

EUROPEAN AVIATION AIR CHARTER LIMITED

FINANCIAL STATEMENTS

For the year ended 31st December 1998



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EUROPEAN AVIATION AIR CHARTER LIMITED

FINANCIAL STATEMENTS AND REPORTS

For the year ended 31st December 1998

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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 1998**

Directors:

P. G. Stoddart (Chairman)
W. A. O'Neill (Managing)
T. S. Fox
T. S. Whetter
J. W. Lailey, A.C.M.A.
S. E. Aston, (Ms)
O. M. Wright
P. S. Craig

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 accounts for the year ended 31st December 1998.

RESULTS AND DIVIDENDS

The results for the year after taxation, and appropriation thereof are set out in the profit and loss account on page 4. The directors do not recommend a payment of a dividend on the issued share capital for the year under review.

BUSINESS REVIEW

The company's principal activity during the year was that of air charter operators.

Despite operating in a highly competitive market the company has continued to consolidate its position and customer base. This has resulted in an increase in turnover and profitability.

The company has taken over the activities of its fellow subsidiary company European Aviation Maintenance Limited from 1st January 1999.

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
W. A. O'Neill
T. S. Fox
T. S. Whetter
J. W. Lailey, A.C.M.A.
S. E. Aston, (Ms)
O. M. Wright
P. S. Craig

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.

REPORT OF THE DIRECTORS (CONTINUED)


FIXED ASSETS

The changes in fixed assets during the year are summarised in note 9 to the financial statements.

AUDITORS

A Resolution for the re-appointment of Poole Waterfield as auditors of the company will be placed before the Annual General Meeting.

By order of the board.



.....
P. G. Stoddart
Chairman

31st January 2000

We have audited the financial statements on pages 4 to 16 which have been prepared under the historical cost convention, and the accounting policies set out on pages 7 and 8.

Respective responsibilities of directors and auditors

As described on page 2 the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

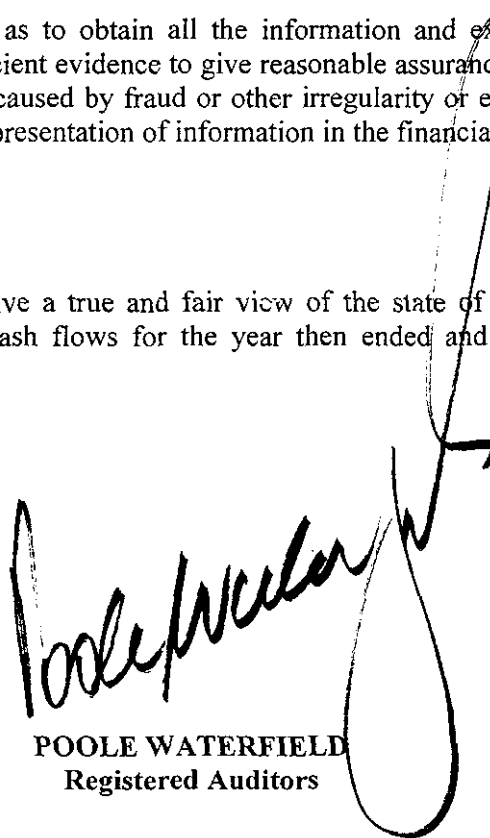
Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes an 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 the company's affairs as at 31st December 1998, and of its results and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



POOLE WATERFIELD
Registered Auditors

Dudley,
West Midlands.

7th February 2000

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31ST DECEMBER 1998**

	Note	1998 £	1997 £
TURNOVER	2	26,333,631	22,983,002
Cost of sales		16,813,085	14,896,844
GROSS PROFIT		9,520,546	8,086,158
Net operating expenses		7,425,129	6,099,809
OPERATING PROFIT	3	2,095,417	1,986,349
Interest receivable and similar income	6	43,708	57,150
		2,139,125	2,043,499
Interest payable and similar charges	7	21,754	8,654
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		2,117,371	2,034,845
TAXATION ON PROFIT ON ORDINARY ACTIVITIES	8	390,731	828,557
RETAINED PROFIT FOR THE YEAR	17	1,726,640	1,206,288

The notes on pages 7 to 16 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 has no recognised gains or losses other than the profit for the above two financial years.

