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DIRECTORS' REPORT AND ACCOUNTS

REED AVIATION LIMITED

31 DECEMBER 1987

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REED AVIATION LIMITED

DIRECTORS' REPORT

The directors present their annual report together with the audited accounts of the company for the year ended 31 December 1987.

ACTIVITIES

The principal activity of the company is the operation of an air charter business. In addition the company provides ground handling services at Luton and Manchester airports.

BUSINESS REVIEW, RESULTS AND DIVIDENDS

Newspapers

The Company was awarded a three year contract to fly U.K. national newspapers to Northern Ireland and the Isle of Man. During 1987 the quantity of newspapers flown to Belfast reached an all time record. As a result, the use of ad-hoc aircraft was increased to cope.

Despite the buoyancy of the newspaper business during 1987, the outlook for 1988 will need to be more pessimistic. Two of the largest users of the air services to Ireland; Mirror Group Newspapers Limited and Express Newspapers PLC are to print their titles in Belfast and Dublin respectively.

Naturally the Company will endeavour to retain the remaining business using smaller aircraft. The Isle of Man contract is not affected by this major policy change.

Broking

To compensate for the loss of newspaper revenue, an aircraft charter broking department was established in August to develop world-wide charter opportunities.

Business undertaken during 1987 was a series of Boeing 707 flights between Madagascar and Europe.

Aircraft Handling - Luton

The aircraft handling unit at Luton International Airport continues to expand.

During 1987 Anglo Cargo Airlines were encouraged to base their BAe 1-11 475 freighter at Luton, which is now under the operational supervision of Reed Aviation.

Reed Aviation have been credited for a 35% increase in freight traffic through Luton during 1987.

This success in encouraging a growth in cargo, and in particular overnight parcel traffic, is causing other operators to look at Luton Airport for their own business. Following months of speculation, the T.N.T. organisation will be transferring their main air hub to Luton and Reed have been awarded the aircraft handling contract.

Manchester

Despite the restrictions imposed on Company activities at Manchester, there are active attempts to develop the present self handling of newspapers, and representation of air taxi operators into a handling role. Such a move is supported by Datapost, who currently have nine flights a night through Manchester. The Airport Authority is actively encouraging a closer relationship between Reed and Manchester Handling Limited - one of the recognised agents. If this is successful, the Datapost business could be secured.

Aircraft Cleaning

Negotiations have been in progress for several months with the owner of an aircraft cleaning company at Luton - Air Serve (86) Limited, which when satisfactorily concluded, will give Reed Aviation a controlling 66% shareholding. Air Serve (86) is forecasting a £250K turnover in 1988. Their main clients are Ryanair and London European Airways.

Datapost

The working relationship with Royal Mail Parcels - Datapost, has steadily strengthened. The overall operation at the end of 1987 comprised of fifteen domestic and International services, for which Reed provide operations support, flight watch and handling at Luton.

Both Datapost and Reed have recognised the advantages of a closer relationship, likely to be through a corporate restructure of Reed Aviation. Such a possibility is being examined by all parties concerned.

Results and dividend

The trading results for the year are set out in the profit and loss account on page 3. The directors recommend the payment of a final dividend of £250,000 (1986: £Nil).

DIRECTORS

The directors of the company who served during the year are as follows:

JD Capstick	Chairman
LK Guest	
LG Crosby	(Resigned 30 November 1987)
MP Timson	
JA Bolton	(Appointed 30 November 1987)

The directors have no beneficial interest in the shares of the company.

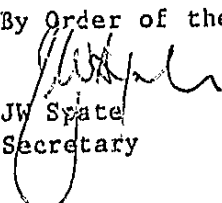
DONATIONS

Charitable donations in the year amounted to £410 (1986: £410).

AUDITORS

The auditors, Price Waterhouse, have expressed their willingness to be re-appointed, and a resolution seeking their re-appointment will be proposed at the Annual General Meeting.

By Order of the Board


JW Spate
Secretary

24 May 1988

Price Waterhouse



AUDITORS' REPORT TO THE MEMBERS OF REED AVIATION LIMITED

We have audited the financial statements on pages 4 to 11 in accordance with approved Auditing Standards.

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 1987 and of its profit and source and application of funds for the year then ended and comply with the Companies Act 1985.

