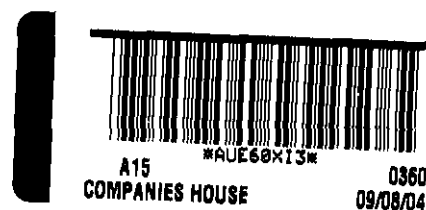


2850499

EUROPEAN AVIATION AIR CHARTER LIMITED

FINANCIAL STATEMENTS

For the 16 months ended 30th April 2003



EUROPEAN AVIATION AIR CHARTER LIMITED

FINANCIAL STATEMENTS AND REPORTS

For the period ended 30th April 2003

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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 PERIOD ENDED 30TH APRIL 2003**

Directors:

P. G. Stoddart (Chairman)
W. A. O'Neill (Managing)
T. S. Whetter (resigned 1st December 2002)
J. W. Lailey, A.C.M.A. (resigned 29th January 2004)
S. E. Aston, (Ms) (resigned 1st December 2002)
P. S. Craig (resigned 31st October 2002)
D. W. Blake (resigned 2nd March 2004)
S. Penton (appointed 1st September 2002,
resigned 10th February 2004)

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 16 months ended 30th April 2003.

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDENDS

The results for the period 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 period under review.

BUSINESS REVIEW

On 16th December 2002 the company's parent, European Aviation Limited, entered into a conditional agreement for the sale of the issued share capital of the company. The new management structure was led by a firm of management consultants who embarked upon an ambitious but ultimately unsustainable period of growth. This eventually brought about a loss of confidence by the potential purchasers and ultimately the company entered into a Corporate Voluntary Arrangement (CVA) that was approved on 7th April 2004.

No provision has been made in these financial statements for any adjustments which may have resulted from the CVA. However if such amendments were to be made to these financial statements they would result in a significant reduction in the net current liabilities of the company.

In the first quarter's trading since the CVA, the company's results have been encouraging and in excess of expectations.

DIRECTORS AND THEIR INTERESTS

The directors who served during the period, 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. (resigned 29th January 2004)
S. E. Aston, (Ms) (resigned 1st December 2002)
P. S. Craig (resigned 31st October 2002)
D. W. Blake (resigned 2nd March 2004)
S. Penton (appointed 1st September 2002,
resigned 10th February 2004)

REPORT OF THE DIRECTORS (CONTINUED)

DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial period 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.

FIXED ASSETS

As part of the group's policy of continuous review, the company has recognised an impairment loss in respect of the aircraft fleet in these financial statements.

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

2nd August 2004

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

Page 4

We have audited the financial statements of European Aviation Air Charter Limited for the period ended 30th April 2003 on pages 6 to 21. 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.

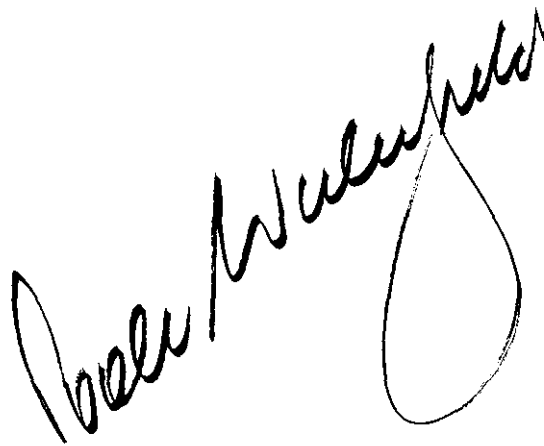
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity 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 under the terms of a Corporate Voluntary Arrangement (CVA) dated 7th April 2004. Should the company fail to comply with the terms of the CVA, or be unable to trade profitably and generate positive cashflow, it is unlikely that the company would be able to continue to trade without the availability of further financial support. In this event the going concern basis would not be appropriate. Our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 30th April 2003 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in black ink, appearing to read 'Poole Waterfield', written diagonally across the page.

POOLE WATERFIELD
Registered Auditors and Accountants

Dudley,
West Midlands.

