

EUROPEAN AVIATION AIR CHARTER LIMITED

FINANCIAL STATEMENTS

For the year ended 31st December 2001



EUROPEAN AVIATION AIR CHARTER LIMITED

FINANCIAL STATEMENTS AND REPORTS

For the year ended 31st December 2001

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The following pages do not form part of the statutory accounts

Trading and Profit and Loss Account

**DIRECTORS AND OFFICERS
FOR THE YEAR ENDED 31ST DECEMBER 2001**

Directors:

P. G. Stoddart (Chairman)
W. A. O'Neill (Managing)
T. S. Whetter (resigned 1st December 2002)
J. W. Lailey, A.C.M.A.
S. E. Aston, (Ms) (resigned 1st December 2002)
O. M. Wright (resigned 30th April 2001)
P. S. Craig (resigned 31st October 2002)
A. J. Miles (resigned 28th September 2001)
D. W. Blake (appointed 1st November 2001)

Secretary:

J. W. Lailey, A.C.M.A.

Registered Office:

"Wolverton House",
14, Wolverton Road,
Dudley,
West Midlands,
DY2 7PL.

Auditors:

Poole Waterfield,
Registered Auditors and Accountants,
"Wolverton House",
14, Wolverton Road,
Dudley,
West Midlands,
DY2 7PL.

Bankers:

National Westminster Bank PLC.,
The Square,
5, Old Christchurch Road,
Bournemouth,
Dorset,
BH1 1DU.

Company Number:

2850499

REPORT OF THE DIRECTORS

The directors present their annual report and the audited financial statements for the year ended 31st December 2001.

PRINCIPAL ACTIVITIES

The company's principal activity during the year was that of air charter operations and the provision of aircraft maintenance services.

RESULTS AND DIVIDENDS

The results for the year after taxation and the appropriation thereof, are set out in the profit and loss account on page 6. The directors do not recommend the payment of a dividend on the issued share capital for the year under review.

BUSINESS REVIEW

Trading during the year continued to be difficult for various reasons.

The events of September 11th 2001 created a significant amount of uncertainty within the aviation industry and the company experienced a significant reduction in demand during the last quarter, principally attributable to this event.

The utilisation of the BAC1-11 aircraft declined towards the end of the year ahead of the withdrawal from service of the aircraft in Europe due to new noise legislation which became effective from March 2002.

The B737-200 fleet continued to provide additional opportunities with an increased customer base and additional routes being added in the year, together with increased activities with certain existing customers.

Progression towards achieving a higher percentage of Series Charter flying continued to assist in achieving increased utilisation of both aircraft and aircrew.

The company continues to monitor its cost base and generate reductions where possible.

The immediate holding company, European Aviation Limited, has entered into a conditional agreement dated 16th December 2002 for the disposal of the issued share capital of European Aviation Air Charter Limited. This transaction is to be completed on or before 31st December 2004, or a later date if agreed by all parties. Failure to complete by 31st December 2004, or to agree to an extension, will render the sale contract null and void.

Since the financial year end the company's Accounting Reference Date has been changed to 30th April as a consequence of which, the next financial statements will be for the sixteen months ended 30th April 2003.

DIRECTORS AND THEIR INTERESTS

The directors who served during the year, none of whom had interests in the share capital of the company, were:

P. G. Stoddart (Chairman)
W. A. O'Neill (Managing)
T. S. Whetter (resigned 1st December 2002)
J. W. Lailey, A.C.M.A.
S. E. Aston, (Ms) (resigned 1st December 2002)
O. M. Wright (resigned 30th April 2001)
P. S. Craig (resigned 31st October 2002)
A. J. Miles (resigned 28th September 2001)
D. W. Blake (appointed 1st November 2001)

Mr. S. Penton was appointed a director on 1st September 2002.

REPORT OF THE DIRECTORS (CONTINUED)

DIRECTORS' RESPONSIBILITIES

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;
- * state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- * prepare the statements on a going concern basis unless it is inappropriate to presume 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.

DISABLED PERSONS


The company's policy is to give full and fair consideration to applications for employment made by disabled persons, having regard to their particular aptitudes and abilities.

