

SMITHS AEROSPACE GLOUCESTER LIMITED

(FORMERLY DOWTY AEROSPACE GLOUCESTER LIMITED)

ANNUAL REPORT AND ACCOUNTS

FOR THE 7 MONTHS ENDED 31 JULY 2001



SMITHS AEROSPACE GLOUCESTER LIMITED

DIRECTORS' REPORT

FOR THE PERIOD ENDED 31 JULY 2001

DIRECTORS

P Strothers
G M Norris

The directors have pleasure in presenting their report and the accounts for the 7 months ended 31 July 2001 (2000: 12 months to 31 December 2000).

P Strothers appointed 6 August 2001. T Ford appointed Company Secretary on 1 February 2002. J R Edwards resigned as director on 7 June 2001. P Wright resigned on 16 June 2001.

NAME CHANGE

On 13 June 2001 the company passed a special resolution to change its name from Dowty Aerospace Gloucester Limited to Smiths Aerospace Gloucester Limited.

RESULTS AND DIVIDENDS

The profit for the 7 month period after taxation was £6,009,000 (year ended 31 December 2000 - £10,750,000).

The directors recommend a dividend of £6,000,000 (2000 - £10,750,000), which leaves £9,000 retained profit for the period (2000 - nil).

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The principal activity of the Company continues to be the design, manufacture and sale of aerospace hydraulics and propellers and the repairs and overhaul of propellers.

Turnover for the seven months was £34,513,000 (2000:12months - £57,711,000) a pro-rated improvement over the prior year of 2.5%.

RESEARCH AND DEVELOPMENT

The Company carries out research and development programmes to suit its particular market and product needs.

FIXED ASSETS

The changes in tangible fixed assets are detailed in note 9 to the accounts.

EMPLOYEES

The maintenance of a highly skilled workforce is key to the future of the Company. Health and Safety matters are regularly reviewed by the directors and it is their policy to ensure that:

1. full and fair consideration is given to all applications for employment made by disabled persons, having regard to their capabilities;
2. when existing employees become disabled (whether from illness or accident) every reasonable effort is made to continue to provide suitable employment either in the same, or by training, in an alternative job;
3. disabled persons are given equal consideration for training, career development and opportunities for promotion within the Company.

Employees are regularly provided with a wide range of information concerning the performance and prospects of the business by means of Employee Councils and other similar consultative bodies which allow the views and opinions of personnel to be taken into account.

FUTURE DEVELOPMENTS

The Company will pursue its existing activities and continue to seek business opportunities to ensure the profitability of the Company.

SMITHS AEROSPACE GLOUCESTER LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE PERIOD ENDED 31 JULY 2001

FUTURE DEVELOPMENTS

The Company will pursue its existing activities and continue to seek business opportunities to ensure the profitability of the Company.

ECONOMIC AND MONETARY UNION (EMU)

The introduction of the euro will affect the Company whether or not the UK participates in EMU. We expect growing use of the euro within the UK for transactions with organisations in other European countries. The Company is taking steps to ensure that the anticipated changes will not jeopardise the continuing operation of our businesses.

POLICY ON PAYMENT OF CREDITORS

The Company's policy and practice is to pay creditors promptly in accordance with agreed terms of business.

The average time taken to pay an invoice was 47 days (2000: 42 days) for the group as a whole (calculated in compliance with the Companies Act 1985 (Directors' Report) (Statement of Payment Practice) Regulations 1997).

POST BALANCE SHEET EVENTS

There have been no post balance sheet events that require disclosure.

DIRECTORS' INTERESTS

The disclosable directors' interests in the share capital of Smiths Group plc at the beginning and end of the financial year were as follows:

	Ordinary shares under option				Ordinary shares	
	1 Jan 2001*	Granted During Period	Exercised During Period	31 July 2001	1 Jan 2001	31 July 2001
G M Norris	42,239	8,734	-	50,973	52,797	27,797
P Strothers	29,175	6,380	10,120	25,220	88	88

*Smiths Group plc equivalent of TI Group plc share options converted on 4 June 2001. Options were originally granted under the TI Group (1990) Executive Share Option Scheme, the TI Group 1999 Executive Share Option Scheme, the TI (1981) Savings-Related Share Option Scheme and the TI Group (1994) Savings-Related Share Option Scheme.