6th August 2004

**PROFIT AND LOSS ACCOUNT
FOR THE 16 MONTHS ENDED 30TH APRIL 2003**

	Note	Period ended 30-04-03 £	Year ended 31-12-2001 £
TURNOVER	2	78,710,231	35,502,290
Cost of sales		78,766,052	24,461,518
		<hr/>	<hr/>
GROSS (LOSS)/PROFIT		(55,821)	11,040,772
Operating charges		46,551,546	15,366,049
		<hr/>	<hr/>
OPERATING LOSS	3	(46,607,367)	(4,325,277)
Interest payable and similar charges	6	1,126,057	618,779
		<hr/>	<hr/>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(47,733,424)	(4,944,056)
TAXATION ON LOSS ON ORDINARY ACTIVITIES	7	(149,726)	(724,975)
		<hr/>	<hr/>
DEFICIT FOR THE PERIOD/YEAR	16	<u>(47,583,698)</u>	<u>(4,219,081)</u>

The notes on pages 8 to 21 form part of these financial statements.

CONTINUING OPERATIONS

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

TOTAL RECOGNISED GAINS AND LOSSES

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

EUROPEAN AVIATION AIR CHARTER LIMITED


Page 7

**BALANCE SHEET
AS AT 30TH APRIL 2003**

	Note	£	2003 £	£	31-12-2001 £
FIXED ASSETS					
Tangible assets	8/8a		8,129,081		10,743,468
CURRENT ASSETS					
Stocks	9	71,804		52,337	
Debtors	10	8,217,613		13,782,827	
Cash at bank and in hand		333,274		81,886	
		<u>8,622,691</u>		<u>13,917,050</u>	
CREDITORS: Amounts falling due within one year	11	61,769,815		18,708,509	
NET CURRENT LIABILITIES			(53,147,124)		(4,791,459)
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>(45,018,043)</u>		<u>5,952,009</u>
CREDITORS: Amounts falling due after more than one year	12	3,116,291		6,352,919	
PROVISION FOR LIABILITIES AND CHARGES	14	--		149,726	
			<u>3,116,291</u>		<u>6,502,645</u>
NET LIABILITIES			<u>(48,134,334)</u>		<u>(550,636)</u>
CAPITAL AND RESERVES					
Issued share capital	15		2		2
Deficiency of reserves	16		(48,134,336)		(550,638)
SHAREHOLDERS' DEFICIENCY	17		<u>(48,134,334)</u>		<u>(550,636)</u>

The notes on pages 8 to 21 form part of these financial statements.

Approved by the Board of Directors on 2nd August 2004 and signed on their behalf by:


.....
P. G. Stoddart,
Chairman

**NOTES TO THE ACCOUNTS
FOR THE PERIOD ENDED 30TH APRIL 2003**

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 period ended 30th April 2003 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 30th April 2003, and of the results for the period 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 company's compliance with the terms of a Corporate Voluntary Arrangement which was agreed on 7th April 2004, and its ability to trade profitably and generate positive cash flow. No adjustments have been made to the financial statements in respect of the possible invalidity of the going concern basis.

Corporate Voluntary Arrangement

No provision has been made in these financial statements for any adjustments which may have resulted from the Corporate Voluntary Arrangement dated 7th April 2004.

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

The company has conducted an impairment review of its aircraft fleet, the results of which are incorporated into these financial statements.

**NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE PERIOD ENDED 30TH APRIL 2003**

1 ACCOUNTING POLICIES (CONTINUED)

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.

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 is made for the exchange rate differences when, 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 period 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 PERIOD ENDED 30TH APRIL 2003

2 TURNOVER

Turnover represents the net amounts invoiced during the period/(year) by the company.