Disabled employees receive appropriate training to promote their career development within the company. Employees who become disabled are retained in their existing posts where possible or retrained for suitable alternative posts.

EMPLOYEE INVOLVEMENT

Meetings are held between senior management and employees to discuss matters of concern. Employees are kept informed about the progress and position of the company by means of meetings and newsletters.

By order of the board.


.....
P. G. Stoddart
Chairman

25th November 2003

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF EUROPEAN AVIATION AIR CHARTER LIMITED

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We have audited the financial statements of European Aviation Air Charter Limited for the year ended 31st December 2001 on pages 6 to 20. These financial statements have been prepared under the historical cost convention and the accounting policies set out on pages 8 and 9.

This report is made solely to the company's shareholders, as a body, in accordance with Section 235 of the Companies Act. Our audit work has been undertaken so that we might state to the company's shareholders 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 shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards are set out in the Statement of Directors' Responsibilities on page 3.

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

Basis of 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 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.

Fundamental uncertainty

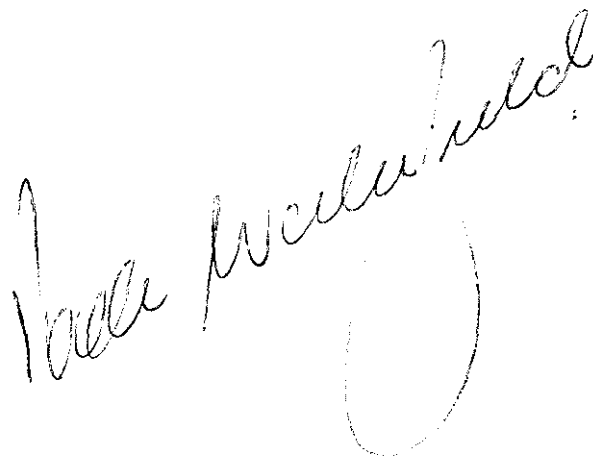
In forming our opinion we have considered the adequacy of the disclosures made in the financial statements relating to going concern. The company is continuing to trade with the support of the potential purchaser (note 20 refers) and companies associated with the potential purchaser, who have advanced a series of substantial short-term loans to the company since the end of the financial year. Should the support be withdrawn without the availability of replacement funding, it is unlikely that company would be able to continue to trade and the going concern basis would not be appropriate. Our opinion is not qualified in this respect.

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
EUROPEAN AVIATION AIR CHARTER LIMITED**

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Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31st December 2001 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in dark ink, appearing to read 'Paul Waterfield', is written diagonally across the page. Below the signature is a large, faint, circular stamp or mark.

POOLE WATERFIELD
Registered Auditors and Accountants

Dudley,
West Midlands.

26th November 2003

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31ST DECEMBER 2001**

	Note	2001 £	2000 £
TURNOVER	2	35,502,290	36,684,279
Cost of sales		24,461,518	27,961,214
		<hr/>	<hr/>
GROSS PROFIT		11,040,772	8,723,065
Operating charges		15,349,771	10,579,798
		<hr/>	<hr/>
OPERATING LOSS	3	(4,308,999)	(1,856,733)
(Loss)/profit on disposal of fixed assets	6	(16,278)	970
		<hr/>	<hr/>
LOSS ON ORDINARY ACTIVITIES BEFORE INTEREST		(4,325,277)	(1,855,763)
Interest receivable and similar income	7	--	10,113
Interest payable and similar charges	8	(618,779)	(47,414)
		<hr/>	<hr/>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(4,944,056)	(1,893,064)
TAXATION ON LOSS ON ORDINARY ACTIVITIES	9	724,975	70,627
		<hr/>	<hr/>
DEFICIT FOR THE YEAR	18	(4,219,081)	(1,822,437)
		<hr/> <hr/>	<hr/> <hr/>

The notes on pages 8 to 20 form part of these financial statements.

CONTINUING OPERATIONS

None of the company's activities were acquired or discontinued during the above two financial years.

TOTAL RECOGNISED GAINS AND LOSSES

The company does not have any recognised gains or losses other than the losses for the above two financial years.

