	<u>851</u>

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

There is no liability for deferred taxation at 31 March 2003 (2002: £Nil). The unprovided deferred tax asset is set out below:

	Unprovided deferred tax asset	
	2003 £000	2002 £000
Accelerated capital allowances	172	289
Other timing differences	<u>366</u>	<u>398</u>
	<u>538</u>	<u>687</u>

17 Called up share capital

	2003 £000	2002 £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>

18 Reserves

	Profit and loss account £000
At beginning of year	4,107
Retained profit for the financial year	<u>126</u>
At end of year	<u>4,233</u>

Airwork Limited
Directors' report and financial statements

Notes (continued)

19 Reconciliation of movements in shareholder's funds

	2003 £000	2002 £000
Profit for the financial year	1,126	2,724
Dividends	<u>(1,000)</u>	<u>(500)</u>
Net addition to shareholder's funds	126	2,224
Opening shareholder's funds	<u>4,127</u>	<u>1,903</u>
Closing shareholder's funds	<u>4,253</u>	<u>4,127</u>

20 Commitments under operating leases

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

	2003		2002	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire Within one year	<u>180</u>	<u>-</u>	<u>217</u>	<u>-</u>

21 Pension scheme

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 £85,000 (2002: £66,000) and there was a creditor of £5,000 (2002: £5,000) in the balance sheet at 31 March 2003 representing the difference between the amount charged in the profit and loss account and the amount paid to the pension scheme.

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 £2,000 (2002: £nil).

Airwork Limited
Directors' report and financial statements

Notes *(continued)*

21 Pension scheme *(continued)*

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.

22 Ultimate holding company

The company is a subsidiary undertaking of VT International 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.