

REPORT AND ACCOUNTS

**Mercury Airfreight Holdings
Limited**

DECEMBER 31, 1990



 **ERNST & YOUNG**

Mercury Airfreight Holdings Limited

DIRECTORS

D S Rothwell

(Chairman)

C H Thomas

(Managing Director)

P F Brown

M J B Butterfield

B L Goldsmith

A J Robinson

SECRETARY

C H Thomas

AUDITORS

Ernst & Young

Apex Plaza

Reading

Berkshire

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BANKERS

Barclays Bank plc

93 Baker Street

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681 Armadale Road

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ERNST & YOUNG

Mercury Airfreight Holdings Limited

DIRECTORS' REPORT

The directors present their first report and group accounts for the period from incorporation to December 31, 1990.

INCORPORATION

The company was incorporated on September 25, 1989 under the name Rolerod Limited.

CHANGE IN NAME

The company changed its name to Mercury Airfreight Holdings Limited on July 3, 1990.

RESULTS AND DIVIDENDS

The profit for the period after taxation amounted to £292,049. Dividends totalling £58,687 were paid during the period and the directors proposed further dividends of £49,000.

PRINCIPAL ACTIVITIES

The principal activity of the company is the holding of, and management of, its investments. The principal activities of the subsidiaries are the wrapping, bulk mailing and airfreighting of the printed word.

REVIEW OF THE BUSINESS

The directors consider the results of the group as satisfactory. During the period the company was recapitalised to enable it to acquire Rolerod 1990 Limited (formerly Mercury Airfreight Holdings Limited), the principal subsidiaries of which are Mercury SDS Limited and Higgs Air Agency Limited. The company also acquired the Parrot Mailing Company Limited.

DIRECTORS AND THEIR INTERESTS

B O Lloyd	Appointed March 12, 1990, resigned March 19, 1990
D S Rothwell	Appointed March 19, 1990
C H Thomas	Appointed March 19, 1990
P F Brown	Appointed March 19, 1990
M J B Butterfield	Appointed March 19, 1990
B L Goldsmith	Appointed March 19, 1990
A J Robinson	Appointed March 19, 1990

Mr D S Rothwell holds 271,432 ordinary shares in the company. The other five directors at the date of this report each hold 271,428 ordinary shares in the company. All the shares have been held since May 30, 1990.

Mercury Airfreight Holdings Limited

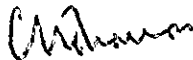
DIRECTORS' REPORT (Continued)

AUDITORS

Ernst & Young were appointed by the directors as the first auditors of the company.

Ernst & Young have expressed their willingness to continue in office as auditors and a resolution proposing their re-appointment will be submitted at the forthcoming Annual General Meeting.

By order of the Board



C H Thomas
Secretary

June 11, 1991

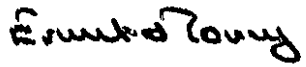
681 Armadale Road
Feltham
Middlesex
TW14 OLW

ERNST & YOUNG

REPORT OF THE AUDITORS
to the members of Mercury Airfreight Holdings Limited

We have audited the accounts on pages 5 to 22 in accordance with Auditing Standards.

In our opinion the accounts give a true and fair view of the state of affairs of the company and of the group at December 31, 1990 and of the profit and source and application of funds of the group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.


Chartered Accountants
Reading

June 11, 1991

Mercury Airfreight Holdings Limited

GROUP PROFIT AND LOSS ACCOUNT for the period ended December 31, 1990

	<i>Note</i>	<i>1990</i> £
TURNOVER	2	35,753,625
Cost of sales		31,456,381
Gross profit		<u>4,297,244</u>
Administrative expenses		3,467,704
OPERATING PROFIT	3	<u>829,540</u>
Share of profits of associated undertaking		45,000
Interest receivable	5	36,198
Interest payable	6	(388,189)
		<u>306,991</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>522,549</u>
Tax on profit on ordinary activities	7	230,500
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		<u>292,049</u>
Dividends	8	107,687
RETAINED PROFIT FOR THE PERIOD	17	<u><u>184,362</u></u>