EUROPEAN AVIATION AIR CHARTER LIMITED

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**BALANCE SHEET
AS AT 31ST DECEMBER 2001**

	Note	£	2001 £	£	2000 £
FIXED ASSETS					
Tangible assets	10		10,743,468		1,207,240
CURRENT ASSETS					
Stocks	11	52,337		51,958	
Debtors	12	13,782,827		15,713,871	
Cash at bank and in hand		81,886		67,063	
		13,917,050		15,832,892	
CREDITORS: Amounts falling due within one year	13	18,708,509		13,115,099	
NET CURRENT (LIABILITIES)/ASSETS			(4,791,459)		2,717,793
TOTAL ASSETS LESS CURRENT LIABILITIES			5,952,009		3,925,033
CREDITORS: Amounts falling due after more than one year	14	6,352,919		210,136	
PROVISION FOR LIABILITIES AND CHARGES	16	149,726		46,452	
			6,502,645		256,588
NET (LIABILITIES)/ASSETS			(550,636)		3,668,445
CAPITAL AND RESERVES					
Issued share capital	17		2		2
(Deficiency)/surplus of reserves	18		(550,638)		3,668,443
SHAREHOLDERS' (DEFICIENCY)/FUNDS	19		(550,636)		3,668,445

The notes on pages 8 to 20 form part of these financial statements.

Approved by the Board of Directors on 25th November 2003 and signed on their behalf by:

.....
P. G. Stoddart
Chairman

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER 2001****1 ACCOUNTING POLICIES**

The principal accounting policies adopted in the preparation of the financial statements have remained unchanged from the previous year.

Basis of accounting

The accounts have been prepared in accordance with the historical cost convention and in accordance with Section 228, and Schedule 4 to, the Companies Act 1985, and applicable accounting standards.

The effect of events relating to the year ended 31st December 2001 before the date of approval of the financial statements by the Board of Directors, have been included in the statements to the extent required to show a true and fair view of the state of affairs at 31st December 2001, and of the results for the year ended on that date.

The company as a wholly-owned subsidiary has taken advantage of the exemption in FRS 1 and has not produced a cash flow statement.

Going concern basis

The financial statements have been prepared on a going concern basis. The validity of this basis depends upon the continued financial support of the company's potential purchaser and companies associated with the potential purchaser. The directors are not aware of any reason why this support should not continue. No adjustments have been made to the financial statements in respect of the possible invalidity of the going concern basis.

Depreciation

Depreciation is provided on the cost of tangible fixed assets in order to write off such cost after taking account of residual values over the expected useful lives as follows:-

Aircraft enhancement	33 1/3% straight line where applicable
Expenditure on leasehold buildings	4% straight line
Aircraft simulators & training facilities	10% straight line
B737 aircraft and fitted hushkits	10% straight line
Motor vehicles	25% straight line
Fixtures and fittings	At rates varying between 15% and 33 1/3% on a straight line basis
Plant and machinery	15% straight line

Stocks

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

Taxation

Tax losses are surrendered between wholly-owned trading subsidiaries and their immediate holding company in the accounting period in which the losses arise. The benefits of any transfers are reflected in the relevant company accounts at the monetary value applicable.

**NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31ST DECEMBER 2001**

1 ACCOUNTING POLICIES (CONTINUED)

Deferred taxation

In accordance with FRS 19 the charge for taxation takes into account taxation deferred as a result of timing differences between the treatment of certain items for taxation and accounting purposes. In general, deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. However, deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred taxation is measured on a non-discounted basis at the average tax rates that would apply when the timing differences are expected to reverse, based on tax rates and laws that have been enacted by the balance sheet date.

Foreign exchange

Hire purchase

The company, at the balance sheet date, has a liability in respect of US dollar denominated hire purchase contracts, for which dollar exchange contracts have not been arranged. No provision has been made for the exchange rate differences as, in the opinion of the directors, future US dollar cash flow should be sufficient to provide US dollar currency to settle the liability without currency exchange transactions.

Other

Other transactions denominated in a foreign currency are translated into sterling and recorded at the rate of exchange ruling at the date of the transaction. Balances at the year end denominated in a foreign currency are translated into sterling at the rate of exchange ruling at the balance sheet date. All differences are charged to the profit and loss account.

Leasing and hire purchase

Tangible fixed assets acquired under hire purchase and finance lease contracts are capitalised and depreciated in the same manner as other tangible fixed assets. The related obligations, net of future finance charges are included in creditors.

Rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the period of the lease.

Pension costs

The company operates a contributory defined contribution group personal pension scheme. Premiums payable are charged against revenue when paid.

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31ST DECEMBER 2001

2 TURNOVER

Turnover represents the net amounts invoiced during the year by the company.

Geographical analysis

	2001 £	2000 £
United Kingdom and other E.U. states	34,289,317	36,397,770
North America	907,141	--
Other	305,832	286,509
	<hr/>	<hr/>
	35,502,290	36,684,279
	<hr/>	<hr/>

3 OPERATING LOSS

This is stated after charging/(crediting):

	2001 £	2000 £
Depreciation of owned fixed assets	1,003,452	254,669
Depreciation of assets subject to hire purchase or finance lease agreements	1,016,617	77,294
Auditors' remuneration	20,000	15,000
Non-audit services	12,000	10,000
Equipment hire	9,315	8,766
Aircraft leasing – Airframes/ Maintenance	4,040,000	4,150,000
(Profit)/loss on currency exchanges	(12,160)	23,957
	<hr/>	<hr/>

4 DIRECTORS' REMUNERATION

	2001 £	2000 £
Emoluments:		
Management remuneration	382,984	445,193
Benefits in kind	28,227	34,729
Pension contributions	14,605	16,725
	<hr/>	<hr/>
	425,816	496,647
	<hr/>	<hr/>

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31ST DECEMBER 2001

4 DIRECTORS' REMUNERATION (CONTINUED)

	2001 £	2000 £
Emoluments of highest paid director:-		
Management remuneration and benefits in kind	100,695	85,824
Pension contributions	3,374	3,184
	<u>104,069</u>	<u>89,008</u>

2 directors have waived their right to receive remuneration. (2000 – 2)

	Number of directors	
	2001	2000
Number of directors to whom retirement benefits are accruing under money purchase arrangements	6	6

5 STAFF COSTS

	2001 No.	2000 No.
The average number of persons employed by the company including directors	299	312
The aggregate payroll costs of persons employed were:-		
	2001 £	2000 £
Wages and salaries	7,994,811	8,203,724
Social security	788,680	821,396
Pension costs	248,196	225,760
	<u>9,031,687</u>	<u>9,250,880</u>

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31ST DECEMBER 2001

6 (LOSS)/PROFIT ON DISPOSAL OF FIXED ASSETS

	2001 £	2000 £
Motor vehicles	(16,278)	970

7 INTEREST RECEIVABLE AND SIMILAR INCOME

	2001 £	2000 £
Bank interest	--	10,113

8 INTEREST PAYABLE AND SIMILAR CHARGES

	2001 £	2000 £
Hire purchase interest	581,045	44,882
Other interest	37,734	2,532
	<u>618,779</u>	<u>47,414</u>

9 TAXATION ON LOSS ON ORDINARY ACTIVITIES

	2001 £	2000 £
Corporation tax	--	(507,979)
Transfer of tax losses	683,146	555,659
(Decrease)/increase in provision for deferred taxation	(103,274)	22,947
Prior year adjustment	145,103	--
	<u>724,975</u>	<u>70,627</u>

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31ST DECEMBER 2001

10 TANGIBLE FIXED ASSETS

COST	Aircraft enhancement costs £	Expenditure on leasehold buildings £	Aircraft simulators & training facilities £	B737 aircraft & fitted hushkits £	Motor vehicles £	Fixtures & fittings £	Plant & machinery £	Total £
At 1st January								
2001	--	78,947	1,117,768	--	218,653	155,900	408,987	1,980,255
Additions	854,020	--	--	--	16,490	8,342	5,756	884,608
Disposals	--	--	--	--	(59,463)	(19,662)	--	(79,125)
Inter group transfers	--	--	--	11,582,152	--	--	--	11,582,152
At 31st December								
2001	854,020	78,947	1,117,768	11,582,152	175,680	144,580	414,743	14,367,890
	=====	=====	=====	=====	=====	=====	=====	=====
DEPRECIATION								
At 1st January								
2001	--	6,364	350,100	--	83,372	107,644	225,535	773,015
Charge for the year	777,481	3,540	111,768	949,319	48,929	24,846	104,186	2,020,069
Disposals	--	--	--	--	(34,439)	(19,662)	--	(54,101)
Inter group transfers	(340,505)	--	--	1,225,944	--	--	--	885,439
At 31st December								
2001	436,976	9,904	461,868	2,175,263	97,862	112,828	329,721	3,624,422
	=====	=====	=====	=====	=====	=====	=====	=====
NET BOOK AMOUNT								
At 31st December								
2001	417,044	69,043	655,900	9,406,889	77,818	31,752	85,022	10,743,468
	=====	=====	=====	=====	=====	=====	=====	=====
At 31st December								
2000	--	72,583	767,668	--	135,281	48,256	183,452	1,207,240
	=====	=====	=====	=====	=====	=====	=====	=====

