

DIRECTORS REPORT

The Directors submit their report on the accounts of the Company for the 9 months ended 30 June 1988

## 1. TRADING RESULTS

Turnover for the period was £68,123,372

The ss for the nine months before taxation amounted to £3,906,726

After crediting taxation of £2,918,365 the loss for the nine months was £988,361

## 2. APPROPRIATIONS

The directors make the following recommendations:-

Lo.s charged to Revenue Reserves	£ 988,361
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No dividend is proposed

## 3. ACCOUNTING PERIOD

The accounting period end has been changed to 30 June at the request of the ultimate holding company. The accounts for 1988 are for the nine months ended 30 June 1988 with comparatives for the eleven months ended 30 September 1987.

## 4. ACCOUNTS

The Company Profit and Loss Account and Company Balance Sheet have been prepared using the historical cost convention.

## 5. PRINCIPAL ACTIVITIES AND BUSINESS REVIEW OF THE COMPANY

There have been no significant changes during the period in the principal activities of the Company which consist of the operation of aircraft on Charter and Scheduled Services together with the provision of aircraft related services. The company operated both Boeing B737 (-200 and -300 versions) and Airbus A300 B4 aircraft during the period. The company's own maintenance facilities and provision of maintenance services to customers continue to develop.

## 6. DIRECTORS

The following are the names of the persons who, at any time during the financial period were directors of the Company.

R. Muckleston	R. O'Donnell
N.W. Elliott	J.T. Jackson
J. Booth (Appointed 4/2/88)	D.C. Peters
J. Booth (Resigned 7/9/88)	J. Jones
D. Cockerton (Resigned 29/7/88)	R. Davies (Appointed 28/9/88)
B. Firmin (Resigned 30/11/87)	M. Frith (Appointed 28/9/88)
D. Hopkins (Appointed 10/8/88)	P. Brett (Appointed 28/9/88)
C.P. Brown (Appointed 18/8/88)	

DIRECTORS REPORT (continued)

7. DIRECTORS INTERESTS

Set out below are the particulars of the interests according to the Register kept by the Company of directors of the Company and their families in the shares, debentures and unsecured loan stock of Bass PLC and its subsidiaries at the commencement, or on date of becoming a director, if later, and close of the financial period. In accordance with the requirements of the Act, non-beneficial trustee holdings other than holdings as a bare trustee, have been included.

The directors' interests in shares issued to Trustees under the terms of the Employee Share Ownership Scheme (Scheme Shares) are also shown.

(b) beneficial

(nb) non-beneficial

	Bass PLC Ordinary Shares			
	30/6/88		30/09/87 or date	
	Direct	Scheme Shares	Direct	Scheme Shares
R. Muckleston	125 (b)	3953 (b)	125 (b)	3953 (b)
R. O'Donnell	-	-	-	-
J.T Jackson	118 (b)	-	50 (b)	425 (b)
D.C Peters	-	-	-	-
N.W. Elliott	-	-	-	-
J. Jones	-	-	-	-
B. Firmin	-	144 (b)	-	144 (b)
D. Cockerton	125 (b)	1859 (b)	125 (b)	1859 (b)

The Register of Directors' Holdings kept by the Company does not contain particulars of the holding of any director who is also a director of Bass PLC (or any other company of which the reporting company is a wholly-owned subsidiary, in whose accounts the directors interests are reported).

Options to purchase ordinary shares of 25p each in Bass PLC under the terms of the Horizon Travel Executive Share Option Scheme have been granted to directors as follows:

1985 Executive Scheme

Option price per Share	432p
Exerciseable only between	3.10.88 and 3.10.95
R. Muckleston	37,305
R. O'Donnell	11,184
J.T. Jackson	13,956
D. Cockerton	19,041

# ORION AIRWAYS LIMITED

## DIRECTORS REPORT (continued)

### 8. CONTRACTS AND ARRANGEMENTS

No contracts of significance in relation to the Company's business in which directors of the Company or any connected person had a material interest subsisted at the end of the financial year or at any time during the year. No arrangements to which the Company was a party subsisted at the end of the financial year or at any time during that year whose objects enabled the directors or connected persons to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate other than the Employee Share Ownership Scheme.