Geographical analysis

	Period ended 30-04-2003 £	2001 £
United Kingdom and other E.U. states	69,802,067	34,289,317
North America	2,092,512	907,141
Other	6,815,652	305,832
	<hr/>	<hr/>
	78,710,231	35,502,290
	<hr/>	<hr/>

3 OPERATING LOSS

This is stated after charging/(crediting):

	Period ended 30-04-2003 £	2001 £
Depreciation of owned fixed assets	2,036,317	1,003,452
Depreciation of assets subject to hire purchase or finance lease agreements	1,695,936	1,016,617
Impairment loss	4,536,821	--
Group loan account balances written off	11,544,878	--
Auditors' remuneration	25,000	20,000
Non-audit services	12,000	12,000
Aircraft leasing	11,446,051	4,040,000
Profit on currency exchanges	(517,044)	(12,160)
Directors' remuneration (note 4)	543,025	425,816
(Profit)/loss on disposal of fixed assets	(1,363)	16,278
	<hr/>	<hr/>

4 DIRECTORS' REMUNERATION

	Period ended 30-04-2003 £	2001 £
Emoluments:		
Management remuneration	477,855	382,984
Benefits in kind	46,475	28,227
Pension contributions	18,695	14,605
	<hr/>	<hr/>
	543,025	425,816
	<hr/>	<hr/>

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE PERIOD ENDED 30TH APRIL 2003

4 DIRECTORS' REMUNERATION (CONTINUED)

	Period ended 30-04-2003 £	2001 £
Emoluments of highest paid director:-		
Management remuneration and benefits in kind	122,486	100,695
Pension contributions	4,532	3,374
	<u>127,018</u>	<u>104,069</u>

2 directors have waived their right to receive remuneration. (2001 – 2)

	Number of directors	
	Period ended 30-04-2003	2001
Number of directors to whom retirement benefits are accruing under money purchase arrangements	5	6

5 STAFF COSTS

	Period ended 30-04-2003 No.	2001 No.
The average number of persons employed by the company including directors	482	299
The aggregate payroll costs of persons employed were:-		
	Period ended 30-04-2003 £	2001 £
Wages and salaries	16,638,764	7,994,811
Social security	1,637,998	788,680
Pension costs	370,296	248,196
	<u>18,647,058</u>	<u>9,031,687</u>

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE PERIOD ENDED 30TH APRIL 2003

6 INTEREST PAYABLE AND SIMILAR CHARGES

	Period ended 30-04-2003 £	2001 £
Hire purchase interest	761,102	581,045
Other interest	364,955	37,734
	<hr/>	<hr/>
	1,126,057	618,779
	<hr/>	<hr/>

7 TAXATION ON LOSS ON ORDINARY ACTIVITIES

	Period ended 30-04-2003 £	2001 £
Transfer of tax losses	--	(683,146)
Movement in provision for deferred taxation	(149,726)	103,274
Prior year adjustment	--	(145,103)
	<hr/>	<hr/>
Credit to accounts	(149,726)	(724,975)
	<hr/>	<hr/>

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE PERIOD ENDED 30TH APRIL 2003

8 TANGIBLE FIXED ASSETS

COST	Aircraft enhancement costs £	Expenditure on leasehold buildings £	Aircraft simulators & training facilities £	BAC 1-11 & B737 aircraft & fitted hushkits £	Motor vehicles £	Fixtures & fittings £	Plant & machinery £	Total £
At 1st January								
2002	854,020	78,947	1,117,768	11,582,152	175,680	144,580	414,743	14,367,890
Additions	3,936,980	9,625	1,149,571	--	25,900	27,741	127,197	5,277,014
Disposals	--	--	--	--	(11,699)	(1,048)	--	(12,747)
Inter group transfers	(521,369)	--	--	586,896	--	--	--	65,527
At 30th April								
2003	4,269,631	88,572	2,267,339	12,169,048	189,881	171,273	541,940	19,697,684

DEPRECIATION

At 1st January								
2002	436,976	9,904	461,868	2,175,263	97,862	112,828	329,721	3,624,422
Charge for the period	1,789,897	4,800	216,084	1,599,287	48,700	25,510	47,975	3,732,253
Disposals	--	--	--	--	(8,054)	(690)	--	(8,744)
Inter group transfers	(529,559)	--	--	213,410	--	--	--	(316,149)
Impairment loss	--	--	--	4,536,821	--	--	--	4,536,821
At 30th April								
2003	1,697,314	14,704	677,952	8,524,781	138,508	137,648	377,696	11,568,603