Options granted since 1 January 2001 were granted under The Smiths Industries 1995 Executive Share Option Scheme and The Smiths Industries 1982 SAYE Share Option Scheme.

Further information on share options may be found in the annual report of Smiths Group plc.

Details of the Smiths Industries 1982 SAYE and Executive Share Option Schemes and the Deferred Share Scheme are contained in the report and accounts of Smiths Group plc.

AUDITORS

A resolution will be proposed at the annual general meeting to re-appoint PricewaterhouseCoopers as auditors.

By Order of the Board



T Ford
Secretary
1 May 2002

SMITHS AEROSPACE GLOUCESTER LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare accounts for each financial period which give a true and fair view of the company's state of affairs at that end of the period and of its profit or loss for that period. In preparing those accounts the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments 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 accounts;
- prepare the accounts on the going concern basis unless it is inappropriate to assume 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 accounts 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 and detection of fraud or other irregularities.

INDEPENDENT AUDITORS' REPORT

To the members of Smiths Aerospace Gloucester Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the notes to the accounts.

Respective responsibilities of directors and auditors

The directors responsibility for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board.

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 United Kingdom Companies Act. 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 is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors report.

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 at 31 July 2001 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
35 Bull Street
Birmingham B4 6JT
1 May 2002

SMITHS AEROSPACE GLOUCESTER LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE PERIOD ENDED 31 JULY 2001

	Notes	2001 7 Months £000	As restated 2000 12 Months £000
TURNOVER			
Continuing operations	2	34,513	57,711
		<u>34,513</u>	<u>57,711</u>
Cost of sales		<u>(20,515)</u>	<u>(35,748)</u>
Gross profit		13,998	21,963
Operating expenses	3	<u>(7,978)</u>	<u>(12,180)</u>
OPERATING PROFIT	4	6,020	9,783
Net interest receivable	7	<u>2,561</u>	<u>5,023</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		8,581	14,806
Tax	8	<u>(2,572)</u>	<u>(4,056)</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		6,009	10,750
Dividends		<u>(6,000)</u>	<u>(10,750)</u>
RETAINED PROFIT FOR THE PERIOD	17	<u>9</u>	<u>0</u>

All operations are continuing.

STATEMENT OF RECOGNISED GAINS AND LOSSES

The company had no recognised gains and losses other than the profit for the period (2000 – nil).

There is no material difference between the reported profit for the period ended 31 July 2001 and those that would be reported under the historical cost convention.

The notes on pages 7 to 13 form part of these accounts

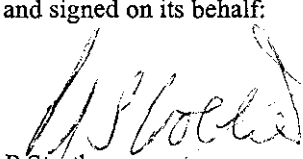
SMITHS AEROSPACE GLOUCESTER LIMITED

BALANCE SHEET

31 JULY 2001

	Notes	31 July 2001		As restated 31 December 2000 £000
		£000	£000	
FIXED ASSETS				
Tangible assets	9		10,703	10,759
			<u>10,703</u>	<u>10,759</u>
CURRENT ASSETS				
Stocks	10	6,686		6,241
Debtors:falling due within one year	11	13,100		11,861
Debtors:falling due after more than one year	11	83,000		83,000
Cash at bank and in hand		15,938		9,961
		<u>118,724</u>		<u>111,063</u>
CREDITORS: amounts falling due within one year	12	<u>(55,253)</u>		<u>(48,017)</u>
NET CURRENT ASSETS			<u>63,471</u>	<u>63,046</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			74,174	73,805
CREDITORS: amounts falling due after more than one year	12		(3)	(6)
Provisions for liabilities and charges	13		(4,870)	(4,507)
NET ASSETS			<u>69,301</u>	<u>69,292</u>
CAPITAL AND RESERVES				
Called up equity share capital	16		66,010	66,010
Share premium account	17		1,735	1,735
Profit and loss account	17		331	322
Revaluation reserve	17		1,225	1,225
TOTAL SHAREHOLDERS' FUNDS – all equity			<u>69,301</u>	<u>69,292</u>

Approved by the Board on
and signed on its behalf:


P Strothers
1 May 2002

The notes on pages 7 to 13 form part of these accounts

SMITHS AEROSPACE GLOUCESTER LIMITED

NOTES TO THE ACCOUNTS

PERIOD ENDED 31 JULY 2001

1. ACCOUNTING POLICIES

a) Basis of Accounting

The accounts have been prepared in accordance with the Companies Act 1985, as amended, and with all applicable financial reporting and accounting standards under the historical cost convention.