BALANCE SHEET
AS AT 31ST DECEMBER 1998

	Note	£	1998 £	£	1997 £
FIXED ASSETS					
Tangible assets	9		1,920,401		2,257,819
CURRENT ASSETS					
Stocks	10	37,751		29,939	
Debtors	11	12,601,337		8,830,813	
Cash at bank and in hand		59,946		50,387	
			<hr/>	<hr/>	
			12,699,034	8,911,139	
CREDITORS: Amounts falling due within one year	12	10,228,131		8,957,456	
			<hr/>	<hr/>	
NET CURRENT ASSETS/ (LIABILITIES)			2,470,903		(46,317)
TOTAL ASSETS LESS CURRENT LIABILITIES			<hr/>		<hr/>
			4,391,304		2,211,502
CREDITORS: Amounts falling due after more than one year	13	549,379		24,437	
PROVISION FOR LIABILITIES AND CHARGES	15	99,590		171,370	
			<hr/>	<hr/>	
			648,969		195,807
NET ASSETS			<hr/>		<hr/>
			3,742,335		2,015,695
CAPITAL AND RESERVES					
Issued share capital	16		2		2
Revenue reserves	17		3,742,333		2,015,693
			<hr/>		<hr/>
SHAREHOLDERS' FUNDS	18		3,742,335		2,015,695
			<hr/>		<hr/>

The notes on pages 7 to 16 form part of these financial statements.

Approved by the Board of Directors on 31st January 2000 and signed on their behalf by:



P. G. Stoddart
 Chairman

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 1998**

	Note	£	1998 £	£	1997 £
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	19		(406,532)		(1,550,092)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE					
Interest received		43,708		57,150	
Interest paid		(21,754)		(8,654)	
NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			21,954		48,496
TAXATION					
Taxation adjustment/(paid)		80,317		(108,272)	
NET TAX ADJUSTMENT/(PAID)			80,317		(108,272)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT					
Payments to acquire fixed assets		(413,599)		(277,784)	
Reduction in acquisition value of fixed assets		--		341,680	
Proceeds of sale of fixed assets		21,284		788,271	
NET CASH (OUTFLOW)/INFLOW FROM CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			(392,315)		852,167
FINANCING					
New short term loans and hire purchase contracts		778,250		97,360	
Repayment of capital element of hire purchase and loans		(86,636)		(48,051)	
NET CASH INFLOW FROM FINANCING			691,614		49,309
DECREASE IN CASH BALANCES	20		(4,962)		(708,392)

The notes on pages 7 to 16 form part of these financial statements.

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER 1998****1 ACCOUNTING POLICIES**

The principal accounting policies adopted in the preparation of the financial statements are set out below and have remained unchanged from the previous year, and have also been consistently applied.

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.

The effect of events relating to the year ended 31st December 1998 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 1998, and of the results for the year ended on that date.

Depreciation

Depreciation has been computed to write off the cost of tangible fixed assets over their expected useful lives on a straight line basis, using the following rates:-

Aircraft	20%
Motor vehicles	25%
Fixtures and fittings	At rates varying between 15% and 33.1/3%
Aircraft simulators	10%

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 benefit of the transfer and receipt of the value of the group losses is recognised as a transfer of value between companies on the date on which the adjusted liability becomes payable.

Deferred taxation

Deferred taxation is provided on the liability method to take account of timing differences between the treatment of certain items for accounts purposes and their treatment for tax purposes. Tax deferred or accelerated is accounted for in respect that it is considered that a net liability may crystallise.

Foreign exchange

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.

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31ST DECEMBER 1998

1 ACCOUNTING POLICIES (CONTINUED)

Pension costs

The company operates a defined contribution group personal pension scheme which is contributory by all employees and directors who are members. Premiums payable are charged against revenue when paid.