Mercury Airfreight Holdings Limited

GROUP AND COMPANY BALANCE SHEET as at December 31, 1990

	Note	Group 1990 £	Company 1990 £
FIXED ASSETS			
Tangible assets	9	843,832	8,165
Investments	10	30,500	5,675,309
		<u>874,332</u>	<u>5,683,474</u>
CURRENT ASSETS			
Stocks		20,511	-
Debtors	12	12,776,042	1,650,866
Cash at bank		855,464	-
		<u>13,652,017</u>	<u>1,650,866</u>
CREDITORS: amounts falling due within one year	13	12,597,841	1,290,066
NET CURRENT ASSETS		<u>1,054,176</u>	<u>360,800</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,928,508</u>	<u>6,044,274</u>
CREDITORS: amounts falling due after one year	14	3,734,982	3,700,000
		<u>(1,806,474)</u>	<u>2,344,274</u>
CAPITAL AND RESERVES			
Called up share capital	16	1,880,000	1,880,000
Share premium account	17	417,998	417,998
Capital reserve	17	(4,288,834)	-
Profit and loss account	17	184,362	46,276
		<u>(1,806,474)</u>	<u>2,344,274</u>

Approved by the directors on June 11, 1991.

C H Thomas

[Signature]

)

) Directors

D S Rothwell

[Signature]

)

Mercury Airfreight Holdings Limited

GROUP STATEMENT OF SOURCE AND APPLICATION OF FUNDS for the period ended December 31, 1990

	1990 £
SOURCE OF FUNDS	
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	522,549
Adjustment for items not involving the movement of funds	
Depreciation of tangible fixed assets	67,301
Profit on disposal of fixed assets	(4,012)
Share of profits of associated undertaking	(45,000)
TOTAL GENERATED FROM OPERATIONS	<u>540,838</u>
FUNDS FROM OTHER SOURCES	
Proceeds of disposal of tangible fixed assets	21,319
Finance lease obligations	20,633
Proceeds of ordinary share issue	797,998
Proceeds of preference share issue	1,500,000
Receipt of long-term loan	2,500,000
Receipt of mezzanine loan	1,200,000
	<u>6,039,950</u>
TOTAL SOURCE OF FUNDS	<u>6,580,788</u>
APPLICATION OF FUNDS	
Purchase of tangible fixed assets	469,722
Dividends paid	58,687
Taxation paid	19,081
Acquisition of subsidiary undertakings (see note 11 below)	5,675,309
Purchase of investment in associated undertaking	500
INCREASE IN WORKING CAPITAL	<u>357,489</u>
COMPONENTS OF INCREASE IN WORKING CAPITAL	
Stock	11,511
Debtors	908,422
Creditors	1,409,902
	<u>2,329,835</u>
MOVEMENT IN NET LIQUID FUNDS	
Increase in overdraft	(1,972,346)
	<u>357,489</u>

Mercury Airfreight Holdings Limited

NOTES TO THE ACCOUNTS at December 31, 1990

1 ACCOUNTING POLICIES

Accounting convention

The accounts are prepared under the historical cost convention.

Basis of consolidation

The group accounts consolidate the accounts of Mercury Airfreight Holdings Limited and all its subsidiary undertakings drawn up to December 31. This is the first year of consolidation.

The group profit and loss account includes the results of Mercury SDS Limited and Higgs Air Agency Limited for the seven month period from their acquisition on May 30, 1990 and of Parrot Mailing Limited for the 5 month period from its acquisition on July 31, 1990. The purchase consideration has been allocated to each class of asset on the basis of fair value at the date of acquisition.

Goodwill

Purchased goodwill is written off directly against reserves in the year it arises.

Depreciation

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

Leasehold land and buildings	5 to 14 years
Plant and machinery	5 to 10 years
Furniture and fixtures	5 to 10 years
Computer equipment	5 to 10 years
Motor vehicles	4 years

Deferred taxation

Deferred taxation is provided on the liability method on all timing differences to the extent that they are expected to reverse in the future without being replaced, calculated at the rate at which it is estimated that tax will be payable.

Foreign currencies

Transactions in foreign currencies are recorded at the rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

Mercury Airfreight Holdings Limited

NOTES TO THE ACCOUNTS at December 31, 1990

1 ACCOUNTING POLICIES (Continued)

Leasing and hire purchase commitments

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The interest element of the hire purchase obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. The interest element of finance lease obligations is charged to the profit and loss account using the sum of digits method.

Rentals paid under operating leases are charged to income on a straight line basis over the term of the lease.

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.

Pension costs

The Mercury Group of companies operate a defined benefit pension scheme which requires contributions to be made to a separately administered fund. Contributions to this fund are charged to the profit and loss account so as to spread the cost of pensions over the employees' working lives within the group.

2 TURNOVER

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties. All turnover arises in the UK.

