Caledonian Airborne Systems Limited

Director's report and financial statements

Registered number 2207626

31 December 2002

Contents

Director's report

The director presents his annual report and the audited financial statements for the year ended 31 December 2002.

Principal activities and business review

"Caledonian Airborne Systems" designs, develops and manufactures aircraft equipment and systems covering infra red communications, radio radar beacons, data links, smart multi function displays, radar track while scan (TWS), integration packages, maritime patrol aircraft systems and stabilised air borne very low level light cameras. Third generation TWS and sector scan radar TWS systems are being delivered.

The company currently holds two patents one on radio radar beacons, the second on infra red communications, and has applied for a third patent.

The company is one of the leaders in its specific field of technology within the aerospace industry and has expanded its customer base to cover military and government agencies in addition to civil aviation customers.

The results for the year confirm the prediction in the board's previous report of a return to profitability and represent the first stage in what is believed to be sustainable, controlled growth based upon its ongoing investment in R & D.

Director and director's interests

The director who held office during the year was F Samarai.

The director who held office at the end of the financial year had no interest in the ordinary shares of the company. His interest in the share capital of the ultimate parent company, Beginextra Limited, comprises the entire issued share capital of the company at the beginning and end of the year, being 240 ordinary shares of £1 each.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming annual general meeting.

On behalf of the board

Fani Samarai

F Samarai
Director

Aberdeen
30 August 2004

Statement of director's responsibilities

Company law requires the director 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 director is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The director is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable him to ensure that the financial statements comply with the Companies Act 1985. He has general responsibility for taking such steps as are reasonably open to him to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

37 Albyn Place
Aberdeen
AB10 1JB
United Kingdom

Independent auditors' report to the members of Caledonian Airborne Systems Limited

We have audited the financial statements on pages 4 to 14.

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 director is responsible for preparing the director's report and, as described on page 2, 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 director's 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 director 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.

Going concern

In forming our opinion we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the assumption that the company's bankers will continue to support the company enabling it to meet its financial commitments for the foreseeable future. The financial statements have been prepared on the going concern basis on the assumption that this support will be continued and do not include any adjustments that might result were this to cease. Because of the significance of this matter we draw attention to it, however, our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

30 August 2004

Profit and loss account

for the year ended 31 December 2002

	Note	**2002** **£000**	2001 £000
Turnover	*2*	**1,246**	879
Cost of sales		**(310)**	(417)
Gross profit		**936**	462
Administrative expenses		**(804)**	(495)
Operating profit (loss)		**132**	(33)
Interest payable and similar charges	*6*	**(42)**	(45)
Profit (loss) on ordinary activities before taxation	*3-5*	**90**	(78)
Tax on loss on ordinary activities	*7*	**-**	-
Profit (loss) for the financial year		**90**	(78)
Retained loss brought forward		**(342)**	(264)
Retained loss carried forward		**(252)**	(342)

The company has no recognised gains or losses other than those reported for the financial years above.

Balance sheet
at 31 December 2002

	Note	2002 £000	2002 £000	2001 £000	2001 £000
Fixed assets					
Intangible assets	*8*	**55**		69	
Tangible assets	*9*	**81**		124	
			136		193
Current assets					
Stocks	*10*	**98**		100	
Debtors	*11*	**1,025**		625	
		1,123		725	
Creditors: amounts falling due within one year	*12*	**(1,322)**		(1,036)	
Net current liabilities			**(199)**		(311)
Total assets less current liabilities			**(63)**		(118)
Creditors: amounts falling due after more than one year	*13*		**(39)**		(74)
Net liabilities			**(102)**		(192)
Capital and reserves					
Called up share capital	*14*		**125**		125
Share premium account	*15*		**25**		25
Profit and loss account			**(252)**		(342)
Equity shareholders' deficit	*16*		**(102)**		(192)

These financial statements were approved by the Board on 30 August 2004 and were signed on its behalf by:

F Samarai
Director

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. The company has adopted FRS 19 *Deferred tax* in these financial statements.

Basis of preparation
The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules. They are prepared on the going concern basis which assumes that the company will continue to trade for the foreseeable future.

The upturn in business activity that took place during 2002 allowing a return to profitability has continued subsequently with a number of worthwhile contracts and orders being undertaken. The Director is confident of the award of significant contracts that will help to accelerate the company's development.

Subsequent to the year end, as a result of improved business activity and with the full support of its bankers, the company has been able to reduce its liabilities considerably. The company's formal bank borrowings facilities expire on 31 December 2004. However, based upon the current order book value and strong prospects of further business, the director is confident of the bank's continuing financial support. Therefore the director considers that the going concern basis continues to be appropriate in preparing these financial statements.