2 TURNOVER

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

Geographical analysis

	1998 £	1997 £
United Kingdom	22,247,280	18,943,513
Eire	2,112,069	3,159,299
Belgium	473,002	22,753
France	546,432	692,420
Holland	342,638	47,454
Germany	198,931	68,173
Norway	103,143	--
Other	310,136	49,390
	<u>26,333,631</u>	<u>22,983,002</u>

3 OPERATING PROFIT

This is stated after charging/(crediting):

	1998 £	1997 £
Depreciation of owned fixed assets	659,782	667,019
Depreciation of assets subject to hire purchase or finance lease agreements	69,804	14,295
Directors' emoluments (Note 4)	445,703	391,054
Auditors' remuneration	18,000	18,000
Equipment hire	1,374	8,462
Aircraft leasing	2,400,000	1,440,000
Exchange rate variances	19,749	(959)
Loss/(surplus) on disposal of assets	147	(327,349)
	<u>=====</u>	<u>=====</u>

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31ST DECEMBER 1998

4 DIRECTORS' REMUNERATION

	1998 £	1997 £
Emoluments:		
Management remuneration	411,088	356,805
Benefits in kind	22,121	24,766
Pension	12,494	9,483
	<u>445,703</u>	<u>391,054</u>

	1998 £	1997 £
Emoluments excluding pension contributions:-		
Chairmans emoluments	<u>25,000</u>	<u>20,000</u>
Highest paid directors emoluments	<u>80,595</u>	<u>63,485</u>

One director has waived his right to receive remuneration. (1997 - 2)

	Number of directors 1998	Number of directors 1997
Number of directors to whom retirement benefits are accruing under money purchase arrangements	<u>5</u>	<u>5</u>

5 STAFF COSTS

	1998	1997
The average number of persons employed by the company including directors	<u>207</u>	<u>158</u>

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31ST DECEMBER 1998

5 STAFF COSTS (CONTINUED)

The aggregate payroll costs of persons employed were:-

	1998 £	1997 £
Wages and salaries	4,484,988	3,587,187
Social security	435,059	335,587
Pension costs	107,450	74,087
	<u>5,027,497</u>	<u>3,996,861</u>

6 INTEREST RECEIVABLE AND SIMILAR INCOME

	1998 £	1997 £
Bank interest	15,037	57,150
Interest from related company	28,671	--
	<u>43,708</u>	<u>57,150</u>

7 INTEREST PAYABLE AND SIMILAR CHARGES

	1998 £	1997 £
Interest payable – bank loans and overdrafts	1,596	2,276
Interest payable – other	8,821	3,113
Hire purchase interest	11,337	3,265
	<u>21,754</u>	<u>8,654</u>

8 TAX ON PROFIT ON ORDINARY ACTIVITIES

	1998 £	1997 £
Corporation tax at 31% (1997 – 33%/31%)	747,417	813,743
Transfer of value of group tax losses	(300,000)	--
Decrease in provision for deferred taxation	(71,780)	(60,642)
Prior year adjustment	15,094	74,456
	<u>390,731</u>	<u>828,557</u>
Charge to accounts	<u>390,731</u>	<u>828,557</u>