Price Waterhouse

Chartered Accountants

14 June 1988

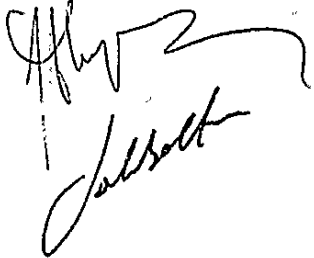
REED AVIATION LIMITED

PROFIT AND LOSS ACCOUNT FOR THE
YEAR ENDED 31 DECEMBER 1987

	Note	31 December 1987		31 December 1986	
		£	£	£	£
TURNOVER	2		4,466,870		4,103,605
External charges		414,074		333,494	
Staff costs recharged		211,075		197,132	
Air charter costs		3,702,845		3,514,419	
Depreciation		<u>25,834</u>		<u>35,691</u>	
			<u>4,353,828</u>		<u>4,080,736</u>
OPERATING PROFIT			113,042		22,869
Interest receivable	3		<u>28,266</u>		<u>31,344</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2		141,308		54,213
TAX ON PROFIT ON ORDINARY ACTIVITIES	4		<u>(46,136)</u>		<u>(15,514)</u>
PROFIT FOR THE FINANCIAL YEAR			95,172		38,699
DIVIDEND PROPOSED			(250,000)		-
RESERVES BROUGHT FORWARD			<u>249,061</u>		<u>210,362</u>
RESERVES CARRIED FORWARD			<u>£ 94,233</u>		<u>£249,061</u>

REED AVIATION LIMITED

BALANCE SHEET AS AT 31 DECEMBER 1987

	<u>Note</u>	<u>31 December 1987</u>	<u>31 December 1986</u>
		£	£
FIXED ASSETS			
Tangible assets	5	37,875	67,960
Investments	6	<u>15,000</u>	<u>-</u>
		52,875	67,960
CURRENT ASSETS			
Debtors	7	673,665	606,970
Cash at bank and in hand		<u>229,063</u>	<u>204,336</u>
		902,728	811,306
CREDITORS			
Amounts falling due within one year	8	<u>810,982</u>	<u>576,970</u>
NET CURRENT ASSETS		<u>91,746</u>	<u>234,336</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		144,621	302,296
PROVISION FOR LIABILITIES AND CHARGES	9	<u>(388)</u>	<u>(3,235)</u>
		<u>£144,233</u>	<u>£299,061</u>
CAPITAL AND RESERVES			
Called up share capital	10	50,000	50,000
Profit and loss account		94,233	249,061
DIRECTORS			
			
24 May 1988			

<u>£ 144,233</u>	<u>£299,061</u>
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REED AVIATION LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE YEAR ENDED 31 DECEMBER 1987

	31 December 1987	31 December 1986
	£	£
SOURCE OF FUNDS		
Profit on ordinary activities before taxation	141,308	54,213
Adjustment for items not involving the movement of funds:		
Depreciation	25,334	35,691
Loss on disposal of fixed assets	<u>1,757</u>	<u>419</u>
TOTAL GENERATED FROM OPERATIONS	168,899	90,323
FUNDS FROM OTHER SOURCES		
Tax refund	456	-
Disposal of tangible assets	<u>10,392</u>	<u>100</u>
	179,747	90,423
APPLICATION OF FUNDS		
Dividends paid	(50,000)	-
Tax paid	-	(63,606)
Purchase of tangible assets	(7,898)	(36,148)
Cost of investment in subsidiary	<u>(15,000)</u>	<u>-</u>
	(72,898)	(99,754)
	106,849	(9,331)
MOVEMENT IN WORKING CAPITAL		
Debtors and prepayments	(6,616)	(105,945)
Amounts owing to companies in the shareholding groups	(76,026)	(118,075)
Other creditors and accruals	<u>520</u>	<u>131,950</u>
MOVEMENT IN NET LIQUID FUNDS	<u>£24,727</u>	<u>£(101,401)</u>

REED AVIATION LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1987

1 ACCOUNTING POLICIES

The accounts have been prepared under the historical cost convention using the following accounting policies:

(1) Turnover

Turnover represents the total amount chargeable to customers for services provided during the year, exclusive of Value Added Tax.

(2) Depreciation

Depreciation is calculated on a straight line basis at rates estimated to write off the cost of assets over their useful lives.

Motor vehicles	25%
Office equipment, plant and machinery	20% - 25%

(3) Foreign currency translation

Normal trading activities denominated in foreign currencies are recorded in Sterling at the actual exchange rates as at the date of the transaction. Monetary assets and liabilities are reported in the balance sheet at the rates of exchange prevailing at the year end. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is reported as an exchange gain or loss in the profit and loss account.

(4) Deferred taxation

Deferred taxation is provided only if there is a reasonable prospect of payment in the foreseeable future. Provision is made using the expected rates of tax for the year in which reversal is anticipated to occur.