3 OPERATING PROFIT

a) This is stated after charging/(crediting):

	1990 £
Auditors' remuneration	21,875
Depreciation of owned fixed assets	63,918
Depreciation of assets held under finance leases	3,383
Rentals	
- property	137,742
- vehicles	77,583
Hire of plant and equipment	3,521
Exchange gain	(46,304)
Profit on sale of tangible fixed assets	(4,012)

Mercury Airfreight Holdings Limited

NOTES TO THE ACCOUNTS at December 31, 1990

3 OPERATING PROFIT (Continued)

b) Directors' remuneration	1990 £
Fees	-
Other emoluments (including pension contributions)	203,119
	<u>203,119</u>

The emoluments, excluding pension contributions of the chairman, were £26,242 and of the most highly paid director were £37,614.

Other directors' emoluments, excluding pension contributions, fell within the following ranges:

	1990 No
£0 - £5,000	1
£25,001 - £30,000	1
£30,001 - £35,000	2
£35,001 - £40,000	1
	<u>5</u>

4 STAFF COSTS

	1990 £
Wages and salaries	2,174,221
Social security costs	204,651
Other pensions costs	42,762
Other costs	14,036
	<u>2,435,670</u>

The average weekly number of employees during the year was as follows:

	No
Operations	192
Administration	84
Sales/marketing	6
	<u>282</u>

Mercury Airfreight Holdings Limited

NOTES TO THE ACCOUNTS at December 31, 1990

5	INTEREST RECEIVABLE	1990 £
	Bank deposit interest	36,198
6	INTEREST PAYABLE	1990 £
	Overdraft interest	7,882
	On loans not repayable wholly within five years	373,949
	Finance charges payable under finance leases	6,358
		<u>388,189</u>
7	TAXATION ON PROFIT ON ORDINARY ACTIVITIES	
	The taxation charge is made up as follows:	
		1990 £
	Based on profit for the period:	
	Corporation tax at 34.25%	215,500
	Associated undertaking	15,000
		<u>230,500</u>
8	DIVIDENDS	1990 £
	Paid: Preference shares "A" ordinary shares	46,356 12,331
		<u>58,687</u>
	Proposed: "A" ordinary shares - participating dividend Ordinary shares	14,000 35,000
		<u>107,687</u>

Mercury Airfreight Holdings Limited

NOTES TO THE ACCOUNTS at December 31, 1990

9 TANGIBLE FIXED ASSETS

	<i>Leasehold premises</i>	<i>Equipment</i>	<i>Motor vehicles</i>	<i>Fixtures and computer equipment</i>	<i>Total</i>
	£	£	£	£	£
GROUP					
Cost					
Subsidiaries acquired	255,000	254,456	68,959	108,676	687,091
Additions	162,029	220,972	13,406	73,315	469,722
Disposals	-	(9,358)	(28,997)	-	(38,355)
At December 31, 1990	<u>417,029</u>	<u>466,070</u>	<u>53,368</u>	<u>181,991</u>	<u>1,118,458</u>
Depreciation					
Subsidiaries acquired	-	132,452	49,882	46,039	228,373
Charge for the period	20,035	32,933	7,980	6,353	67,301
Disposals	-	-	(21,048)	-	(21,048)
At December 31, 1990	<u>20,035</u>	<u>165,385</u>	<u>36,814</u>	<u>52,392</u>	<u>274,626</u>
Net book value					
At December 31, 1990	<u>396,994</u>	<u>300,685</u>	<u>16,554</u>	<u>129,599</u>	<u>843,832</u>

Included in the net book value of the following categories are assets held under finance leases:

	£
Plant and equipment	29,506
Motor vehicles	3,997
Fixtures and fittings	19,995
	<u>53,498</u>

Mercury Airfreight Holdings Limited

NOTES TO THE ACCOUNTS at December 31, 1990

9 TANGIBLE FIXED ASSETS (continued)

COMPANY	<i>Fixtures and computer equipment £</i>	<i>Total £</i>
Cost		
Additions	8,767	8,767
At December 31, 1990	<u>8,767</u>	<u>8,767</u>
Depreciation		
Charge for period	602	602
At December 31, 1990	<u>602</u>	<u>602</u>
Net book value at December 31, 1990	<u>8,165</u>	<u>8,165</u>

NOTES TO THE ACCOUNTS
at December 31, 1990

10 INVESTMENTS

GROUP

Associated undertaking

Higgs Air Agency Limited holds 500 £1 ordinary shares in Service News Limited, a company incorporated in England. This represents 50% of the issued share capital of the company.

