

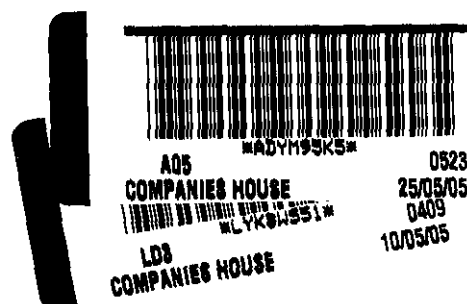
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The Royal Air Force Benevolent Fund Enterprises

Report and Financial Statements

28 February 2004

ERNST & YOUNG



The Royal Air Force Benevolent Fund Enterprises

Registered No: 02190393

Directors

Air Chief Marshal Sir David Cousins KCB AFC BA
Wing Commander E B Bohm ACIS
Mr T G A Prince
Mr G Harris OBE

Secretary

Mr G Harris OBE

Auditors

Ernst & Young LLP
1 More London Place
London
SE1 2AF

Bankers

Lloyds TSB Bank Plc
High Street
Fairford
Gloucestershire
GL7 4AD

Solicitors

Charles Russell
8-10 New Fetter Lane
London
EC4A 1RS

Registered office

67 Portland Place
London
W1B 4AR

ERNST & YOUNG

Directors' report

The directors present their report and the audited financial statements for the year ended 28 February 2004.

Incorporation

The company is limited by guarantee and does not have a share capital. The members are bound to contribute to the assets of the company for the payment of debts and liabilities of the company to a maximum of £5 each.

The company is a subsidiary undertaking of the Royal Air Force Benevolent Fund, which is a registered charity. The company normally covenants profits to The Royal Air Force Benevolent Fund Development Trust, Registered Charity No 210848.

Principal activities

The company supports and promotes the Royal Air Force Benevolent Fund and its charitable objectives by a diverse range of trading activities. The company is also mandated to promote recruiting to, and the efficiency of, the Royal Air Force.

In the year under review these activities included the organisation of the Royal International Air Tattoo (RIAT), the provision of Hospitality International catering services, the promotion and management of the RAF Massed Bands Concert Tours, the promotion of the work of the Royal Air Force Benevolent Fund, the publication of periodicals and the sale of aviation books and memorabilia through retail outlets, mail order and web site.

In the course of its work the company's activities attract donations, which are paid direct to the Fund, and significant television and media coverage that benefits the charitable work of the Royal Air Force Benevolent Fund and the Royal Air Force.

Business results

In the year to 28 February 2004 the company returned a loss on ordinary activities, before covenant and taxation, of £31,208 compared with a profit of £309,667 in the preceding year. After tax adjustments and the covenant for financial year 2004 there is a loss of £31,793 (£nil in 2003).

As a result of military operations against Iraq, the Ministry of Defence (MOD) cancelled 'Defence 2003', a major Tri-Service military event, which was to have been included as part of RIAT 2003. In the event, RIAT hosted a major MOD Youth Day and an exhibition to celebrate "100 Years of Flight". Regrettably, public attendance was down on historic levels, primarily as a reaction to the traffic and security delays of the previous year and also as a consequence of uncertainties surrounding the 'Defence 2003' event and poor weather.

AviATion Trading saw its Web Site make steady progress but trading activity generally was slow. The sponsor for the RAF Massed Band Concert Tours, BAE SYSTEMS, provided support for two successful Concert Tours and the Company again provided aviation consultancy support for other activities and airshows including successful events at Eastbourne and Sunderland.

Business outlook

Directors were particularly concerned about low public attendance at RIAT 2003, all the more so because the traffic and security problems experienced in the previous year had been fully resolved. Additionally, the MOD contract for 'Defence 2004' was also cancelled but the airshow included a major MOD Youth Day event and a celebration of the 50th Anniversary of D-Day. In order to improve profitability the Company is reviewing all areas of its operations with the aim of reducing costs. Scope for significant savings has already been identified. The Aviation Trading Department is benefiting from encouraging growth in e-commerce and is experiencing an upturn in sales. Aviation Consultancy work for the Eastbourne and Sunderland airshows has again been contracted for later in the year.

Directors' report

Finally, during the year, two of the Company's directors resigned because of differences of opinion with the trustees of the parent charity. The Board wishes to place on record its gratitude to Mr Fred Crawley and Mr Alan Smith, both of whom had been instrumental in the development of the Company and the success and popularity of RIAT over a number of years.

Directors

The directors who served during the year ended 29 February 2004 are:

Air Chief Marshal Sir David Cousins KCB AFC BA

Wing Commander E B Bohm ACIS

Mr F W Crawley CBE FCIB C I Mgt (resigned 28 January 2004)

Mr A F Smith (resigned 11 February 2004)

Mr P A Bowen (deceased 18 May 2004)

Mr T G A Prince

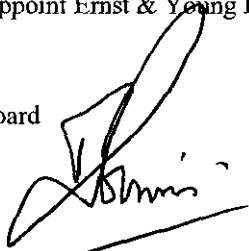
There are no directors' interests requiring disclosure under the Companies Act 1985.