NET BOOK AMOUNT

At 30th April								
2003	2,572,317	73,868	1,589,387	3,644,267	51,373	33,625	164,244	8,129,081
At 31st December								
2001	417,044	69,043	655,900	9,406,889	77,818	31,752	85,022	10,743,468

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE PERIOD ENDED 30TH APRIL 2003

8a FIXED ASSETS

The following fixed assets are subject to hire purchase or other secured borrowing as referred to in note 13.

COST	B737 aircraft & fitted hushkits £	Aircraft simulators & training facilities £	Motor vehicles £	Plant & machinery £	Total £
At 1st January 2002	11,582,152	532,100	51,856	19,731	12,185,839
Additions	--	1,149,571	20,000	37,967	1,207,538
Contract completed during the year	--	(532,100)	--	--	(532,100)
	<u>11,582,152</u>	<u>1,149,571</u>	<u>71,856</u>	<u>57,698</u>	<u>12,861,277</u>
At 30th April 2003	<u>11,582,152</u>	<u>1,149,571</u>	<u>71,856</u>	<u>57,698</u>	<u>12,861,277</u>
DEPRECIATION					
At 1st January 2002	2,175,263	223,723	21,326	2,964	2,423,276
Depreciation on contract completed during year	--	(223,723)	--	--	(223,723)
Charge for the period	1,599,287	67,060	21,024	8,565	1,695,936
Impairment loss	4,163,335	--	--	--	4,163,335
	<u>7,937,885</u>	<u>67,060</u>	<u>42,350</u>	<u>11,529</u>	<u>8,058,824</u>
At 30th April 2003	<u>7,937,885</u>	<u>67,060</u>	<u>42,350</u>	<u>11,529</u>	<u>8,058,824</u>
NET BOOK AMOUNT					
At 30th April 2003	<u>3,644,267</u>	<u>1,082,511</u>	<u>29,506</u>	<u>46,169</u>	<u>4,802,453</u>
At 31st December 2001	<u>9,406,889</u>	<u>308,377</u>	<u>30,530</u>	<u>16,767</u>	<u>9,762,563</u>

9 STOCKS

	2003 £	2001 £
Aircraft fuel and accessories	14,987	2,474
Goods for resale	56,817	49,863
	<u>71,804</u>	<u>52,337</u>

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE PERIOD ENDED 30TH APRIL 2003

10 DEBTORS: Amounts falling due within one year

	2003 £	2001 £
Trade debtors	5,127,090	2,537,051
Amount due from holding company	--	10,599,190
Value added tax	2,671	45,761
Prepayments and other debtors	2,915,487	382,956
Directors' loan accounts (note 21)	147,464	138,194
Advance corporation tax recoverable	24,901	24,901
Amount due from related company	--	54,774
	<hr/>	<hr/>
	8,217,613	13,782,827
	<hr/>	<hr/>

11 CREDITORS: Amounts falling due within one year

	2003 £	2001 £
Bank overdraft (note 13)	6,814,603	5,430,096
Trade creditors	27,794,050	5,602,179
Amount due to fellow subsidiary companies	1,135,452	4,238,900
Amount due to related company (note 20)	11,195,571	--
Corporation tax	164,802	164,802
Other taxation and social security	4,717,814	1,081,088
Hire purchase commitments (note 13)	3,501,098	1,426,148
Accruals and other creditors	6,421,524	740,395
Advance corporation tax payable	24,901	24,901
	<hr/>	<hr/>
	61,769,815	18,708,509
	<hr/>	<hr/>

12 CREDITORS: Amounts falling due after more than one year

	2003 £	2001 £
Hire purchase commitments		
Due between 2 and 5 years (note 13)	3,116,291	6,352,919
	<hr/>	<hr/>

**NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE PERIOD ENDED 30TH APRIL 2003****13 SECURITY**Bank borrowing facility

At 30th April 2003 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. Since the financial period end the company has agreed new banking terms and conditions and on 16th July 2004 all liabilities under these mortgage debentures were discharged.
- 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. On 16th July 2004 all guarantees were removed in this respect.