### 9. FIXED ASSETS

There have been no significant changes in fixed assets other than in the normal course of trading.

### 10. POST BALANCE SHEET EVENTS

As at 17 August 1988 the Company's ultimate holding company changed. Horizon Travel Limited and its subsidiaries were sold to Thomson Travel, whose ultimate holding Company is International Thomson Organisation Limited incorporated in Canada (See note 18 page 15).

### 11. EMPLOYEES

Orion Airways continues to be fully committed to its policy of communication, consultation and involvement, and to monitoring its effectiveness. Widely established arrangements include briefing groups, consultancy committees and the publication of Company newspapers as part of the general process of employee consultation.


It is Company policy that there shall be no discrimination in respect of sex, colour, religion, race, nationality or ethnic origin and that equal opportunity shall be given to all employees.

The Company continues to assist disabled employees by making every effort to provide appropriate employment and by offering opportunities for training, career development and promotion. In recruitment procedures disabled applicants are given full and fair consideration for suitable vacancies.

### 12. AUDITORS

The Company's auditors Ernst and Whinney have resigned their position and have been replaced by Price Waterhouse. This is as a result of the change in ownership of the Company's ultimate holding company since the Balance Sheet date. Price Waterhouse have expressed their willingness to continue in this position and a resolution proposing this will be submitted at the Annual General Meeting.

By order of the Board

  
Secretary

19 December 1988

AUDITORS REPORT TO THE MEMBERS OF

ORION AIRWAYS LIMITED

We have audited the financial statements on pages 5 to 16 in accordance with approved auditing standards.

In our opinion the financial statements give a true and fair view of the state of affairs of the Company at 30 June 1988 and of the loss and source and application of funds for the period then ended and comply with Companies Act 1985.

*Price Waterhouse*

Chartered Accountants

London

19 December 1988

# ORION AIRWAYS LIMITED

9 MONTHS ENDED 30 JUNE 1988

## ACCOUNTING POLICIES

The accounting policies are consistent with those adopted previously. However due to the change in ownership of the Company since the Balance Sheet date certain assumptions underlying the policies have been changed as detailed in the note 17 on reserves (page 12).

### a) Basis of accounting

These accounts have been prepared under the historical cost convention.

### b) Deferred taxation

Deferred taxation is provided at 35% on taxation liabilities arising from timing differences to the extent that those liabilities are expected to reverse.

The contingent liability in respect of timing difference which are not expected to reverse calculated using the liability method is set out in note 6.

### c) i. Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation.

Depreciation is provided on the cost less estimated residual value of fixed assets in equal annual instalments over the estimated useful lives of the assets. The rates of depreciation are as follows:

Long-term leasehold properties	- 3% per annum
Aircraft	- 5% - 6% per annum from the date of each aircraft becoming operational
Aircraft spares and ancillary equipment	- At appropriate rates which range between 5% and 20% per annum
Fittings and equipment	- Between 10% and 20% per annum
Motor vehicles	- 20% per annum

Tangible fixed assets operated under the terms of finance leases are also capitalised at a value equal to the cost incurred by the lessor in acquiring the relevant assets and depreciated in the same manner as owned assets. Leases are regarded as finance leases where their terms transfer to the lessee substantially all the benefits and burdens of ownership other than the right to title. The capital element of future lease payments is included under creditors. Rental costs under operating leases are charged to profit and loss account as incurred.

### c) ii. Investments

Fixed asset investments are stated at cost less any provision for diminution in value.

### d) Currency conversion

Foreign currency assets and liabilities have been translated into sterling at the mid-rates of exchange ruling at the Balance Sheet date.

### e) Aircraft maintenance

Overhaul costs of airframes, support equipment and engines are charged against revenue as engineering work becomes necessary, with the exception of major overhaul costs, for which provision is made based on a rate per flying hour.