The company is exempt from the requirement of Financial Reporting Standard No 1 to prepare a cash flow statement as it is entitled to the filing exemptions as a small company under sections 246 to 249 of the Companies Act 1985 when filing accounts with the Registrar of Companies

Depreciation
Depreciation on fixed assets is calculated so as to write off their cost less the estimated residual value by equal instalments over their estimated useful lives, as follows:

Plant and machinery	4 - 10 years
Fixtures, fittings and equipment	5 years
Tenant's improvements	5 years

Stocks

Stocks and work in progress are valued at the lower of cost and net realisable value. Cost includes attributable overheads.

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 stated at the cost appropriate to their stage of completion plus attributable profits, less amounts recognised in previous years. 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.

Foreign currencies
Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transactions. 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.

Notes *(continued)*

1 Accounting policies *(continued)*

Taxation
The charge or credit for taxation is based on the profit or loss 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 tax 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 FRS 19.

Research and development expenditure
Research and development expenditure is written off as incurred, except that development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Any expenditure carried forward is amortised in line with the expected future sales from the related project.

Leases
Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Turnover
Turnover represents amounts (excluding value added tax) invoiced to customers for goods and services and the measured value of work done on contracts.

2 Turnover

An analysis of turnover by geographical area is as follows:	**2002** **£000**	2001 £000
United Kingdom	**196**	142
Europe	**500**	180
USA/Canada	**103**	14
Asia	**442**	529
South Africa	**5**	14
	1,246	879

3 Profit (loss) on ordinary activities before taxation

Profit (loss) on ordinary activities before taxation is stated after charging	**2002** **£000**	2001 £000
Depreciation and other amounts written off tangible and intangible fixed assets:		
Assets held under finance lease agreements	**3**	3
Other assets	**54**	41
Operating lease rentals:		
Land and buildings	**44**	44
Auditors' remuneration - audit	**6**	6

Notes *(continued)*

4 Remuneration of director

	2002 £000	2001 £000
Director's emoluments	61	60
Company contributions to money purchase schemes	6	6
	67	66

Retirement benefits are accruing to the director under money purchase schemes.

5 Staff numbers and costs

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

	Number of employees 2002	2001
Management and administration	4	4
Production and sales staff	7	4
	11	8

The aggregate payroll costs of these persons were:

	2002 £000	2001 £000
Wages and salaries	330	237
Social security costs	33	24
Other pension costs (see note 19)	17	10
	380	271

6 Interest payable and similar charges

	2002 £000	2001 £000
On bank overdraft	38	37
On other loan	3	7
On finance leases and similar hire purchase contracts	1	1
	42	45

Notes *(continued)*

7 Taxation

	2002		2001	
	£000	**£000**	£000	£000
UK corporation tax				
Current tax on income for the year	-		-	
Total current tax		-		-
Tax on profit (loss) on ordinary activities		-		-

Factors affecting the tax charge (2001: credit) for the current year

The current tax charge *(2001: credit)* is lower *(2001: lower)* than the standard rate of corporation tax in the UK *(30%, 2001: 30%)*. The differences are explained below:

	2002	2001
	£000	£000
Current tax reconciliation		
Profit (loss) on ordinary activities before taxation	**90**	(53)
Current tax at 30% *(2001: 30%)*	**27**	(16)
Effects of:		
Expenses not deductible for tax purposes	**6**	3
Difference between capital allowances and depreciation for year	**2**	12
Other timing difference	-	6
Losses utilised	**(35)**	(5)
Total current tax charge (credit) (see above)	-	-

At the balance sheet date there is a deferred tax asset of £54,000 *(2001: £74,000)* which has not been recognised in these financial statements in view of the uncertainty of the availability of future suitable profits. This asset is made up of £37,000 *(2001: £49,000)* in respect of tax losses and £17,000 *(2001: £25,000)* in respect of other timing differences.

Notes *(continued)*

8 Intangible fixed assets

	Deferred development expenditure £000
Cost	
At beginning and end of year	69
Amortisation	
At beginning of year	-
Charged in year	14
At end of year	14
Net book value	
At 31 December 2002	**55**
At 31 December 2001	69

9 Tangible fixed assets

	Tenant's improvements £000	**Plant and machinery £000**	**Fixtures, fittings and equipment £000**	**Total £000**
Cost				
At beginning of year	6	517	61	584
Disposals	-	-	(13)	(13)
	6	517	48	571
Depreciation				
At beginning of year	6	403	51	460
Charge in year		37	6	43
On disposals	-	-	(13)	(13)
At end of year	6	440	44	490
Net book value				
At 31 December 2002	**-**	**77**	**4**	**81**
At 31 December 2001	-	114	10	124

Included in the total net book value of plant and machinery is £3,000 *(2001: £7,000)* in respect of assets held under finance leases. Depreciation charged on these assets for the year was £3,000 *(2001: £3,000).*