The financial information is presented about the Company as an individual undertaking and not as a group of companies (see note 20). As a wholly owned subsidiary, the company is exempt from the requirement to prepare a cash flow statement under the terms of Financial Reporting Standard 1 (revised 1996).

In order to align profit and loss account formats with those of the new group parent company, the profit and loss format adopted has been changed and comparatives restated. In addition, development costs recoverable on long-term contracts have been re-analysed from debtors and creditors into stock. These adjustments have had no impact on the current or prior year reported profit before taxation and no impact on net assets.

b) Depreciation

Depreciation is provided on all fixed assets at rates estimated to write off the cost, less estimated residual value, of each asset over its expected useful life, as follows:

Freehold Land	-	Nil
Freehold Buildings	-	2%-3% per annum
Leasehold land and buildings	-	2% per annum, or over
	-	the period of the lease
	-	where less than 50 years
Plant, machinery and equipment	-	7.5%-10% per annum
Data processing equipment	-	12.5%-33.3% per annum
Tooling and test rigs	-	10%-20% per annum

c) Research and Development

Research and development expenditure, other than that re-chargeable to third parties, is written off as incurred.

d) Stocks and Work in Progress

Stocks and work in progress are valued at the lower of cost and net realisable value. Cost is determined on a "first in, first out" basis and, in the case of work in progress and finished goods, includes the relevant proportion of overheads less any payments on account.

e) Foreign Exchange

Transactions denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences arising in the ordinary course of business are included in trading profit.

Assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rates ruling at the balance sheet date.

SMITHS AEROSPACE GLOUCESTER LIMITED
NOTES TO THE ACCOUNTS (CONTINUED)
PERIOD ENDED 31 JULY 2001

1. ACCOUNTING POLICIES (CONTINUED)

f) Pension Costs

It is the policy of the Company to provide pension liabilities by payment to trusts or insurance companies independent from the finances of Smiths Group plc. For the defined benefit pension schemes, contributions are charged to the profit and loss account so as to spread the regular cost over the average service lives of employees in accordance with the advice of qualified actuaries. Actuarial surpluses and deficits are spread forward over the average remaining lives of employees.

g) Leasing commitments

Finance leases of fixed assets have been capitalised and depreciated in accordance with the Company's depreciation policy. The capital element of future lease payments is included in creditors.

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

2. TURNOVER

Turnover, which comprises a single class of activity, represents the net amount invoiced to customers less trade discounts, excluding value added tax and sales of fixed assets. The analysis of turnover by geographical area is as follows:

	2001 7 months £000	2000 12 months £000
UK	10,490	19,015
Continental Europe	4,816	9,352
North America	14,652	20,917
Rest of World	3,060	5,886
Group Sales	1,495	2,541
	<u>34,513</u>	<u>57,711</u>

3. OPERATING EXPENSES

	2001 7 months £000	2000 12 months £000
Distribution costs	1,005	1,795
Administrative costs	6,973	10,385
	<u>7,978</u>	<u>12,180</u>

As noted in note 1 above, the comparatives for the 12 months ended 31 December 2000 have been restated due to the adoption of a new profit and loss account format.

SMITHS AEROSPACE GLOUCESTER LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

PERIOD ENDED 31 JULY 2001

4. OPERATING PROFIT

	2001 7 months £000	2000 12 months £000
This is stated after charging:		
Depreciation of fixed assets		
- Tangible	608	997
Operating lease rentals		
- Land and buildings	33	52
- Plant & machinery	129	289
Auditors' remuneration		
- Audit services	47	54
Research and development expenditure	1,395	1,696

5. DIRECTORS AND STAFF

Directors' emoluments

No emoluments were paid or are payable to directors in their capacity as directors of this company.