In addition Mr G Harris OBE was appointed a director on 4 August 2004.

Auditors

A resolution to reappoint Ernst & Young LLP will be put to the members at the Annual General Meeting.

On behalf of the board



Air Chief Marshal Sir David Cousins KCB AFC BA
Chairman

5 January 2005

Statement of directors' responsibilities in respect of the financial statements

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. In preparing those financial statements, the directors are 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 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 prevention and detection of fraud and other irregularities.

Independent auditors' report

to the members of The Royal Air Force Benevolent Fund Enterprises

We have audited the company's financial statements for the year ended 28 February 2004 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet, and the related notes 1 to 15. These financial statements have been prepared on the basis of the accounting policies set out therein.

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 auditors' 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

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

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

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 with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

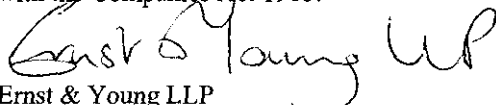
Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 affairs of the company as at 28 February 2004 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


Ernst & Young LLP
Registered Auditor
London

7 January 2005

The Royal Air Force Benevolent Fund Enterprises

Profit and loss account

for the year ended 29 February 2004

	Notes	2004 £	2003 £
Turnover	2	7,777,517	6,662,160
Cost of sales		6,582,104	5,218,968
Gross profit		1,195,413	1,443,192
Administrative expenses		1,277,586	1,193,815
Operating (loss) / profit	3	(82,173)	249,377
Interest receivable		17,428	17,278
Interest payable		(11,269)	-
Other income	6	44,806	43,012
		50,965	60,290
(Loss)/Profit on ordinary activities before covenant and taxation		(31,208)	309,667
Covenanted payments to: The Royal Air Force Benevolent Fund Development Trust		-	(309,603)
(Loss)/Profit on ordinary activities before taxation		(31,208)	64
Taxation	7	(585)	(64)
Loss for the year	13	(31,793)	-

Statement of total recognised gains and losses

for the year ended 29 February 2004

There are no recognised gains or losses other than the loss of £31,793 in the year ended 29 February 2004, and the profit of £nil in the year ended 28 February 2003.

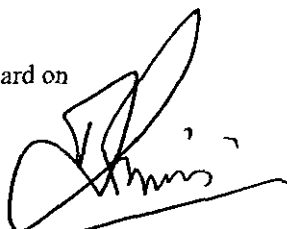
The Royal Air Force Benevolent Fund Enterprises

Balance sheet

at 29 February 2004

	Notes	2004 £	2003 £
Fixed assets			
Tangible assets	8	1,697,197	1,755,627
Current assets			
Stocks	9	269,502	272,646
Debtors	10	820,308	1,340,501
Cash at bank and in hand		748,569	785,163
		1,838,379	2,398,309
Creditors: amounts falling due within one year	11	2,130,585	3,217,153
Net current liabilities		(292,206)	(818,844)
Total assets less current liabilities		1,404,991	936,784
Creditors: amounts falling due after more than one year	12	1,600,000	1,100,000
		1,600,000	1,100,000
Capital and reserves			
Profit and loss account - members' funds	13	(195,009)	(163,216)
		1,404,991	936,784

Approved by the Board on



Air Chief Marshal Sir David Cousins KCB AFC BA

5 January 2005.

Notes to the financial statements

at 29 February 2004

1. Accounting policies

Fundamental accounting concept

The financial statements have been prepared under the going concern concept because the directors are of the opinion that the company can meet liabilities as they fall due with cash generated from operations in addition to bank facilities being negotiated and the intended conversion of £600,000 of the long term loan with The Royal Air Force Benevolent Fund Development Trust to a grant.

Accounting convention

The financial statements are prepared under the historical cost convention and comply with all applicable accounting standards.

Fixed assets

All fixed assets are initially recorded at cost.

Freehold land and buildings are revalued periodically. The basis of valuation is depreciated replacement cost.

Depreciation

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset evenly over its expected useful life as follows:

Freehold buildings	-	over 20 years
Office equipment	-	over 3-5 years
Motor vehicles	-	over 5 years

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Stocks

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

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more tax, with the following exceptions:

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, or gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold.
- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Notes to the financial statements

at 29 February 2004

Foreign currency

Transactions in foreign currencies are recorded at the rate ruling at the date of transaction.

Notes to the financial statements

at 29 February 2004

1. Accounting policies (continued)

Pensions

The company operates one defined benefits scheme. The scheme is administered by the ultimate parent undertaking. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

The company operates two defined contributions scheme. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

Cash flow

The company has taken advantage of the exemption under FRS 1 from the requirement to produce a cash flow statement on the grounds that it is a wholly owned subsidiary undertaking of The Royal Air Force Benevolent Fund which produces publicly available consolidated financial statements in which the company is included.

2. Turnover

Turnover, which is stated net of value added tax, comprises the income accruing from events that took place in the accounting period and sponsorship income attributable to activities carried out in the year.

All turnover arose in the United Kingdom from continuing activities.