Analysis of hire purchase liabilities at the year end was as follows:-

	£
Aircraft simulators	167,146
B737 aircraft	7,569,975
Vehicles	27,740
Equipment	14,206
	=====
	7,779,067
	=====

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31ST DECEMBER 2001

10a FIXED ASSETS

The following fixed assets are subject to hire purchase or other secured borrowing as referred to in note 15.

COST	B737 aircraft & fitted hushkits £	Aircraft simulators & training facilities £	Motor vehicles £	GPU £	Total £
At 1st January 2001	--	532,100	43,106	19,731	594,937
Inter group transfers at original cost	11,582,152	--	--	--	11,582,15
At 31st December 2001	<u>11,582,152</u>	<u>532,100</u>	<u>43,106</u>	<u>19,731</u>	<u>12,177,089</u>
DEPRECIATION					
At 1st January 2001	--	170,513	5,631	--	176,144
Depreciation at date of inter group transfers	1,225,944	--	--	--	1,225,944
Charge for the year	949,319	53,210	11,124	2,964	1,016,617
At 31st December 2001	<u>2,175,263</u>	<u>223,723</u>	<u>16,755</u>	<u>2,964</u>	<u>2,418,705</u>
NET BOOK AMOUNT					
At 31st December 2001	<u>9,406,889</u>	<u>308,377</u>	<u>26,351</u>	<u>16,767</u>	<u>9,758,384</u>
At 31st December 2000	<u>--</u>	<u>361,587</u>	<u>37,475</u>	<u>19,731</u>	<u>418,793</u>

11 STOCKS

	2001 £	2000 £
Aircraft fuel and accessories	2,474	3,415
Goods for resale	49,863	48,543
	<u>52,337</u>	<u>51,958</u>

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31ST DECEMBER 2001

12 DEBTORS: Amounts falling due within one year

	2001 £	2000 £
Trade debtors	2,537,051	1,892,868
Amount due from holding company	10,599,190	13,373,019
Value added tax	45,761	94,766
Prepayments and other debtors	382,956	214,035
Directors' loan accounts (note 23)	138,194	133,066
Advance corporation tax recoverable	24,901	6,117
Amount due from related company	54,774	--
	<hr/>	<hr/>
	13,782,827	15,713,871
	<hr/>	<hr/>

13 CREDITORS: Amounts falling due within one year

	2001 £	2000 £
Bank overdraft (note 15)	5,430,096	3,794,586
Trade creditors	5,602,179	5,359,308
Amount due to fellow subsidiary companies	4,238,900	1,152,545
Corporation tax	164,802	1,060,570
Other taxation and social security	1,081,088	575,686
Hire purchase commitments (note 15)	1,426,148	212,508
Accruals and other creditors	740,395	953,779
Advance corporation tax payable	24,901	6,117
	<hr/>	<hr/>
	18,708,509	13,115,099
	<hr/>	<hr/>

14 CREDITORS: Amounts falling due after more than one year

	2001 £	2000 £
Hire purchase commitments		
Due between 2 and 5 years (note 15)	6,352,919	210,136
	<hr/>	<hr/>

**NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31ST DECEMBER 2001**

15 SECURITY

Bank borrowing facility

At 31st December 2001 the company's bank borrowing facility was secured by:-

- a. An unscheduled mortgage debenture dated 11th June 1997 linked to the like unscheduled mortgage debenture dated 8th December 2000 in respect of each group company, incorporating a specific equitable charge over all freehold and leasehold properties and all proceeds of sale thereof together with fixed and floating charges over all current and future assets of the company and the group.
- b. Composite bank guarantees between the company's parent, European Aviation Limited and wholly-owned subsidiaries, European Aviation Maintenance Limited, European Formula Racing Limited and Trans Europa Trading Limited.