ORION AIRWAYS LIMITED

9 MONTHS ENDED 30 JUNE 1964

ACCOUNTING POLICIES (Cont)

f) Retirement and Death Benefits

Contributions to the company pension scheme are charged to profit as incurred. They are based on consistent percentages of members' pensionable pay as recommended by actuaries.

g) Stocks

Stocks are valued at the lower of cost and net realisable value.

h) Turnover

Turnover is exclusive of VAT and comprises the aggregate value of income derived from the operation of aircraft and related services.

ORION AIRWAYS LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE NINE MONTHS ENDED 30 JUNE 1988

	NOTE	9 months ended 30/6/88	11 months ended 30/09/87 (Restated)
		£	£
Turnover		68,123,372	84,854,757
Costs and overheads, less other income 1		<u>69,837,863</u>	<u>80,076,658</u>
Trading (Loss)/Profit		( 1,714,491)	4,778,099
Cost of borrowing (net)	3	<u>2,192,235</u>	<u>2,808,776</u>
(Loss)/Profit on activities before exceptional item and taxation		( 3,906,726)	1,969,323
Exceptional item	5	<u>-</u>	<u>11,900,744</u>
Loss on ordinary activities before taxation		( 3,906,726)	( 9,931,421)
Taxation	6	<u>2,918,365</u>	<u>1,916,289</u>
Loss on ordinary activities after taxation for the financial period	17	( <u>988,361</u> )	( <u>8,015,132</u> )

Notes on Pages 10 to 16 form an integral part of these accounts.

ORION AIRWAYS LIMITED  
BALANCE SHEET - 30 JUNE 1988

	NOTE	30/6/88 £	30/6/87 £ (Restated)
Fixed Assets			
Tangible assets	7	92,814,777	86,446,687
Investments	8	<u>1,970,971</u>	<u>2,401,327</u>
		94,785,748	88,848,014
Current Assets			
Stocks	9	1,156,484	1,044,095
Debtors	10	9,256,542	13,178,468
Investments - short-term deposits		4,618,635	5,504,624
Cash at bank and in hand		21,262,242	339,129
Creditors: amounts falling due within one year	11	<u>(61,113,590)</u>	<u>(34,087,423)</u>
Net current liabilities		<u>(24,819,687)</u>	<u>(14,020,307)</u>
Total assets less current liabilities		69,966,061	74,827,707
Creditors: amounts falling due after more than one year	12	(50,954,269)	(53,878,462)
Deferred Liabilities	13	<u>( 5,617,216)</u>	<u>( 6,566,308)</u>
		<u>13,394,576</u>	<u>14,382,937</u>
Capital and reserves			
Called up share capital	15	100,000	100,000
Profit and loss account	17	<u>13,294,576</u>	<u>14,282,937</u>
		<u>13,394,576</u>	<u>14,382,937</u>

Signed on behalf of the Board



) DIRECTORS

19 December 1988

Notes on pages 10 to 16 form an integral part of these accounts.



ORION AIRWAYS LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS - 9 MONTHS ENDED  
30 JUNE 1988

	9 Months ended 30/6/88 £	11 Months ended 30/9/87 £ (Restated)
<b>FUNDS GENERATED</b>		
(Loss) before taxation	(3,906,726)	( 9,931,421)
Items not involving the movement of funds:		
Depreciation	4,540,652	10,874,127
(Profit)/Loss on disposal of fixed assets	( 453,935)	86,154
Aircraft maintenance (released)/provided	( 401,644)	675,778
Provision against fixed assets	<u>          -</u>	<u>2,870,000</u>
Funds (absorbed by)/generated from operations	( 221,653)	4,574,638
 Funds from other sources:		
Disposals of tangible fixed assets	7,773,779	173,329
Loans received	458,306	458,306
Tax received (net)	<u>          -</u>	<u>124,765</u>
<b>TOTAL FUNDS GENERATED</b>	<u>8,010,432</u>	<u>5,331,038</u>
 <b>FUNDS APPLIED</b>		
Purchase of tangible fixed assets	(18,228,585)	(11,475,343)
Mortgage investment	(27,950)	( 27,950)
Deferred aircraft maintenance incurred	(139,448)	( 741,700)
Prior period adjustment	<u>          -</u>	<u>950,500</u>
	<u>(18,395,983)</u>	<u>(13,195,493)</u>
 Working Capital movement		
Stocks	( 111,589)	( 193,775)
Debtors	( 995,657)	( 716,090)
Creditors	(1,418,996)	7,365,437
Inter-Company indebtedness	35,699,214	429,514
<b>TOTAL FUNDS GENERATED/(APPLIED)</b>	<u>14,776,989</u>	<u>( 6,310,407)</u>
 <b>SURPLUS/(DEFICIT)</b>	22,787,421	( 979,369)
 Finance lease repayments	( 2,750,297)	( 3,569,855)
<b>NET FUNDS - SURPLUS/(DEFICIT)</b>	<u>20,037,124</u>	<u>( 4,549,224)</u>
 Represented By Movements in liquid funds (Decrease)/Increase in short term deposits	( 885,989)	5,504,624
Increase/(Decrease) in balances at bank and in hand less bank overdraft	<u>20,923,113</u>	<u>(10,053,848)</u>
	<u>20,037,124</u>	<u>( 4,549,224)</u>