3. Operating (loss)/profit

Operating (loss)/profit is stated after charging:

	2004 £	2003 £
Auditors' remuneration	20,881	16,108
Depreciation	103,325	96,080
Staff costs	1,447,555	1,351,597
	<u>1,571,761</u>	<u>1,463,785</u>

4. Directors' emoluments

	2004 £	2003 £
Emoluments	185,434	182,262
	<u>185,434</u>	<u>182,262</u>

5. Staff costs

	2004 £	2003 £
Wages and salaries	1,274,280	1,203,439
Social security costs	125,483	109,543
Pension contributions	47,792	38,615
	<u>1,447,555</u>	<u>1,351,597</u>

The average monthly number of persons employed by the company during the year was 63 (2003 - 58). All staff are involved in the organisation of air shows and related activities.

Notes to the financial statements

at 29 February 2004

6. Other income

	2004 £	2003 £
Royalties received	4,803	6,738
Commissions received	40,003	36,274
	<u>44,806</u>	<u>43,012</u>

7. Taxation

(a) Tax on (loss)/profit on ordinary activities

	2004 £	2003 £
<i>Current tax:</i>		
UK corporation tax on the (loss)/profit for the year	585	64

(b) Factors affecting current tax charge:

The tax assessed on the (loss)/profit on ordinary activities for the year differs from the standard rate of corporation tax in the UK. The differences are explained below:

	2004 £	2003 £
(Loss)/Profit on ordinary activities before tax	(31,208)	64
(Loss)/Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.00% (2003 - 19%)	(5,930)	12
Expenses not deductible for tax purposes	4,517	4,248
Capital allowances in excess of depreciation	1,856	(2,454)
Other timing differences	547	427
Covenanted payment of prior year utilised	—	(768)
Difference in tax rates	—	(1,401)
Others	(405)	—
	<u>585</u>	<u>64</u>

Notes to the financial statements

at 29 February 2004

8. Tangible fixed assets

	<i>Freehold land and buildings £</i>	<i>Office and desk top publishing equipment £</i>	<i>Motor vehicles £</i>	<i>Total £</i>
Cost :				
At 1 March 2003	1,665,101	759,746	—	2,424,847
Additions	—	30,245	14,649	44,894
Disposals				
At 29 February 2004	1,665,101	789,991	14,649	2,469,741
Depreciation:				
At 1 March 2003	71,831	597,388	—	669,219
Charge for year	23,775	77,109	2,441	103,325
Disposals				
At 29 February 2004	95,606	674,497	2,441	772,544
Net book value:				
At 29 February 2004	1,569,495	115,494	12,208	1,697,197
At 1 March 2003	1,593,270	162,358	—	1,755,628

9. Stocks

	<i>2004 £</i>	<i>2003 £</i>
Finished goods for resale	269,502	272,646

10. Debtors

	<i>2004 £</i>	<i>2003 £</i>
Trade debtors	531,968	1,053,351
Prepayments and accrued income	284,870	282,462
Other debtors	3,470	4,688
	820,308	1,340,501

Notes to the financial statements

at 29 February 2004

11. Creditors: amounts falling due within one year

	2004	2003
	£	£
Trade creditors	44,316	110,133
Other taxes and social security costs	124,872	267,332
Other creditors	11,029	2,056
Accruals and deferred income	1,950,368	2,837,632
	<u>2,130,585</u>	<u>3,217,153</u>

12. Creditors: amounts falling due after more than one year

	2004	2003
	£	£
Interest Free Loan from The Royal Air Force Benevolent Fund Development Trust (secured)	1,100,000	1,100,000
Loan from the Royal Air Force Benevolent Fund Development Trust (secured)	500,000	—
	<u>1,600,000</u>	<u>1,100,000</u>

The interest free loan from The Royal Air Force Benevolent Fund Development Trust will be subject to 12 months' notice as long as the company continues to trade. Accordingly the loan has been classified as due after more than one year. Post year end the trustees of the RAF Benevolent Fund Development Trust have approved the conversion of £600,000 of this loan to a grant.

The loan from The Royal Air Force Benevolent Fund Development Trust will be repayable in ten equal instalments to 29 February 2015. Accordingly the loan has been classified as due after more than one year.

The interest free loan of £1,100,000 from The Royal Air Force Benevolent Fund Development Trust and the loan of £500,000 from The Royal Air Force Benevolent Fund Development Trust are secured by equally ranking debentures over the company's assets.

13. Reconciliation of members' funds and movements on reserves

	Profit and loss account £
At 28 February 2003	(163,216)
Profit / (loss) for the year	(31,793)
At 29 February 2004	<u>(195,009)</u>

When the company generates profits these are normally covenanted to the Royal Air Force Benevolent Fund Development Trust. In the year ended 29 February 2004, the company incurred a loss as a result no monies have been covenanted to the Royal Air Force Benevolent Fund Development Trust.

Notes to the financial statements

at 29 February 2004

14. Related party transactions

The company has taken advantage of the exemption available under FRS 8 not to disclose related party transactions with fellow group undertakings.

15. Ultimate parent undertaking

The Royal Air Force Benevolent Fund, a charity registered in England and Wales, is the ultimate parent undertaking. A copy of the financial statements is available from 67 Portland Place, London W1B 4AR.