	<i>Share of tangible net assets</i> £	<i>Goodwill</i> £	<i>Total</i> £
At date of acquisition	(57,000)	57,500	500
Share of profits of associated undertaking	38,000	-	38,000
Amortisation of goodwill	-	(8,000)	(8,000)
At December 31, 1990	<u>(19,000)</u>	<u>49,500</u>	<u>30,500</u>

NOTES TO THE ACCOUNTS
at December 31, 1990

COMPANY

Subsidiary undertakings

The company holds 100% of the following subsidiary undertakings:

<i>Name of company</i>	<i>Country of registration</i>	<i>Holding</i>	<i>Nature of business</i>
Rolcrodt 1990 Ltd *	England	Ordinary shares	Holding company
Mercury SDS Ltd **	England	Ordinary shares	Bulk mailing
Higgs Air Agency Ltd **	England	Ordinary shares	Airfreighting of UK newspapers
The Parrot Mailing Co. Ltd *	England	Ordinary shares	Bulk mailing
Higgs Transport Ltd **	England	Ordinary shares	Dormant
Mercury Airfreight International Ltd **	England	Ordinary shares	Dormant

* Held directly by the company.

** Held indirectly through subsidiary undertakings.

NOTES TO THE ACCOUNTS
at December 31, 1990

11 ACQUISITIONS

On May 30, 1990 the parent acquired the share capital in Rolerod 1990 Limited for a consideration of £5,457,528 and on July 31, 1990 the group acquired all the share capital in Parrot Mailing Co. Limited for a consideration of £217,781.

	<i>Book value at acquisition £</i>	<i>Fair value adjustments £</i>	<i>Acquisition provisions £</i>	<i>Fair value to the group £</i>
Rolerod 1990 Limited				
Tangible fixed assets	392,000	-	-	392,000
Stock	9,000	-	-	9,000
Debtors	11,467,194	-	-	11,467,194
Cash	2,651,782	-	-	2,651,782
Creditors	(13,042,798)	-	-	(13,032,798)
Acquisition provisions	-	-	(75,000)	(75,000)
	<u>1,477,178</u>	<u>-</u>	<u>(75,000)</u>	<u>1,412,178</u>
Parrot Mailing Co Limited	(2,267)	(23,436)	-	(25,703)
Net assets acquired	<u>1,474,911</u>	<u>(23,436)</u>	<u>(75,000)</u>	<u>1,386,475</u>
Goodwill				
On the acquisition of Rolerod 1990 Limited			4,045,350	
On the acquisition of Parrot Mailing Co Limited			243,484	
			<u></u>	4,288,834
Consideration				<u>5,675,309</u>

Goodwill arising on the acquisitions of Rolerod 1990 Limited and The Parrot Mailing Co. Limited during the year has been written off against reserves (see note 17).

NOTES TO THE ACCOUNTS
at December 30, 1990

12 DEBTORS

	<i>Group</i> £	<i>Company</i> £
Trade debtors	12,127,753	-
Amounts owed by subsidiaries	-	1,027,379
Other debtors and prepayments	546,355	63,925
Advance corporation tax receivable	19,562	19,562
Dividends receivable	-	400,000
Corporation tax recoverable	-	140,000
Amount due from associate undertaking	82,372	-
	<u>12,776,042</u>	<u>1,650,866</u>

13 CREDITORS: amounts falling due within one year

	<i>Group</i> £	<i>Company</i> £
Trade creditors	9,686,969	-
Bank overdraft (secured, see note 15)	327,201	830,471
Advance corporation tax payable	57,333	57,333
Amounts owed to subsidiaries	-	6,592
Other creditors and accruals	2,079,776	346,670
Proposed dividends	49,000	49,000
Finance leases	25,302	-
Corporation tax payable	372,260	-
	<u>12,597,841</u>	<u>1,290,066</u>

NOTES TO THE ACCOUNTS
at December 30, 1990

14 CREDITORS: amounts falling due after more than one year

	<i>Group</i> £	<i>Company</i> £
Obligations under finance leases (see (a) below)	34,982	-
Loans not wholly repayable within 5 years (see Note 15 below)	3,700,000	3,700,000
	<u>3,734,982</u>	<u>3,700,000</u>

(a) Obligation under finance leases

	<i>Group</i> £
The maturity of these amounts is as follows:	
Amounts payable:	
within one year	32,044
within two to five years	44,631
	<u>76,675</u>
Less: finance charges allocated to future periods	(16,391)
	<u>60,284</u>

	<i>Group</i> £
Finance leases are analysed as follows:	
Current obligations	25,302
Non-current obligations	34,982
	<u>60,284</u>

NOTES TO THE ACCOUNTS
at December 30, 1990

15 LOANS

Details of loans not wholly repayable within 5 years are as follows:-

	<i>Group and Company £</i>
18.2% secured loan repayable in 6 fixed annual instalments commencing December 31, 1992	1,200,000
Medium term secured loan repayable in 24 quarterly payments of £104,167 commencing May 30, 1992 with interest payable at LIBOR plus 1.75%, fixed quarterly	2,500,000
	<u>3,700,000</u>

The interest on the loan repayable of £1,200,000 is 18.2% for the first three years. Thereafter, interest is charged at 4% above the higher of 7% and the relevant LIBOR rate.