	2001 7 months £000	2000 12 months £000
Staff costs		
Wages and salaries	6,305	10,535
Redundancy costs	-	729
Social security costs	503	866
Other pensions costs	550	686
	<u>7,358</u>	<u>12,816</u>
	<u>No.</u>	<u>No.</u>
The average number of employees during the financial period was:	<u>402</u>	<u>421</u>

6. PENSIONS

The Company's employees are members of various defined benefit pension schemes which cover the United Kingdom employees of Smiths Group plc. Contributions to these schemes are based upon advice received from independent actuaries taking account of the costs of each relevant scheme as a whole. The information required in Statement of Standard Accounting Practice No.24 is disclosed for the group as a whole in the consolidated accounts of Smiths Group plc.

7. NET INTEREST

	2001 7 months £000	2000 12 months £000
Interest paid on bank loans and overdrafts	(800)	(468)
Other interest payable	-	(11)
Interest receivable from group undertakings	2,947	5,502
Other interest receivable	414	-
	<u>2,561</u>	<u>5,023</u>

SMITHS AEROSPACE GLOUCESTER LIMITED
NOTES TO THE ACCOUNTS (CONTINUED)
PERIOD ENDED 31 JULY 2001

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

The charge for the year comprises:

	2001	<i>2000</i>
	7 months	<i>12 months</i>
	£000	<i>£000</i>
UK corporation tax at 30% (2000: 30%)	2,572	<i>4,384</i>
Prior period adjustments	-	<i>(328)</i>
	<u>2,572</u>	<i><u>4,056</u></i>

All taxation liabilities, both current and future, have been assumed by Smiths Group plc.

9. TANGIBLE FIXED ASSETS

	Freehold land & buildings £000	Plant & Machinery £000	Leasehold Short term £000	Tools and Test rigs £000	Total £000
Cost					
1 January 2001	7,800	11,213	77	7,089	26,179
Additions and transfers in	-	588	6	52	646
Disposals and transfers out	-	(188)	-	-	(188)
31 July 2001	<u>7,800</u>	<u>11,613</u>	<u>83</u>	<u>7,141</u>	<u>26,637</u>
Depreciation					
1 January 2001	1,029	7,674	13	6,704	15,420
Charge for the period	63	450	1	94	608
Disposals and transfers out	-	(94)	-	-	(94)
31 July 2001	<u>1,092</u>	<u>8,030</u>	<u>14</u>	<u>6,798</u>	<u>15,934</u>
Net Book Value					
31 July 2001	<u>6,708</u>	<u>3,583</u>	<u>69</u>	<u>343</u>	<u>10,703</u>
31 December 2000	<u>6,771</u>	<u>3,539</u>	<u>64</u>	<u>385</u>	<u>10,759</u>

Fixed assets are included at full historic cost to the Company except for certain freehold land and buildings held at 31 July 2001 which are included at the open market existing use valuation carried out at 31 March 1991 of £3,188,000. The company has adopted the transitional provisions of FRS15 and elected not to update the valuation.

If the land and buildings had not been revalued, their net book amounts would have been:

	31 July	<i>31 December</i>
	2001	<i>2000</i>
	£000	<i>£000</i>
Cost	6,575	<i>6,575</i>
	<u>(1,787)</u>	<i><u>(1,724)</u></i>
Net book value	<u>4,788</u>	<i><u>4,851</u></i>

SMITHS AEROSPACE GLOUCESTER LIMITED
NOTES TO THE ACCOUNTS (CONTINUED)
PERIOD ENDED 31 JULY 2001

10. STOCKS	31 July 2001 £000	<i>As restated</i> 31 December 2000 £000
Raw materials and consumables	232	607
Work in progress	3,230	2,083
Development Contracts	471	546
Finished Goods and goods for resale	3,102	3,579
Payments on account	(349)	(574)
	<u>6,686</u>	<u>6,241</u>

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

11. DEBTORS	31 July 2001 £000	<i>As restated</i> 31 December 2000 £000
Amounts falling due within one year:		
Trade debtors	11,537	11,012
Amounts owed by other group undertakings	534	364
Other debtors	422	-
Prepayments and accrued income	607	485
	<u>13,100</u>	<u>11,861</u>
Amounts falling due after more than one year:		
Amounts owed by other group undertakings	<u>83,000</u>	<u>83,000</u>

On 7 May 1999 a £83 million loan was made to TI Group plc, repayable by 30 June 2004. The Interest rate was ¼ % above 6 month LIBOR and was payable 6 monthly up until 29 January 2002. On 31 January 2002 the Ultimate parent company, Smiths Group plc, agreed to change the loan to non-interest bearing and thus no interest will accrue after this date up until repayment.