Notes *(continued)*

10 Stocks

	2002 £000	2001 £000
Raw materials and consumables	**78**	65
Finished goods	**20**	35
	98	100

11 Debtors

	2002 £000	2001 £000
Trade debtors	**47**	118
Amounts recoverable on contracts	**932**	507
Prepayments and accrued income	**46**	-
	1,025	625

12 Creditors: amounts falling due within one year

	2002 £000	2001 £000
Bank overdraft (secured)	**524**	498
Loan	**32**	-
Loan from director	**160**	100
Obligations under a hire purchase contract	**3**	3
Trade creditors	**350**	247
Amounts owed to group undertakings	**27**	34
Other creditors, including taxation and social security	**186**	78
Accruals and deferred income	**40**	76
	1,322	1,036
Other creditors comprise:		
Other taxes and social security	**170**	62
Dividends	**16**	16
	186	78

The company's overdraft is secured by a debenture over the whole assets of the company, and other third party securities.

Notes *(continued)*

13 Creditors: amounts falling due after more than one year

	2002 £000	2001 £000
Loan	**38**	70
Obligations under a hire purchase creditor	**1**	4
	39	74

Amounts due under a hire purchase contract are secured on a motor vehicle.

Analysis of debt	2002 £000	2001 £000
Debt can be analysed as falling due:		
In one year or less, or on demand	**717**	598
Between one and two years	**38**	32
Between two and five years	**-**	38
	755	668

The maturity of obligations under a hire purchase contract is as follows:

	2002 £000	2001 £000
Within one year	**3**	3
In the second to fifth years	**1**	4
	4	7

14 Share capital

	2002 £000	2001 £000
Equity authorised		
100,000 Ordinary shares of £1 each	**100**	100
25,000 'A' Ordinary shares of £1 each	**25**	25
	125	125
Equity allotted, issued and fully paid		
100,000 ordinary shares of £1 each	**100**	100
25,000 'A' Ordinary shares of £1 each	**25**	25
	125	125

Notes *(continued)*

14 Share capital *(continued)*

Rights attaching to the various classes of shares are as follows:

(1) *'A' Ordinary shares of £1 each*

Commencing 8 May 1996, the holders of 'A' Ordinary shares are entitled to receive a participating dividend of 10% of the net profit earned in the relevant year after taxation. An additional compensatory dividend is payable equal to the total emoluments paid to shareholding directors and connected persons in excess of £70,000, divided by the number of ordinary shares held by such persons. The shares are convertible one for one into Ordinary shares at any time when decided by the holders of 75% of the 'A' Ordinary shares.

In the event of winding up of the company, the holders of 'A' Ordinary shares will be entitled to repayment and a sum equal to any arrears and accruals of dividends prior to holders of Ordinary shares.

(2) Ordinary shares of £1 each

In the event of winding up of the company, redemption of Ordinary shares is after the conditions above have been met for the 'A' Ordinary shares. The holders of Ordinary shares are then entitled to repayment. The balance of such assets shall be distributed amongst the holders of the 'A' Ordinary shares and Ordinary shares as if they both constituted one class of share.

The holders of Ordinary and 'A' Ordinary shares are entitled to one vote for every share held.

15 Share premium account

	2002
	£000
At beginning and end of year	25

16 Reconciliation of movement in shareholders' funds

	2002	2001
	£000	£000
Profit (loss) for the financial year	**90**	(78)
Opening shareholders' deficit	**(192)**	(114)
Closing shareholders' deficit	**(102)**	(192)

17 Commitments

At the end of the financial year there were annual commitments under non-cancellable operating leases as follows:

	2002	2001
	£000	£000
Land and buildings		
Operating leases which expire:		
After five years	**44**	44

Notes *(continued)*

18 Contingent liabilities

The company has granted to its bankers, cross letters of guarantee and letters of offset with CAE Realisations Limited (formerly Caledonian Airborne Engineering Limited). The present contingent liability arising therefrom is approximately £3.5m *(2001: £4.0m)*.

19 Pension costs

There is no company pension fund. The company will contribute to employees personal pension plans up to a maximum of 5% of their salary. The pension charge relating to these schemes was £17,000 *(2001: £10,000)* for the year.

20 Related parties

The company is controlled by Beginextra Limited, the ultimate parent company. Beginextra is 100% owned by Faris Samarai, the company's sole director.

The sole director has granted a personal guarantee of £50,000 to the company's bankers and during the year granted a further interest free loan of £60,000 to the company, which, when added to the loan of £100,000 at the beginning of the year gives a total loan of £160,000 to the company which is included in creditors at the year end.

21 Ultimate parent company

The company's ultimate parent company is Beginextra Limited, which is incorporated and registered in England. Beginextra Limited is exempt by virtue of section 248 of the Companies Act 1985 from preparing group accounts.