

Smiths Aerospace Gloucester Limited

Directors' report and financial statements for the year ended 31 July 2003

Registered number: 312083



Smiths Aerospace Gloucester Limited

Directors' report and financial statements for the year ended 31 July 2003

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Smiths Aerospace Gloucester Limited

Directors' report for the year ended 31 July 2003

The directors present their report and the financial statements of the Company for the year ended 31 July 2003

Directors

The directors of the Company during the year and subsequently were

P Strothers
G M Norris

Principal activity

The Company did not trade on its own account during the year ended 31 July 2003, but acted as an unremunerated agent for Smiths Group plc, in which accounts the results of these activities are reflected.

Review of the business

With effect from 1 August 2002, the Company's business and assets were acquired by the ultimate parent company, Smiths Group plc. The Company has ceased to trade on its own account, and now acts as unremunerated agent for Smiths Group plc.

Results and dividends

The directors recommend a dividend of £Nil (2002: £7,958,000).

Post balance sheet events

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

Directors' interests

None of the directors had any interests in the issued share capital of the Company at any time during the period.

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 August 2002 | Granted During Period | Exercised During Period | 31 July 2003 | 1 August 2002 | 31 July 2003 |
| G M Norris | 80,450 | 31,673 | - | 112,123 | 31,777 | 33,450 |
| P Strothers | 53,171 | 35,950 | - | 89,121 | 2,539 | 8,489 |

Options granted since 1 August 2002 were granted under The Smiths Industries 1995 Executive Share Option Scheme and The Smiths Industries 1982 SAYE Share Option Scheme.

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

The figure for share options outstanding at 1 August 2002 has been restated to reflect options granted and exercised in the prior year which were not disclosed in those accounts.

Further information on share options may be found in the annual report of Smiths Group plc, which can be obtained from the Company Secretary, Smiths Group plc, 765 Finchley Road, Childs Hill, London NW11 8DS

Smiths Aerospace Gloucester Limited

Directors' report (continued)

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 of the Company for that period. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The directors confirm that suitable accounting policies have been applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 July 2003 and that applicable accounting standards have been followed.

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

Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the annual general meeting.

By Order of the Board



T Ford
Secretary
30 April 2004

Smiths Aerospace Gloucester Limited

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, the note of historical cost profits and losses and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities 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. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 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.

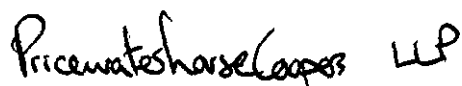
Basis of audit opinion

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



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Birmingham
30 April 2004

Smiths Aerospace Gloucester Limited

Profit and loss account for the year ended 31 July 2003

| | Notes | 12 months to 31 July 2003 | 12 months to 31 July 2002 |
|---|-------|---------------------------------|---------------------------------|
| | | £'000 | £'000 |
| Turnover | 2 | - | 55,091 |
| Cost of sales | | - | (32,531) |
| Gross profit | | - | 22,560 |
| Operating expenses | 3 | - | (13,949) |
| Operating profit | 4 | - | 8,611 |
| Net interest receivable | 7 | - | 2,285 |
| Profit on ordinary activities before tax | | - | 10,896 |
| Tax on profit on ordinary activities | 8 | - | (3,269) |
| Profit on ordinary activities after taxation | | - | 7,627 |
| Dividends | | - | (7,958) |
| Loss for the financial year | 17 | - | (331) |

There were no recognised gains or losses other than the results shown above and therefore no separate Statement of total recognised gains or losses has been prepared

Note of historical cost profits and losses for the year ended 31 July

| | 2003 £'000 | 2002 £'000 |
|---|---------------|---------------|
| Reported profit on ordinary activities before taxation | - | 10,896 |
| Realisation of property revaluation gains of previous years | 1,225 | - |
| Historical cost profit on ordinary activities before tax | 1,225 | 10,896 |
| Historical cost profit / (loss) for the year retained after taxation and dividends | 1,225 | (331) |