These loans and the bank overdraft (see note 13) are secured by debentures over the assets of all group companies.

16 SHARE CAPITAL

	<i>Number</i>	<i>£</i>
<i>Authorised</i>		
Ordinary shares of 10p each	3,041,117	304,112
"A" ordinary shares of 10p each	1,899,999	190,000
Preference shares of £1 each	1,500,000	1,500,000
	<u> </u>	<u>1,994,112</u>

NOTES TO THE ACCOUNTS
at December 31, 1990

16 SHARE CAPITAL (continued)

	Number	£
<i>Issued and fully paid</i>		
Ordinary shares of 10p each	1,900,000	190,000
"A" ordinary shares of 10p each	1,899,999	190,000
Preference shares of £1 each	1,500,000	1,500,000
		<u>1,880,000</u>

The preference shares are redeemable in five equal annual payments of £300,000 commencing December 31, 1992.

INCREASE IN AUTHORISED AND ALLOTTED SHARE CAPITAL

On incorporation, the authorised share capital was £1,000 (1,000 £1 ordinary shares). On May 30, 1990, these existing shares were subdivided into 10p shares and the authorised share capital was increased from £1,000 to £1,994,111.60 by the creation of:

3,031,117 ordinary shares of 10p each
1,899,999 "A" ordinary shares of 10p each
1,500,000 preference shares of £1 each.

Also on May 30, 1990, the following shares were allotted for the stated consideration:

1,900,000 ordinary shares for £398,998
1,899,999 "A" ordinary shares for £399,000
1,500,000 preference shares for £1,500,000.

RIGHTS TO THE ALLOTMENT OF SHARES IN THE COMPANY

The company operates an executive share option scheme approved by the Board of Inland Revenue.

On January 7, 1991, the company granted options over 100,000 ordinary shares of 10p each in the company. These are exercisable not later than January 7, 2001 at a subscription price still to be agreed.

Two shareholders hold warrants to subscribe for a total of 941,117 ordinary shares of 10p each at a price of 21p per share on the happening of certain defined events or December 31, 2010, whichever is earlier.

NOTES TO THE ACCOUNTS
at December 31, 1990

17 RESERVES

Group

	<i>Share premium account</i> £	<i>Capital reserve</i> £	<i>Profit and loss account</i> £
Premium on issue of ordinary shares	417,988	-	-
Goodwill arising on consolidation (See note 11)	-	(4,288,834)	-
Retained profit for the period	-	-	184,362
	<u>417,988</u>	<u>(4,288,834)</u>	<u>184,362</u>

Company

Profit and loss account	
Retained profit for the period	46,276
At December 31, 1990	<u>46,276</u>

In accordance with the exemption allowed by Section 230(4) of the Companies Act 1985, the company has not presented its own profit and loss account. The profit for the financial year dealt with in the accounts of the company was £153,963.

18 CAPITAL COMMITMENT

There were no significant capital commitments at December 31, 1990.

19 CONTINGENT LIABILITY

The company has given a guarantee of £250,000 in favour of a trade supplier to one of the company subsidiary undertakings.

An undertaking exists between the company and each of its subsidiary undertakings whereby each company is liable against failure by the other companies to meet obligations in respect of bank borrowings and guarantees.

NOTES TO THE ACCOUNTS
at December 31, 1990

20 PENSION COSTS

During the period Mercury Airfreight Holdings Limited established a group pension scheme, the Mercury Airfreight 1990 Pension Plan, for the benefit of employees of all group companies. The scheme is a defined benefit pension scheme funded by the payment of contributions to a separately administered trust fund. Pension costs charged during the year represent contributions made to the scheme in accordance with the recommendations of the scheme's Actuaries.

21 OTHER FINANCIAL COMMITMENTS

At December 31, 1990 the group had annual commitments under non-cancellable operating leases as set out below:

	1990 £
Operating leases for land and buildings which expire in over five years	232,500