

**Charter Air Limited**

**Directors' report and financial statements**

**Registered number 5463440**

**31 March 2011**

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## Directors' report

The directors present their report and the financial statements for the year ended 31 March 2011

### Principal activities

The principal activity of the Company is that of chartering an aircraft

### Business review

The Company has net liabilities. However, as detailed in note 1 to the financial statements a parent undertaking, Virgin Holdings Limited, has formally indicated that it is its present intention to provide sufficient funding to the Company to enable it to meet its liabilities as they fall due, for at least the next twelve months. The directors have no reason to believe that the parent company will not be in a position to provide this support.

Furthermore, the Company has concluded a strategic review of its business with a view to improving its profitability going forward. To this end, the Company has already managed to rationalise its cost base. It has also decided to pursue leasing out its Falcon 900EX aircraft and leasing in a smaller aircraft to further improve business performance.

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

### Results and dividends

The loss for the financial year amounted to £628,000 (2010 - loss £264,000)

The directors do not recommend the payment of a dividend (2010 - £nil)

### Directors

The directors who served during the year were

G D McCallum  
M L M Mougín (appointed 14 January 2011)  
C R Stent (appointed 14 January 2011)  
A M Tai  
P C K McCall (resigned 14 January 2011)

### Provision of information to auditor

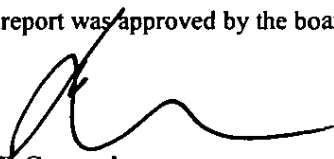
Each of the persons who are directors at the time when this Directors' report is approved has confirmed that

- so far as that director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the Company's auditor in connection with preparing its report and to establish that the Company's auditor is aware of that information.

### Auditor

Pursuant to Section 487 of the Companies Act 2006 the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office.

This report was approved by the board on 25 October 2011 and signed on its behalf



**B A R Gerrard**  
Company Secretary  
The School House  
50 Brook Green  
Hammersmith  
London  
W6 7RR

**Statement of directors' responsibilities**  
*for the year ended 31 March 2011*

The directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they 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 these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **Independent auditor's report to the members of Charter Air Limited**

We have audited the financial statements of Charter Air Limited for the year ended 31 March 2011, set out on pages 4 to 12. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditor**

As explained more fully in the Statement of directors' responsibilities on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Auditing Practices Board's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 March 2011 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



Sarah Styant (Senior statutory auditor)

for and on behalf of

**KPMG LLP**

Chartered Accountants

Statutory Auditor

15 Canada Square

London

E14 5GL

26 October 2011

**Profit and loss account**  
*for the year ended 31 March 2011*

	<i>Note</i>	<b>2011 £000</b>	<b>2010 £000</b>
<b>Turnover</b>	1	<b>2,508</b>	2,803
<b>Cost of sales</b>		<b>(2,610)</b>	(2,413)
		<hr/>	<hr/>
<b>Gross (loss)/profit</b>		<b>(102)</b>	390
<b>Administrative expenses</b>		<b>(622)</b>	(793)
		<hr/>	<hr/>
<b>Operating loss</b>	2	<b>(724)</b>	(403)
<b>Interest receivable and similar income</b>	5	<b>761</b>	962
<b>Interest payable and similar charges</b>	6	<b>(403)</b>	(405)
		<hr/>	<hr/>
<b>(Loss)/profit on ordinary activities before taxation</b>		<b>(366)</b>	154
<b>Tax on (loss)/profit on ordinary activities</b>	7	<b>(262)</b>	(418)
		<hr/>	<hr/>
<b>Loss for the financial year</b>	13	<b>(628)</b>	(264)
		<hr/>	<hr/>

All amounts relate to continuing operations

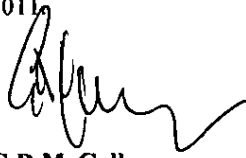
There were no recognised gains and losses for 2011 or 2010 other than those included in the profit and loss account

The notes on pages 6 to 12 form part of these financial statements

**Balance sheet**  
*as at 31 March 2011*

	<i>Note</i>	<b>£000</b>	<b>2011 £000</b>	<b>£000</b>	<b>2010 £000</b>
<b>Fixed assets</b>					
Tangible assets	8		14,366		15,390
<b>Current assets</b>					
Debtors	9	1,742		1,812	
Cash at bank		828		170	
		<u>2,570</u>		<u>1,982</u>	
<b>Creditors: amounts falling due within one year</b>	10	<u>(13,605)</u>		<u>(11,601)</u>	
<b>Net current liabilities</b>			<u>(11,035)</u>		<u>(9,619)</u>
<b>Total assets less current liabilities</b>			<u>3,331</u>		<u>5,771</u>
<b>Creditors: amounts falling due after more than one year</b>	11		<u>(11,974)</u>		<u>(13,786)</u>
<b>Net liabilities</b>			<u><u>(8,643)</u></u>		<u><u>(8,015)</u></u>
<b>Capital and reserves</b>					
Called up share capital	12		-		-
Profit and loss account	13		<u>(8,643)</u>		<u>(8,015)</u>
<b>Shareholders' deficit</b>	14		<u><u>(8,643)</u></u>		<u><u>(8,015)</u></u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 25 October 2011.