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31ST DECEMBER 1998

9 TANGIBLE FIXED ASSETS

COST	Aircraft simulators & training facilities £	Aircraft £	Motor vehicles £	Fixtures & fittings £	Total £
At 1st January 1998	788,736	2,597,837	192,403	154,406	3,733,382
Additions	330,435	--	66,317	16,847	413,599
Disposals	--	--	(81,715)	(15,959)	(97,674)
	<u>1,119,171</u>	<u>2,597,837</u>	<u>177,005</u>	<u>155,294</u>	<u>4,049,307</u>
At 31st December 1998	<u>1,119,171</u>	<u>2,597,837</u>	<u>177,005</u>	<u>155,294</u>	<u>4,049,307</u>
DEPRECIATION					
At 1st January 1998	30,000	1,328,969	58,953	57,641	1,475,563
Charge for the year	96,564	539,811	53,011	40,200	729,586
Elimination on disposal	--	--	(60,284)	(15,959)	(76,243)
	<u>126,564</u>	<u>1,868,780</u>	<u>51,680</u>	<u>81,882</u>	<u>2,128,906</u>
At 31st December 1998	<u>126,564</u>	<u>1,868,780</u>	<u>51,680</u>	<u>81,882</u>	<u>2,128,906</u>
NET BOOK AMOUNT					
At 31st December 1998	<u>992,607</u>	<u>729,057</u>	<u>125,325</u>	<u>73,412</u>	<u>1,920,401</u>
At 31st December 1997	<u>758,736</u>	<u>1,268,868</u>	<u>133,450</u>	<u>96,765</u>	<u>2,257,819</u>

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31ST DECEMBER 1998

9a FIXED ASSETS

The following fixed assets are subject to hire purchase or other secured borrowing as referred to in note 14.

	Aircraft simulators & training facilities £	Motor vehicles £	Total £
COST			
At 1st January 1998	350,817	83,590	434,407
Additions	181,283	--	181,283
	<hr/>	<hr/>	<hr/>
At 31st December 1998	<u>532,100</u>	<u>83,590</u>	<u>615,690</u>
 DEPRECIATION			
At 1st January 1998	15,193	12,039	27,232
Charge for the year	48,900	20,904	69,804
	<hr/>	<hr/>	<hr/>
At 31st December 1998	<u>64,093</u>	<u>32,943</u>	<u>97,036</u>
 NET BOOK AMOUNT			
At 31st December 1998	<u>468,007</u>	<u>50,647</u>	<u>518,654</u>
 At 31st December 1997	<u>335,624</u>	<u>71,551</u>	<u>407,175</u>

10 STOCKS

	1998 £	1997 £
Aircraft fuel and accessories	2,420	3,400
Goods for resale	35,331	26,539
	<hr/>	<hr/>
	<u>37,751</u>	<u>29,939</u>

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31ST DECEMBER 1998

11 DEBTORS: Amounts falling due within one year

	1998 £	1997 £
Trade debtors	1,761,979	1,239,030
Amount due from holding company	10,716,159	7,189,615
Loan accounts	--	290,844
Value added tax	41,511	32,504
Prepayments and other debtors	31,898	20,388
Directors' loan account	39,733	48,375
Advance corporation tax recoverable	10,057	10,057
	<u>12,601,337</u>	<u>8,830,813</u>

12 CREDITORS: Amounts falling due within one year

	1998 £	1997 £
Bank overdraft	79,072	64,551
Trade creditors	2,902,412	2,997,568
Amount due to fellow subsidiary companies	4,443,767	4,101,986
Corporation tax	1,438,027	895,199
Other taxation and social security	342,274	147,494
Hire purchase commitments	224,388	57,716
Accruals and other creditors	788,134	682,885
Advance corporation tax payable	10,057	10,057
	<u>10,228,131</u>	<u>8,957,456</u>

13 CREDITORS: Amounts falling due after more than one year

	1998 £	1997 £
Hire purchase commitments		
Due between 2 and 5 years	549,379	24,437
	<u>549,379</u>	<u>24,437</u>

14 BORROWING

The company's bank overdraft facility is secured by a mortgage debenture on the bank's standard form, granting a fixed and floating charge over the company's assets together with unlimited cross-guarantees provided by European Aviation Limited and European Aviation Maintenance Limited.

The aircraft simulator equipment is subject to a chattel mortgage. The balance outstanding at the balance sheet date was £700,444.