Hire Purchase

The company's principal hire purchase creditors at 31st December 2001 are secured as follows:-

- a. a chattel mortgage in favour of Lombard North Central PLC, registered 26th November 1998, over the company's flight simulator equipment. The balance outstanding at the year end was £167,146 as disclosed in the financial statements.
- b. aircraft mortgages of even date, in favour of Girobank PLC., registered 9th March 2001, over four B737 aircraft, as disclosed in note 10, by way of a first legal mortgage.
- c. a lightweight floating charge of even date in favour of Girobank PLC., registered 9th March 2001, by way of a floating charge over the company's assets.
- d. a charge on cash of even date in favour of Girobank PLC., registered 9th March 2001, by way of a fixed charge on deposit monies, as referred to in the registered charge document.
- e. an assignment of insurances of even date in favour of Girobank PLC., registered 9th March 2001, whereby all rights, title and interest in respect of insurances are assigned.

The balance outstanding to Girobank PLC., in respect of hire purchase at the end of the financial year is US\$10,964,662 (£7,569,658) as disclosed in note 13 and 14 to the financial statements.

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31ST DECEMBER 2001

16 PROVISION FOR LIABILITIES AND CHARGES

The movement on deferred taxation during the year was:-

	2001 £	2000 £
Balance at 1st January 2001	46,452	69,399
Increase/(decrease) in provision for liability related to accelerated capital allowances	103,274	(22,947)
	<hr/>	<hr/>
Balance at 31st December 2001	<u>149,726</u>	<u>46,452</u>

The amount provided and the potential liability for deferred taxation are:-

	2001		2000	
	Amount provided £	Potential liability £	Amount provided £	Potential liability £
Accelerated capital allowances	<u>149,726</u>	<u>149,726</u>	<u>46,452</u>	<u>46,452</u>

17 SHARE CAPITAL

	2001 £	2000 £
Authorised: 1,000,000 ordinary shares of £1 each	<u>1,000,000</u>	<u>1,000,000</u>
Issued and fully paid: 2 ordinary shares of £1 each	<u>2</u>	<u>2</u>

18 (DEFICIENCY)/SURPLUS OF RESERVES

	2001 £	2000 £
Deficit for the financial year	(4,219,081)	(1,822,437)
Surplus at 1st January 2001	<u>3,668,443</u>	<u>5,490,880</u>
	<hr/>	<hr/>
(Deficiency)/surplus at 31st December 2001	<u>(550,638)</u>	<u>3,668,443</u>

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31ST DECEMBER 2001

**19 RECONCILIATION OF MOVEMENTS IN
 SHAREHOLDERS' (DEFICIENCY)/FUNDS**

	2001 £	2000 £
Deficit for the financial year	(4,219,081)	(1,822,437)
Shareholders' funds as at 1st January 2001	3,668,445	5,490,882
	<hr/>	<hr/>
Shareholders' (deficiency)/ funds as at 31st December 2001	<u>(550,636)</u>	<u>3,668,445</u>