Smiths Aerospace Gloucester Limited

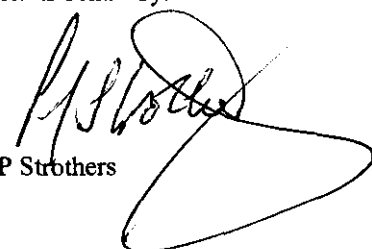
Balance sheet as at 31 July 2003

| | Notes | 2003 £'000 | 2002 £'000 |
|--|-------|---------------|---------------|
| Fixed assets | | | |
| Tangible assets | 9 | - | 10,781 |
| Current assets | | | |
| Stock | 10 | - | 6,091 |
| Debtors: falling due within one year | 11 | - | 10,347 |
| Debtors: falling due after more than one year | 11 | 109,694 | 83,000 |
| Cash at bank and in hand | | - | 26,496 |
| | | 109,694 | 125,934 |
| Creditors: amounts falling due within one year | 12 | (40,724) | (63,325) |
| Net current assets | | 68,970 | 62,609 |
| Total assets less current liabilities | | 68,970 | 73,390 |
| Creditors: amounts falling due after more than one year | 12 | - | (1) |
| Provisions for liabilities and charges | 13 | - | (4,419) |
| Net assets | | 68,970 | 68,970 |
| 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 | 1,225 | - |
| Revaluation reserve | 17 | - | 1,225 |
| Total shareholders' funds – all equity | 18 | 68,970 | 68,970 |

The notes on pages 6 to 17 form part of these accounts.

The Company did not trade on its own account during the year ended 31 July 2003, but acted as unremunerated agent for Smiths Group plc, in which accounts the results of its activities are reflected.

The financial statements on pages 4 to 17 were approved on behalf of the board on 30 April 2004 and signed on its behalf by:


P Strothers

Smiths Aerospace Gloucester Limited

Notes to the financial statements for the year ended 31 July 2003 (continued)

1 Accounting policies

Basis of Accounting

These financial statements are prepared under the historical cost convention as modified by the revaluation of certain fixed assets, the accounting policies set out below and in accordance with applicable accounting standards.

A cashflow statement has not been prepared as the Company has taken advantage of the exemption under Financial Reporting Standard ('FRS') 1 (revised 1996), 'Cashflow statements', which relates to wholly owned subsidiaries. Its cashflows for the year are included in the financial statement of its ultimate parent company, see note 20.

Turnover

Turnover represents the net amount invoiced to customers less trade discounts, excluding value added tax.

Tangible fixed assets

Tangible fixed assets are included in the balance sheet at their historic cost, or revaluation, less accumulated depreciation and any provisions for impairment. Assets are depreciated on a straight-line basis at rates estimated to write off their book value over their estimated useful economic lives, which are reviewed on a regular basis.

The directors have set the following depreciation rates for the Company's various classes of tangible fixed assets:

| | | |
|--------------------------------|---|--|
| 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 |

It is judged that the valuation of the freehold land and freehold buildings is split 30% land and 70% buildings

Impairments are calculated such that the carrying value of the tangible fixed asset is not stated at a value in excess of the higher of their net realisable value and their value in use.

Research and development

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

Smiths Aerospace Gloucester Limited

Notes to the financial statements for the year ended 31 July 2003 (continued)

1 Accounting policies (Continued)

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.

Long term contract work in progress is shown at cost, including attributable overheads, plus attributable profit where this can be assessed with reasonable certainty, less payments on account and provision for losses.

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 within the balance sheet that are denominated in foreign currencies are translated into sterling at the exchange rates ruling at the balance sheet date.

Pension costs

The employees and directors of the Company are members of the various Smiths group pension schemes, which is a defined benefit scheme. In line with FRS 17, 'Retirement Benefits', because it is not possible to identify the individual assets and liabilities of the Smiths group schemes that relates to the Company's employees and directors, the directors have accounted for the scheme as a defined contribution scheme. The related costs have been charged to the Company's profit and loss account as they are incurred. Full disclosure on the Smiths group schemes can be found in the financial statements of the ultimate parent company.

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.

Taxation including deferred taxation

All taxation liabilities, both current and future, have been assumed by Smiths Group plc. The Company does not therefore have any potential or provided deferred tax.

Smiths Aerospace Gloucester Limited

Notes to the financial statements for the year ended 31 July 2003 (continued)

2 Turnover

Turnover comprises a single class of activity, being the design, manufacture and sale of aerospace hydraulics and propellers and the repairs and overhaul of propellers. The analysis of turnover by geographical area is as follows:

| | 12 months to 31 July 2003 | 12 months to 31 July 2002 |
|--------------------|------------------------------|------------------------------|
| | £'000 | £'000 |
| UK | - | 15,698 |
| Continental Europe | - | 8,631 |
| North America | - | 20,818 |
| Rest of World | - | 6,495 |
| Group sales | - | 3,449 |
| | - | 55,091 |

3 Operating expenses

| | 12 months to 31 July 2003 | 12 months to 31 July 2002 |
|----------------------|------------------------------|------------------------------|
| | £'000 | £'000 |
| Distribution costs | - | 1,389 |
| Administrative costs | - | 12,560 |
| | - | 13,949 |