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31ST DECEMBER 1998

15 PROVISION FOR LIABILITIES AND CHARGES

The movement on deferred taxation in the year was:-

	1998 £	1997 £
Balance at 1st January 1998	171,370	232,012
Movement on accelerated capital allowances	(71,780)	(60,642)
	<hr/>	<hr/>
Balance at 31st December 1998	<u>99,590</u>	<u>171,370</u>

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

	1998		1997	
	Amount provided £	Potential liability £	Amount provided £	Potential liability £
Accelerated capital allowances	<u>99,590</u>	<u>99,590</u>	<u>171,370</u>	<u>171,370</u>

16 SHARE CAPITAL

	1998 £	1997 £
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>

17 REVENUE RESERVES

	1998 £	1997 £
Retained profit for year	1,726,640	1,206,288
Retained profits at 1st January 1998	2,015,693	809,405
	<hr/>	<hr/>
Retained profits at 31st December 1998	<u>3,742,333</u>	<u>2,015,693</u>

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31ST DECEMBER 1998

**18 RECONCILIATION OF MOVEMENTS IN
 SHAREHOLDERS' FUNDS**

	1998 £	1997 £
Retained profit for the year	1,726,640	1,206,288
Opening shareholders' funds	2,015,695	809,407
	<hr/>	<hr/>
Closing shareholders' funds	<u>3,742,335</u>	<u>2,015,695</u>

**19 RECONCILIATION OF OPERATING PROFIT TO NET
 CASH FLOW FROM OPERATING ACTIVITIES**

	1998 £	1997 £
Operating profit	2,095,417	1,986,349
Depreciation	729,586	681,314
Increase in stocks	(7,812)	(4,773)
Increase in debtors	(3,770,524)	(4,082,459)
Increase in creditors	546,654	196,826
Loss/(surplus) on disposal of fixed assets	147	(327,349)
	<hr/>	<hr/>
Net cash outflow from operating activities	<u>(406,532)</u>	<u>(1,550,092)</u>

**20 RECONCILIATION OF CHANGES IN NET
 DEBT AND CASH FLOWS**

	At 01-01-1998 £	Cash flows £	At 31-12-1998 £
Cash at bank and in hand	(14,164)	(4,962)	(19,126)
Debt repayments due after one year	(24,437)	(524,942)	(549,379)
Debt repayments due within one year	(57,716)	(166,672)	(224,388)
	<hr/>	<hr/>	<hr/>
	<u>(96,317)</u>	<u>(696,576)</u>	<u>(792,893)</u>

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31ST DECEMBER 1998

**21 RECONCILIATION OF NET CASH FLOW
 TO MOVEMENT IN NET DEBT**

	1998 £	1997 £
Decrease in cash in the year	(4,962)	(708,392)
Cash outflow from increase in debt and lease financing	86,636	48,051
	<hr/>	<hr/>
New loans	81,674 (778,250)	(660,341) (97,360)
	<hr/>	<hr/>
Movement in net debt in the year	(696,576)	(757,701)
Net debt at 1st January 1998	(96,317)	661,384
	<hr/>	<hr/>
Net debt at 31st December 1998	<u>(792,893)</u>	<u>(96,317)</u>

22 CONTINGENT LIABILITY

As referred to in Note 14 each Group Company has provided unlimited cross guarantees as security for group bank borrowings. At the balance sheet date group bank borrowing totalled £4,579,494.

23 POST BALANCE SHEET EVENTS

On the 1st January 1999 the company took over the trade, assets and liabilities of its fellow subsidiary company European Aviation Maintenance Limited.

24 RELATED PARTY TRANSACTIONS

During the year the company leased BAC 1-11 Aircraft from its holding company, European Aviation Limited, at a cost of £2,600,000. The company also incurred aircraft maintenance charges from the fellow subsidiary company, European Aviation Maintenance Limited of £5,813,755 together with simulator centre charges of £90,000.

Amounts outstanding in respect of group and related companies are detailed in notes 11 and 12.

25 DIRECTORS' LOANS

The chairman has negotiated a short-term, unsecured interest free loan with the company. The amount outstanding at the balance sheet date was £33,338. The maximum outstanding during the year was £48,375.

The managing director has negotiated a short-term, unsecured interest free loan with the company. The amount outstanding at the balance sheet date was £6,395, this was also the maximum outstanding during the year.

Each loan is repayable on demand.

26 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.