20 POST BALANCE SHEET EVENTS

- a. The immediate holding company, European Aviation Limited, has entered into a conditional sale agreement dated 16th December 2002 for the disposal of the issued share capital of European Aviation Air Charter Limited. The transaction is to be completed on or before 31st December 2004, or a later date if agreed by all parties. Failure to complete by 31st December 2004, or to agree to an extension, will render the sale contract null and void.
- b. On 23rd November 2002 a legal charge was registered in favour of R. E. Bath Travel Service (Palmail) Limited over the entire issued share capital of European Aviation Air Charter Limited in respect of all monies due, or to become due, to the chargee by the parent company, European Aviation Limited. The directors believe that this charge has been registered in error and should refer to all monies due, or to become due, to the chargee from European Aviation Air Charter Limited as in 20c below and not European Aviation Limited. The directors are currently seeking to rectify this error.
- c. On 24th December 2002 a charge over shares was registered in favour of R. E. Bath Travel Service (Palmail) Limited and The Really Great Holiday Company PLC over the entire issued share capital of European Aviation Air Charter Limited in respect of all monies due, or to become due to the chargee by European Aviation Air Charter Limited.
- d. Since the end of the financial year the company has made a loan of £850,000 to its fellow subsidiary Trans Europa Trading Limited. At the 31st December 2001 Trans Europa Trading Limited's balance sheet disclosed a deficiency of £937,007. Since the end of the financial year this company has incurred further trading losses.
- e. Since the end of the financial year the company has made a loan of £5,500,000 to its fellow subsidiary European Formula Racing Limited. This is to be set off against the amount due to European Formula Racing Limited as disclosed in note 13. At 31st December 2001 European Formula Racing Limited's balance sheet disclosed a deficiency of £604,066.
- f. A mortgage in favour of Barclays Bank PLC., was registered on 3rd April 2002 as security, in respect of all monies due or to become due from European Skybus Limited to the chargee.
- g. Two aircraft mortgages in favour of Girobank PLC., were separately registered on 1st October 2002 as security, in respect of two BAC 1-11 aircraft.

**NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31ST DECEMBER 2001**

20 POST BALANCE SHEET EVENTS (continued)

- h. Since the financial year end the company has purchased a B747 flight simulator for US\$1,500,000. A chattel mortgage in favour of British Airways PLC., was registered on 31st July 2002 as security, in respect of this asset.
- i. An assignment of insurances in favour of Bullfinch Limited was registered on 27th October 2003 as security, in respect of all monies due, or to become due, from the company to the assignee.

21 CONTINGENT LIABILITIES

- a. As referred to in note 15 each group company has provided composite guarantees as security for group bank borrowings. At the balance sheet date group bank borrowings totalled £7,077,000.
- b. At the balance sheet date the company has a liability in respect of a dollar denominated hire purchase agreement of US\$10,964,662. Forward dollar exchange contracts have not been arranged in respect of this liability.

Translated at the exchange rate applicable at the balance sheet date the liability totals £7,533,779. This liability is included in hire purchase commitments shown in these financial statements as £7,569,658 at the financial year end.

No provision has been made for this exchange difference as, in the directors' opinion, future US dollar cash flow should be sufficient to provide US dollar currency to settle the liability without currency exchange transactions becoming necessary.

- c. Since the end of the financial year the company has become subject to a claim for damages from a customer in respect of a series of flights which took place during 2002 and 2003. The claimant is seeking damages of £361,787 plus interest and costs. In addition, the claimant is seeking an indemnity in respect of all claims made against the claimant by the passengers concerned. The directors intend to vigorously defend this action, and do not consider any provisions are necessary in this respect.
- d. The group remains subject to Inland Revenue enquiries in respect of previous years Returns, that may affect the claims for group relief in those years, and as such may impact upon the Tax liabilities of the company. The directors do not consider that any further provisions are necessary, other than those already made in these financial statements.

22 RELATED PARTY TRANSACTIONS

W. A. O'Neill, the managing director, has a controlling interest in Democourt Limited, a company which has provided consultancy services to European Aviation Air Charter Limited in the sum of £48,750 during the year.

The amount due from the related company, Arkley Marine Limited is detailed in note 12.

The company, as a wholly owned subsidiary, has taken advantage of the exemption under FRS8, not to disclose separate transactions with other group companies.

**NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31ST DECEMBER 2001****23 DIRECTORS' LOANS**

The chairman has negotiated an unsecured interest free loan with the company which is repayable on demand. The amount outstanding at the balance sheet date was £138,194. The maximum outstanding during the year was also £138,194.

Amounts outstanding to the company at the balance sheet date were:-

	2001 £	2000 £
P. G. Stoddart	138,194	132,942
W. A. O'Neill	--	124
	<hr/>	<hr/>
	138,194	133,066
	<hr/>	<hr/>

24 ULTIMATE HOLDING COMPANY

The company is a subsidiary of European Aviation Limited, a company incorporated in England and Wales.

The ultimate holding company is Gannet Investments Limited, a company incorporated in Liberia.