  
**G D McCallum**  
Director

The notes on pages 6 to 12 form part of these financial statements

## Notes to the financial statements

### 1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements

#### 1.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards

The financial statements have been prepared on a going concern basis in view of the fact that the parent undertaking Virgin Holdings Limited has formally indicated that it is its present intention to provide sufficient funding to the Company, to enable it to meet its liabilities as they fall due, for at least the next twelve months

The directors have no reason to believe that the parent company will not be in a position to provide the support referred to above and, accordingly, they have prepared the financial statements on the going concern basis

Under FRS 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements

As the Company is a wholly owned subsidiary of Virgin Wings Limited, the Company has taken advantage of the exemption contained in Financial Reporting Standard 8 and has therefore not disclosed transactions or balances with wholly owned subsidiaries which form part of the group

#### 1.2 Turnover

Turnover comprises revenue earned from chartering its aircraft, exclusive of Value Added Tax and trade discounts Revenue is recognised on supply of the charter service to clients

#### 1.3 Aircraft maintenance

Routine maintenance costs are written off to the profit and loss account as incurred Maintenance costs for overhauls at intervals of more than one year are capitalised in the balance sheet as a tangible fixed asset and depreciated Part of the initial cost of the new aircraft is treated as such maintenance expenditure based upon its maintenance status at acquisition and the then estimated cost of maintenance procedures

#### 1.4 Tangible fixed assets and depreciation

Aircraft and engine maintenance costs in respect of overhauls carried out at intervals greater than one year are depreciated by reference to their units of economic consumption, typically hours flown

Tangible fixed assets are stated at cost less depreciation Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases

Aircraft	-	5% per annum
Capitalised maintenance	-	flying hours

## Notes to the financial statements

### 1. Accounting policies (continued)

#### 1.5 Deferred taxation

Full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computation

A net deferred tax asset is recognised only if it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse

Deferred tax assets and liabilities are not discounted

#### 1.6 Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date

Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction

Exchange gains and losses are recognised in the Profit and loss account

#### 1.7 Pensions

The Company is a member of a defined contribution pension scheme, operated by Virgin Management Limited, a related undertaking. The assets of the scheme are held separately from those of the group in an independently administered fund. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period.

#### 1.8 Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

### 2 Operating loss

The operating loss is stated after charging

	2011 £000	2010 £000
Depreciation of tangible fixed assets - owned by the company	1,024	1,062
<b>Auditors' remuneration</b>		
	2011 £000	2010 £000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	10	10

## Notes to the financial statements

### 3 Staff costs

Staff costs were as follows

	2011 £000	2010 £000
Wages and salaries	173	202
Social security costs	17	22
Other pension costs	11	36
	<u>201</u>	<u>260</u>

The average monthly number of employees during the year was as follows

	2011 No.	2010 No
Cabin crew	<u>2</u>	<u>4</u>

### 4 Directors' remuneration

The directors did not receive any remuneration during the year for services to the Company (2010 - £nil)

### 5. Interest receivable and similar income

	2011 £000	2010 £000
Net foreign exchange gains	<u>761</u>	<u>962</u>

### 6. Interest payable and similar charges

	2011 £000	2010 £000
On bank loans and overdrafts	147	156
On loans from group undertakings	256	249
	<u>403</u>	<u>405</u>

## Notes to the financial statements

### 7. Taxation

	2011 £000	2010 £000
UK corporation tax charge on (loss)/profit for the year	<u>262</u>	<u>418</u>

#### Factors affecting tax charge for the year

The tax assessed for the year is higher than (2010 - higher than) the standard rate of corporation tax in the UK of 28% (2010 - 28%) The differences are explained below

	2011 £000	2010 £000
(Loss)/profit on ordinary activities before tax	<u>(366)</u>	<u>154</u>
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2010 - 28%)	(102)	43
<b>Effects of:</b>		
Expenses not deductible for tax purposes	77	92
Capital allowances for year in excess of depreciation	287	297
Non-taxable income	-	(14)
<b>Current tax charge for the year (see note above)</b>	<u><u>262</u></u>	<u><u>418</u></u>