Notes on pages 10 to 16 form an integral part of these accounts.

# ORION AIRWAYS LIMITED

## NOTES TO THE ACCOUNTS

9 months ended 30/06/88	11 months ended 30/09/87 (Restated)
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1. Costs and overheads less other income.	£	£
Staff costs (note 2)	8,687,861	8,738,649
Depreciation on tangible fixed assets	4,540,652	4,545,400
Other operating charges	55,787,046	66,237,091
Income from fixed asset investment (note 4)	( 87,580)	( 145,724)
Intra-group interest	909,864	701,238
	69,837,863	80,076,658

The following amounts are included above:

Hire of plant and machinery	4,430,516	3,856,466
Auditors' remuneration	25,000	20,000
(Profit)/Loss on disposal of fixed assets	( 453,935)	86,154

### 2.a) Staff Costs

Wages and salaries	7,431,919	7,474,451
Social security costs	636,725	690,271
Other pension costs	619,237	573,878
	8,687,881	8,738,649

The Company operates a retirement benefit scheme through a wholly insured policy with an insurance company. Members of this plan are contracted out of the State Earnings Related and Graduated Scheme. Actuarial valuations were last completed as at 30 November 1986 which confirmed that members' accrued benefits based on service completed to that date and on rates of pensionable pay then current were fully covered by the assets of the plans.

There have been no exceptional charges or credits included in the pension costs stated above.

	NO.	NO.
b) Average number of persons employed	665	629
c) Emoluments of directors and higher paid United Kingdom employees of the Company.		

The emoluments of directors totalled £215,312 (£268,181). The total number of employees earning over £30,000 per annum was 73 (63). The table below shows the number of directors whose emoluments excluding pension contributions during the period were within the bands stated. In addition the table shows higher paid United Kingdom employees of the Company earning over £30,000 per annum.

NOTES TO THE ACCOUNTS

2 c) cont.

		<u>Directors</u>		<u>Higher Paid</u>	
		<u>1988</u>	<u>1987</u>	<u>UK</u>	<u>1987</u>
				<u>1988</u>	<u>1987</u>
	£				
Up to	5,000	1	4		
25,001 -	30,000	1	2		
30,001 -	35,000	1	-	12	15
35,001 -	40,000	-	-	22	20
40,001 -	45,000	1	1	14	16
45,001 -	50,000	2	1	13	8
50,001 -	55,000	-	1	5	4
55,001 -	60,000	-	1	6	-
60,001 -	65,000	-	-	1	-

The emoluments of the Chairman were £ NIL (£ NIL)

The remuneration of the highest paid director was £49,200 (£56,273)

	<u>1988</u>	<u>1987</u>
	<u>£</u>	<u>£</u>
		(Restated)

3. Cost of borrowing (net)

Interest payable on:

Bank loans and overdrafts repayable within 5 years

1,739

1,081

Other loans repayable within 5 years

-

-

Other loans repayable after 5 years

2,545,892

3,361,322

Interest payable and similar charges

2,547,631

3,362,403

Less: Interest receivable

355,396

553,627

2,192,235

2,808,776

4. Income from fixed asset investments

Interest on loan to subsidiary

87,580

145,724

5. Exceptional items

Additional aircraft depreciation

-

6,328,727

Airbus A300 B4 introductory costs

-

2,702,017

Operating lease provision

-

2,870,000

-

11,900,744

These items relate to charges made on acquisition of the company by Bass PLC.