Smiths Aerospace Gloucester Limited

Notes to the financial statements for the year ended 31 July 2003 (continued)

4 Operating profit

| | 12 months to 31 July 2003 | 12 months to 31 July 2002 |
|--|------------------------------|------------------------------|
| | £'000 | £'000 |
| Operating profit is stated after charging: | | |
| Loss on the sale of fixed assets | - | 20 |
| Depreciation of tangible fixed assets | - | 914 |
| Operating lease rentals | | |
| - Land and buildings | - | 40 |
| - Plant and machinery | - | 193 |
| Auditors' remuneration | | |
| - Audit services | - | 52 |
| Research and development expenditure | - | 2,537 |
| Exceptional items | | |
| - Redundancy | - | 387 |
| - Tangible fixed asset impairment | - | 427 |
| - Other restructuring costs | - | 441 |

Smiths Aerospace Gloucester Limited

Notes to the financial statements for the year ended 31 July 2003 (continued)

5 Directors and staff

Directors' emoluments

No emoluments were paid or are payable to directors in their capacity as directors of the Company.

| | 12 months to 31 July 2003 | 12 months to 31 July 2002 |
|-----------------------|------------------------------|------------------------------|
| | £'000 | £'000 |
| Staff costs | | |
| Wages and salaries | - | 11,045 |
| Redundancy costs | - | 387 |
| Social security costs | - | 803 |
| Other pension costs | - | 1,058 |
| | - | 13,293 |

The average number of employees during the financial period was:

| | | |
|--|---|-----|
| Sales, administration and distribution | - | 63 |
| Engineering | - | 107 |
| Manufacturing | - | 212 |
| | - | 382 |

6 Pensions

The pension charge to the profit and loss account for the year ended 31 July 2003 was £nil (2002: £1,058,000). As at 31 July 2003, there were no related contributions outstanding or prepaid (2002: £nil).

Smiths Aerospace Gloucester Limited

Notes to the financial statements for the year ended 31 July 2003 (continued)

7 Net interest receivable

| | 12 months to 31 July 2003 | 12 months to 31 July 2002 |
|---|------------------------------|------------------------------|
| | £'000 | £'000 |
| Interest paid on bank loans and overdrafts | - | (21) |
| Interest receivable from group undertakings | - | 2,286 |
| Other interest receivable | - | 20 |
| | - | 2,285 |

8 Tax on profit on ordinary activities

| | 12 months to 31 July 2003 | 12 months to 31 July 2002 |
|---------------------------------------|------------------------------|------------------------------|
| | £'000 | £'000 |
| The charge for the year relating to: | | |
| UK corporation tax at 30% (2002: 30%) | - | 3,269 |
| | - | 3,269 |

All taxation liabilities, both current and future, have been assumed by Smiths Group plc, this includes the under and over provision of corporation tax. The Company's tax charge in 2002 represents a recharge to Smiths Group plc.

Smiths Aerospace Gloucester Limited

Notes to the financial statements for the year ended 31 July 2003 (continued)

9 Tangible fixed assets

| | Freehold land and buildings £'000 | Plant and machinery £'000 | Leasehold short term £'000 | Tools and test rigs £'000 | Total £'000 |
|-----------------------------|--|---------------------------------|----------------------------------|---------------------------------|----------------|
| Cost or valuation | | | | | |
| 1 August 2002 | 7,806 | 12,852 | 83 | 6,168 | 26,909 |
| Additions and transfers in | - | - | - | - | - |
| Disposals and transfers out | (7,806) | (12,852) | (83) | (6,168) | (26,909) |
| 31 July 2003 | - | - | - | - | - |
| Depreciation | | | | | |
| 1 August 2002 | (1,202) | (9,028) | (23) | (5,875) | (16,128) |
| Charge for the year | - | - | - | - | - |
| Disposals and transfers out | 1,202 | 9,028 | 23 | 5,875 | 16,128 |
| 31 July 2003 | - | - | - | - | - |
| Net book amount | | | | | |
| 31 July 2003 | - | - | - | - | - |
| 31 July 2002 | 6,604 | 3,824 | 60 | 293 | 10,781 |

Smiths Aerospace Gloucester Limited

Notes to the financial statements for the year ended 31 July 2003 (continued)

10 Stock

| | 2003 | 2002 |
|--|-------|-------|
| | £'000 | £'000 |
| Raw materials and consumables | - | 425 |
| Work in progress | - | 2,576 |
| Development contracts | - | 427 |
| Finished goods and goods held for resale | - | 3,413 |
| Payments on account | - | (750) |
| | - | 6,091 |