Hire Purchase

The company's principal hire purchase creditors at 30th April 2003 are secured as follows:-

- a. On 26th November 1998 a chattel mortgage was registered in favour of Lombard North Central PLC., over the company's flight simulator equipment. This charge will be removed from the register in the near future as the liability to which it relates has been settled.
- b. On 9th March 2001 aircraft mortgages of even date were registered in favour of Girobank PLC., over four B737 aircraft, by way of a first legal mortgage. Since the end of the financial period this charge has been removed.
- c. On 9th March 2001 a lightweight floating charge of even date was registered in favour of Girobank PLC., by way of a floating charge over the company's assets. This charge will be removed from the register in the near future as agreement has been reached with the chargee.
- d. On 9th March 2001 a charge on cash of even date was registered in favour of Girobank PLC., by way of a fixed charge on deposit monies, as referred to in the registered charge document. This charge will be removed from the register in the near future as agreement has been reached with the chargee.
- e. On 9th March 2001 an assignment of insurances of even date was registered in favour of Girobank PLC., whereby all rights, title and interest in respect of insurances are assigned. This charge will be removed from the register in the near future as agreement has been reached with the chargee.
- f. On 1st October 2002 two aircraft mortgages were separately registered in favour of Girobank PLC., over two BAC 1-11 aircraft. Subject to reaching agreement with the chargee, these charges will be removed from the register in the near future as both of the aircraft to which they relate have been retired.
- g. On 31st July 2002 a chattel mortgage was registered in favour of British Airways PLC over B747 flight simulator equipment in respect of US\$1,500,000 due or to become due from the company to the chargee.

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE PERIOD ENDED 30TH APRIL 2003

13 SECURITY (Continued)

Other security

- a. On 23rd November 2002 a legal charge was registered in favour of R. E. Bath Travel Service (Palmar) Limited over the entire 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 below and not European Aviation Limited. The directors are currently seeking to rectify this error.
- b. On 24th December 2002 a charge over shares was registered in favour of R. E. Bath Travel Service (Palmar) Limited and The Really Great Holiday Company PLC over the entire issued share capital of European Aviation Air Charter Limited together with all stocks shares or other securities and all dividends in respect of all monies due, or to become due from the company to the chargee.
- c. On 3rd April 2002 a mortgage was registered in favour of Barclays Bank PLC., over all insurances and any compensation rights and any lease relating to a specified B747 aircraft, in respect of all monies due or to become due from European Skybus Limited to the chargee.

14 PROVISION FOR LIABILITIES AND CHARGES

The movement on deferred taxation during the period was:-

	Period ended 30-04-2003 £	2001 £
Balance at 1st January 2002	149,726	46,452
(Decrease)/increase in provision for liability related to accelerated capital allowances	(149,726)	103,274
	-----	-----
Balance at 30th April 2003	--	149,726
	=====	=====

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

	2003		2001	
	Amount provided £	Potential liability £	Amount provided £	Potential liability £
Accelerated capital allowances	--	--	149,726	149,726
	=====	=====	=====	=====

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE PERIOD ENDED 30TH APRIL 2003

15 SHARE CAPITAL

	2003 £	2001 £
Authorised:		
1,000,000 ordinary shares of £1 each	1,000,000	1,000,000
	=====	=====
Issued and fully paid:		
2 ordinary shares of £1 each	2	2
	=====	=====

16 (DEFICIENCY)/SURPLUS OF RESERVES

	2003 £	2001 £
Deficit for the financial period/year	(47,583,698)	(4,219,081)
(Deficiency)/surplus at 1st January 2002	(550,638)	3,668,443
	-----	-----
Deficiency at 30th April 2003	(48,134,336)	(550,638)
	=====	=====