NOTES TO THE ACCOUNTS

6. Taxation	1988	1987
	£	£
Group relief for the period	2,518,600	532,092
Adjustment re prior years	( 8,235)	-
Deferred taxation (note 14)	408,000	( 456,803)
	<u>2,918,365</u>	<u>75,289</u>

United Kingdom tax has been calculated on taxable losses at 35% (36.82%).

7. Tangible assets

	Long-term Leasehold Properties £	Aircraft, and support equipment £	Other plant and equipment £	Total £
Cost				
As at 30/09/87 (Restated)	1,649,704	102,156,131	985,263	104,791,098
Additions	-	18,033,884	194,701	18,228,585
Disposals	-	(7,650,008)	(19,592)	(7,669,600)
As at 30/6/88	<u>1,649,704</u>	<u>112,540,007</u>	<u>1,160,372</u>	<u>115,350,083</u>
Depreciation				
As at 30/09/87 (Restated)	212,268	17,705,814	426,329	18,344,411
Charge for the period	37,118	4,341,816	161,718	4,540,652
On Disposals	-	(336,337)	( 13,420)	( 349,757)
As at 30/6/88	<u>249,386</u>	<u>21,711,293</u>	<u>574,627</u>	<u>22,535,306</u>
Net book value				
As at 30/06/88	<u>1,400,318</u>	<u>90,828,714</u>	<u>585,745</u>	<u>92,814,777</u>
As at 30/9/87 (Restated)	<u>1,437,436</u>	<u>84,450,317</u>	<u>558,934</u>	<u>86,446,687</u>

Included in the cost and net book value of aircraft and support equipment at 30 June 1988 is NIL (1987 £5,544,504) relating to advance payments for aircraft and spares for future delivery.

Assets held under finance leases:

Included in aircraft and support equipment are three Boeing 737-300 aircraft as follows:-

	1988	1987 (Restated)
Cost	55,913,865	55,913,865
Depreciation to date	12,063,564	10,714,564
Net book value	<u>43,850,301</u>	<u>45,199,301</u>

## NOTES TO THE ACCOUNTS

	1988 £	1987 £ (Restated)
8. Fixed asset investments		
Cost of investment in subsidiary company		
Orion Flight Training Limited	911,478	911,478
Loan to subsidiary	916,611	1,374,917
Investment in related company-		
Consavio S. SRL	3,132	3,132
Other investments-life assurance		
endowment policies	139,750	111,860
	<u>1,970,971</u>	<u>2,401,327</u>

Group accounts have not been prepared because the Company is a wholly-owned subsidiary of another UK registered company. In the opinion of the directors the value of the subsidiary is at least equal to the amount shown above.

The Company holds 75% of the issued ordinary share capital and 100% of the participating preference shares of Orion Flight Training Limited a company incorporated in England, and 25% of the share capital of Consavio S.SRL, a company incorporated in Italy.

9. Stocks		
Aircraft consumable spares	<u>1,156,484</u>	<u>1,044,895</u>
10. Debtors		
Trade debtors	2,470,485	3,046,203
Amounts owed by group companies	3,993,687	8,400,054
Amounts owed by subsidiary company	116,497	95,621
Other debtors	2,585,281	834,134
Prepayments and accrued income	90,592	270,364
Corporation tax recoverable	-	532,092
	<u>9,256,542</u>	<u>13,178,468</u>
11. Creditors: amounts falling due within one year:		
Finance lease obligations	3,870,339	3,696,443
Trade creditors	12,216,730	15,593,256
Cash received in advance	2,229,829	1,206,571
Amounts owed to group companies	36,141,275	8,273,615
Amounts owed to subsidiary company	-	20,243
U.K. corporation tax	510,099	86,249
Other taxes & Social security costs	828,124	501,010
Accruals and deferred income	5,317,194	4,710,036
	<u>61,113,590</u>	<u>34,087,423</u>