12. CREDITORS	31 July 2001 £000	<i>As restated</i> 31 December 2000 £000
Amounts falling due within one year:		
Bank overdraft	18,668	17,656
Trade creditors	3,817	3,312
Amounts owed to other group undertakings	1,566	1,565
Finance leases	3	100
Corporation tax	-	7,558
Loans owed to group undertakings	8,576	397
Taxes and social security costs	246	173
Dividends payable	16,750	10,750
Accruals and deferred income	5,627	6,506
	<u>55,253</u>	<u>48,017</u>
Amounts falling due after more than one year:		
Finance Leases	<u>3</u>	<u>6</u>

SMITHS AEROSPACE GLOUCESTER LIMITED
NOTES TO THE ACCOUNTS (CONTINUED)
PERIOD ENDED 31 JULY 2001

13. PROVISIONS FOR LIABILITIES AND CHARGES

	Product Warranty and Onerous Contracts £000
At 1 January 2001	4,507
Profit and loss account	1,014
Utilised in period	(651)
	<hr/>
At 31 July 2001	4,870
	<hr/>

Provision for liabilities and charges include provisions for future product warranty costs arising in the normal course of business from prior period sales and onerous contract liabilities. The company expects to utilise approximately £2.2 million of the provision in the next 12 months.

14. CAPITAL COMMITMENTS

	31 July 2001 £000	31 December 2000 £000
Amounts contracted	<hr/> 65	<hr/> 162
Authorised by the directors but not contracted	<hr/> 173	<hr/> 162

15. OBLIGATIONS UNDER OPERATING LEASES

At 31 July 2001, the company had annual commitments under non-cancellable operating leases as follows:

	Land and Buildings		Plant and Machinery	
Leases expiring:	31 July 2001 £000	31 December 2000 £000	31 July 2001 £000	31 December 2000 £000
Within one year	-	-	70	16
Within two to five years	-	-	115	95
After five years	57	57	-	46
	<hr/> 57	<hr/> 57	<hr/> 185	<hr/> 157

16. CALLED UP SHARE CAPITAL

	31 July 2001 £000	31 December 2000 £000
Authorised, issued and fully paid Ordinary shares of 25p each	<hr/> 66,010	<hr/> 66,010

SMITHS AEROSPACE GLOUCESTER LIMITED
NOTES TO THE ACCOUNTS (CONTINUED)
PERIOD ENDED 31 JULY 2001

17. MOVEMENT ON RESERVES

	Share Premium Account £000	Profit & Loss Account £000	Revaluation Reserve £000	Total £000
At 1 January 2001	1,735	322	1,225	3,282
Profit for the period	-	9	-	9
At 31 July 2001	<u>1,735</u>	<u>331</u>	<u>1,225</u>	<u>3,291</u>

18. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS FUNDS

	31 July 2001 £000	31 December 2000 £000
Profit for the period	6,009	10,750
Ordinary dividends	(6,000)	(10,750)
Net movement in Shareholders Funds	<u>9</u>	<u>-</u>
Shareholders Funds at 1 January 2001	<u>69,292</u>	<u>69,292</u>
Shareholders Funds at 31 July 2001	<u>69,301</u>	<u>69,292</u>

19. RELATED PARTY TRANSACTIONS

The Company has invoked the wholly-owned subsidiary exemption under FRS 8 with regard to disclosure of related party transactions with other Group entities.

20. ULTIMATE PARENT COMPANY AND EXEMPTION FROM SUBMITTING GROUP ACCOUNTS

Consolidated accounts have not been prepared because the Company and its immediate parent, the Dowty Group plc, a company registered in England, are exempt from the obligation to prepare and deliver group accounts. Under the provisions of the Companies Act 1985 they are wholly-owned subsidiaries of Smiths Group plc, which is registered in England and Wales and is the ultimate parent company. Copies of the accounts of Smiths Group plc may be obtained from The Company Secretary, Smiths Group plc, 765 Finchley Road, Childs Hill, London NW11 8DS. There is no other group, of which the Company is a member, for which group accounts have been drawn up.

21. CONTINGENT LIABILITIES

At 31 July 2001 the company had contingent liabilities, in respect of bank and other guarantees and other matters arising in the ordinary course of business, from which it is anticipated that no material liabilities will arise.