2 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

- (1) Profit on ordinary activities before taxation is stated after charging the following amounts:

	31 December 1987	31 December 1986
	£	£
Management charges	92,000	92,000
Auditors' remuneration	3,350	2,400
Directors' emoluments	-	-

REED AVIATION LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1987

2 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION (Continued)

The management charges made by the two shareholding groups, Mirror Group Newspapers Limited and its subsidiaries and Hunting Associated Industries Limited and its subsidiaries, include charges in respect of the services of the directors.

The company itself has no employees, but uses staff employed by its two shareholding groups for whom a charge is made and included in staff costs.

(2) The analysis of turnover is as follows:

	31 December 1987 £	31 December 1986 £
Air charter services		
United Kingdom	3,793,559	3,632,282
Europe	232,697	187,466
Africa	94,818	-
	<u>4,121,074</u>	<u>3,819,748</u>
Ground handling services	345,796	283,857
	<u>£4,466,870</u>	<u>£4,103,605</u>

3 INTEREST RECEIVABLE

	31 December 1987 £	31 December 1986 £
Bank interest receivable	28,266	31,344

4 TAX ON PROFIT ON ORDINARY ACTIVITIES

The taxation charge arises as follows:

	31 December 1987 £	31 December 1986 £
Corporation tax based on the profit for the year at 35%	48,983	24,370
(1986: 29.75%) less marginal relief	-	(456)
Adjustment relating to prior years	(2,847)	(8,400)
Deferred tax	<u>£46,136</u>	<u>£15,514</u>

REED AVIATION LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1987 (Continued)

5 TANGIBLE FIXED ASSETS

	Motor vehicles £	Office equipment plant and machinery £	Total £
<u>At cost</u>			
Balance at 1 January 1987	45,925	102,041	147,966
Additions	2,820	5,078	7,898
Disposals	(14,337)	(14,390)	(28,727)
Balance at 31 December 1987	34,408	92,729	127,137
<u>Accumulated depreciation</u>			
Balance at 1 January 1987	17,662	62,344	80,006
Charge for the year	7,301	18,533	25,834
Released on disposals	(3,759)	(12,819)	(16,578)
Balance at 31 December 1987	21,204	68,058	89,262
<u>Net book amount</u>			
31 December 1987	£13,204	£24,671	£37,875
31 December 1986	£28,263	£39,697	£67,960

At the year end there were no unprovided capital commitments.

REED AVIATION LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1987 (Continued)

6 INVESTMENTS

	31 December 1987 £	31 December 1986 £
Investment at cost	15,000	-

In October 1987 the company acquired the right to purchase 66 ordinary shares of £1 each in Air Serve (86) Limited, representing 66% of the issued share capital of that company. Air Serve (86) Limited is a company registered in England. Its business is that of cleaning aircraft.

7 DEBTORS

	31 December 1987 £	31 December 1986 £
Trade debtors	321,730	429,030
Amounts owed by companies in the shareholding groups	198,254	138,175
Other debtors	29,943	14,842
Prepayments and accrued income	123,738	24,923
	<u>£673,665</u>	<u>£606,970</u>

8 CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 December 1987 £	31 December 1986 £
Trade creditors	17,080	115,493
Amounts owed to companies in the shareholding groups	216,284	232,231
Corporation tax	73,353	23,914
Other taxes	129,596	113,223
Accruals and deferred income	124,669	42,109
Proposed dividend	250,000	50,000
	<u>£810,982</u>	<u>£576,970</u>

REED AVIATION LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1987 (Continued)

9 PROVISION FOR LIABILITIES AND CHARGES

The potential deferred tax liability, which has been provided in full at a rate of 35% (1986: 27%) comprises:

	31 December 1987 £	31 December 1986 £
Capital allowances in excess of depreciation	(777)	2,547
Short term timing differences	<u>1,165</u>	<u>688</u>
	£388	£3,235

10 CALLED UP SHARE CAPITAL

	31 December 1987 £	31 December 1986 £
Authorised, allotted and fully paid:		
25,000 'A' ordinary shares of £1 each	25,000	25,000
25,000 'B' ordinary shares of £1 each	<u>25,000</u>	<u>25,000</u>
	£50,000	£50,000

11 ULTIMATE HOLDING COMPANIES

The company is jointly owned by Mirrorair Limited and Air Bridge Carriers Limited whose ultimate holding companies are Mirror Group Newspapers Limited and Hunting Associated Industries Limited respectively. All of these companies are incorporated in Great Britain.

A significant proportion of the company's turnover and air charter costs are transacted (at market rates) with these related companies.