# ORION AIRWAYS LIMITED

## NOTES TO THE ACCOUNTS

	1988 £	1987 £ (Restated)
12. Creditors: amounts falling due after more than one year:		
Secured mortgage loan	800,000	800,000
Finance lease obligations	43,906,269	46,830,462
Amounts owed to group companies	6,248,000	6,248,000
	<u>50,954,269</u>	<u>53,887,462</u>

Obligations under the finance leases relate to aircraft leases repayable by quarterly instalments ending between December 1994 and April 1996. Interest rates charged are linked to LIBOR.

The mortgage loan of £800,000 is secured upon a leasehold property of the Company and is repayable in 2003. Interest is payable at the rate of 11.5% per annum.

Finance lease obligations falling due after more than one year:

Payable within two to five years	17,006,117	16,195,787
Payable after five years	26,900,152	30,634,675
	<u>43,906,269</u>	<u>46,830,462</u>

## 13. Deferred liabilities

	Deferred taxation £	Provision for aircraft maintenance £	Total £
At 30 September 1987 (Restated)	1,898,212	4,668,096	6,566,308
Utilised in period (Released)/Provided in period	- ( 408,000)	( 139,448) ( 401,644)	( 139,448) ( 809,644)
At 30 June 1988	<u>1,490,212</u>	<u>4,127,004</u>	<u>5,617,216</u>

## 14. Deferred taxation reserve

	1988 £	1987 £
Capital allowances in excess of depreciation	1,820,000	-
Capital gains rolled-over	2,001,947	4,001,947
Provisions not immediately allowable for tax purposes	(1,553,000)	(728,734)
Other timing differences	( 778,735)	15,999
	<u>1,490,212</u>	<u>3,289,212</u>

Capital gains arising on the sale of aircraft by a fellow subsidiary Company have been deferred by the availability of "rollover" relief.

The potential tax liability calculated at a rate of 35% (35%) arising principally from accelerated capital allowances for which provision has not been made above and which is not expected to crystallise amounts to £9,530,000 at 30 June 1988 (£9,503,828 at 30 September 1987).

NOTES TO THE ACCOUNTS

15. Called up share capital	1988 £	1987 £
Authorised 1,000,000 ordinary shares of £1 each	<u>1,000,000</u>	<u>1,000,000</u>
Issued allotted and fully paid 100,000 ordinary shares of £1 each	<u>100,000</u>	<u>100,000</u>

## 16. Financial commitments

a) Capital expenditure		
Contracted but not provided in these accounts	370,541	10,418,699
Approved but not yet contracted	<u>-</u>	<u>-</u>

## b) Operating lease commitments

At 30 June 1988 the Company had annual commitments under operating leases for aircraft and other equipment as follows:

Leases which expire	
Within one year	837,461
Between two and five years	6,161,898
After five years	<u>-</u>
	<u>6,999,359</u>

Payments due under an operating lease and the finance lease are subject to periodic interest adjustments.

## 17. Reserves

	Profit & Loss Account £	
As at 30 September 1987	15,786,937	
Prior Year adjustment	( 1,504,000 )	14,282,937
Retained loss for the period		( 988,361 )
As at 30 June 1988		<u>13,294,576</u>

Prior year adjustment relates to:

Aircraft operated by the Company previously accounted for as operating leases now classified as finance leases in accordance with the provisions of S.S.A.P.21	527,000
Maintenance provisions on B737-300 aircraft	( 2,586,000 )
Income from aircraft leased to third parties transferred to fellow subsidiary	( 1,286,000 )
Taxation thereon	<u>1,841,000</u>
	<u>( 1,504,000 )</u>

• NOTES TO THE ACCOUNTS

18 Ultimate Parent Companies

The ultimate holding company throughout the period ended 30 June 1988 was BASS P.L.C incorporated in Great Britain and registered in England. On 17th August 1988 International Thomson Organisation Limited incorporated in the province of Ontario, Canada became the ultimate holding company.