11 Debtors

| | 2003 | 2002 |
|--|---------|--------|
| | £'000 | £'000 |
| Amounts falling due within one year: | | |
| Trade debtors | - | 8,679 |
| Amounts owed by other group undertakings | - | 336 |
| Other debtors | - | 136 |
| Prepayments and accrued income | - | 1,196 |
| | - | 10,347 |
| Amounts falling due after more than one year: | | |
| Amounts owed by other group undertakings | 109,694 | 83,000 |

Smiths Aerospace Gloucester Limited

Notes to the financial statements for the year ended 31 July 2003 (continued)

12 Creditors

| | 2003 | 2002 |
|--|--------|--------|
| | £'000 | £'000 |
| Amounts falling due within one year: | | |
| Bank overdraft | 40,724 | 35,766 |
| Trade creditors | - | 4,111 |
| Amounts owed to other group undertakings | - | 1,176 |
| Finance leases | - | 3 |
| Loans owed to group undertakings | - | 11,143 |
| Taxes and social security costs | - | 240 |
| Dividends payable | - | 4,958 |
| Accruals and deferred income | - | 5,928 |
| | 40,724 | 63,325 |
| Amounts falling due after more than one year: | | |
| Finance leases | - | 1 |

Smiths Aerospace Gloucester Limited

Notes to the financial statements for the year ended 31 July 2003 (continued)

13 Provisions for liabilities and charges

| | Product warranty |
|-----------------------------------|---------------------|
| | £'000 |
| At 1 August 2002 | 4,419 |
| Profit and loss account | - |
| Utilised in the year | - |
| Transfer to other group companies | (4,419) |
| At 31 July 2003 | - |

Provision for liabilities and charges include provisions for future product warranty costs arising in the normal course of business from prior period sales. If the provision had not been transferred, as noted in the directors' report, the Company would have expected to utilise approximately £1 million of the provision in the next 12 months, with the remained being utilised over the following 3 years.

14 Capital commitments

| | 2003 | 2002 |
|--|-------|-------|
| | £'000 | £'000 |
| Amounts contracted | - | 65 |
| Authorised by the directors but not contracted | - | 289 |

Smiths Aerospace Gloucester Limited

Notes to the financial statements for the year ended 31 July 2003 (continued)

15 Obligations under operating leases

As at 31 July 2003, the Company had annual commitments under non-cancellable operating leases as follows:

| | Land and buildings | | Plant and machinery | |
|--------------------------|--------------------|-------|---------------------|-------|
| | 2003 | 2002 | 2003 | 2002 |
| | £'000 | £'000 | £'000 | £'000 |
| Leases expiring: | | | | |
| Within one year | - | - | - | 60 |
| Within two to five years | - | - | - | 97 |
| After five years | - | 40 | - | - |
| | - | 40 | - | 157 |

16 Called up share capital

| | 2003 | 2002 |
|-----------------------------------|--------|--------|
| | £'000 | £'000 |
| Authorised, issued and fully paid | | |
| Ordinary shares of 25p each | 66,010 | 66,010 |

17 Reserves

| | Share premium account | Profit and loss account | Revaluation reserve | Total |
|-------------------------------------|-----------------------|-------------------------|---------------------|-------|
| | £'000 | £'000 | £'000 | £'000 |
| At 1 August 2002 | 1,735 | - | 1,225 | 2,960 |
| Transfer to Profit and Loss Account | - | 1,225 | (1,225) | - |
| At 31 July 2003 | 1,735 | 1,225 | - | 2,960 |

Smiths Aerospace Gloucester Limited

Notes to the financial statements for the year ended 31 July 2003 (continued)

18 Reconciliation of movement in shareholders' funds

| | 2003 | 2002 |
|--|--------|---------|
| | £'000 | £'000 |
| Profit on ordinary activities after taxation | - | 7,627 |
| Dividends | - | (7,958) |
| Net movement in shareholders' funds | - | (331) |
| Opening shareholders' funds | 68,970 | 69,301 |
| Closing Shareholders' funds | 68,970 | 68,970 |

19 Related party transactions

The Company has taken advantage of the exemption in FRS 8, 'Related party disclosures', not to disclose transactions with group undertakings. There have been no other related party transactions that require additional disclosure.

20 Ultimate parent company

The ultimate parent and only controlling company for which consolidated financial statements are prepared is Smiths Group plc. The immediate parent company is Dowty Group plc. Both companies are incorporated in Great Britain.

Copies of their financial statements can 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 financial statements have been drawn up.