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

	Period ended 30-04-2003 £	2001 £
Deficit for the financial period/year	(47,583,698)	(4,219,081)
Shareholders' (deficiency)/funds as at 1st January 2002	(550,636)	3,668,445
	-----	-----
Shareholders' deficiency as at 30th April 2003	(48,134,334)	(550,636)
	=====	=====

**NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE PERIOD ENDED 30TH APRIL 2003****18 POST BALANCE SHEET EVENTS**

- a. Since the end of the financial period the company has entered into a Corporate Voluntary Arrangement (CVA). The directors' CVA proposal included:
- (i) The assumption that the company will continue to trade on a reduced basis under the control of existing directors and shareholders.
 - (ii) 100% of the net profit made by the company in the year following the date of approval is paid over to the Supervisors of the Arrangement.
 - (iii) Certain of the company's creditors confirmed that subject to approval they would not participate in any distribution.

The CVA was approved on 7th April 2004. No provision has been made in these financial statements for any adjustments arising from the CVA.

- b. 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. The directors believe that the conditions precedent in the agreement are unlikely to be met and therefore the possibility of completion has become remote.
- c. The company's Accounting Reference Date has been changed. Consequently the next financial statements for the company will be for the eleven months ended 31st March 2004.
- d. Since the end of the financial period the company has disposed of its B737 aircraft for a consideration of \$4,500,000, to a related company, European Skybus Limited.
- e. Since the end of the financial period the company has disposed of its unencumbered fixed assets to a related company, European Skybus Limited.
- f. On 27th October 2003 an assignment of insurances was registered in favour of Bullfinch Limited in respect of all monies due, or to become due, from the company to the assignee.
- g. On 19th November 2003 a first priority aircraft mortgage was registered in favour of Orlando Limited in respect of all monies due or to become due from the company to the chargee under the terms of the instrument creating or evidencing the charge.
- h. On 21st November 2003 and 9th January 2004 assignments of insurances were registered in favour of Orlando Limited in respect of all monies due, or to become due from the company to the chargee.
- i. Between 21st November 2003 and 13th January 2004 six assignments of insurances were registered in favour of Foxtrot Limited.
- j. On 7th January 2004 an engine lease agreement was registered in favour of Foxtrot Limited over the sum of \$100,000 in respect of all monies due or to become due from the company to the chargee.

NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE PERIOD ENDED 30TH APRIL 2003

18 POST BALANCE SHEET EVENTS (Continued)

- k. On 19th March 2004 a Deed of Assignment of Earnings was registered in favour of ALG-VIR-747RR Limited over the benefit of all and any earnings in connection with the leasing of an aircraft in respect of all monies due or to become due from the company to the chargee.

The directors believe that the charges referred to in f. to k. above are to be removed as those agreements to which they relate are no longer current.

19 CONTINGENT LIABILITIES

- a. As referred to in note 13 each group company has provided composite guarantees as security for group bank borrowings. On 16th July 2004 all guarantees were removed in this respect.
- b. 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.
- c. The company is acting as guarantor in respect of a hire purchase agreement in the name of European Skybus Limited, a related company. The capital balance due under this agreement is £1,344,261 at 30th April 2003.

20 RELATED PARTY TRANSACTIONS

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

W. A. O'Neill, a director, is also a director of Yeovil Ski and Activity Centre Limited, a company which has charged the sum of £70,333 for services and facilities provided during the period.

The company has been charged £12,109,162 in respect of aircraft leasing and maintenance charges by European Skybus Limited (ESL), a related company. The amount due to ESL relating to these charges forms part of the CVA of the company under the terms of which ESL has agreed not to participate in any distribution.

The balance due to ESL at 30th April 2003 is £11,195,571 as shown in note 11.

21 DIRECTORS' LOANS

The chairman, P. G. Stoddart, has negotiated an unsecured interest free loan with the company which is repayable on demand. The amount outstanding at the balance sheet date was £147,464 (2001 - £138,194). The maximum outstanding during the period was £165,228.

**NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE PERIOD ENDED 30TH APRIL 2003**

22 HOLDING COMPANY AND 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.