#### Factors that may affect future tax charges

Details of the Company's total recognised and unrecognised deferred tax assets at the year end (and prior period end) are shown in the table below

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing difference can be deducted

	2011 Recognised £000	2011 Unrecognised £000	2010 Recognised £000	2010 Unrecognised £000
Excess of capital allowances over depreciation	-	(1,314)	-	(1,129)
UK tax losses	-	(1,175)	-	(1,265)
<b>Total</b>	<u><u>-</u></u>	<u><u>(2,489)</u></u>	<u><u>-</u></u>	<u><u>(2,394)</u></u>

On 23 March 2011, a resolution passed by Parliament reduced the main rate of corporation tax to 26 per cent from 1 April 2011, which is reflected within the deferred tax calculations within these financial statements

On 5 July 2011, legislation to further reduce the main rate of corporation tax from 26 per cent to 25 per cent from 1 April 2012 was substantially enacted, which has not been reflected in the above calculation

Further reductions to the main rate are proposed to reduce the rate by 1 per cent per annum to 23 per cent by 1 April 2014. None of these expected rate reductions had been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements

## Notes to the financial statements

### 8. Tangible fixed assets

	<i>Aircraft</i> £000	<i>Capitalised maintenance</i> £000	<i>Total</i> £000
<b>Cost</b>			
At 1 April 2010 and 31 March 2011	18,396	979	19,375
<b>Depreciation</b>			
At 1 April 2010	3,373	612	3,985
Charge for the year	920	104	1,024
At 31 March 2011	4,293	716	5,009
<b>Net book value</b>			
At 31 March 2011	14,103	263	14,366
At 31 March 2010	15,023	367	15,390

### 9. Debtors

	2011 £000	2010 £000
Trade debtors	528	722
Amounts owed by group undertakings	139	362
Other debtors	12	17
Prepayments and accrued income	1,063	711
	<u>1,742</u>	<u>1,812</u>

### 10. Creditors: Amounts falling due within one year

	2011 £000	2010 £000
Bank loans and overdrafts	1,073	1,134
Trade creditors	23	203
Amounts owed to group undertakings	11,058	8,915
Corporation tax	682	965
Accruals and deferred income	769	384
	<u>13,605</u>	<u>11,601</u>

## Notes to the financial statements

### 11. Creditors: Amounts falling due after more than one year

	2011 £000	2010 £000
Bank loans	11,974	13,786

Included within the above are amounts falling due as follows

	2011 £000	2010 £000
<b>Between one and two years</b>		
Bank loans	1,073	1,133
<b>Between two and five years</b>		
Bank loans	10,901	12,653

The bank loan will be fully repaid by July 2013 and accrues interest at the USD one month LIBOR rate

### 12. Share capital

	2011 £000	2010 £000
<b>Allotted, called up and fully paid</b>		
1 Ordinary share of £1	-	-

### 13. Reserves

	<i>Profit and loss account £000</i>
At 1 April 2010	(8,015)
Loss for the year	(628)
At 31 March 2011	(8,643)

### 14. Reconciliation of movement in shareholders' deficit

	2011 £000	2010 £000
Opening shareholders' deficit	(8,015)	(7,751)
Loss for the year	(628)	(264)
Closing shareholders' deficit	(8,643)	(8,015)

## Notes to the financial statements

### 15. Pension commitments

The company operates a defined contribution scheme. The pension cost for the year represents contributions payable by the Company to the scheme and amounted to £11,000 (2010 - £36,000)

### 16. Related party transactions

At 31 March 2011 the Company's ultimate parent undertaking was Virgin Group Holdings Limited, whose principal shareholders are certain trusts, none of which individually has a controlling interest in Virgin Group Holdings Limited. The principal beneficiaries of those trusts are Sir Richard Branson and/or his immediate family. The shareholders of Virgin Group Holdings Limited have interests directly or indirectly in certain other companies which are considered to give rise to related party disclosures under Financial Reporting Standard 8.

As a 100% owned subsidiary of Virgin Wings Limited, the Company has taken advantage of the exemption under Financial Reporting Standard 8 Related Party Disclosures, which enables it to exclude disclosure of transactions with Virgin Wings Limited and its wholly owned subsidiaries.

	2011 £000	2010 £000
Income	1,312	1,362
Expenses	34	78
Debtors	73	149

The related undertakings with which the Company transacted during the year are Virgin Active Group Limited, Virgin Active Italia S P A, Virgin Atlantic Airways Limited, Virgin Galactic Limited, Virgin Games Services Limited, Virgin Group Holdings Limited, Virgin Holidays Limited, Virgin Mobile India Private Limited, Virgin Money Giving Limited, Virgin Money Management Services Limited, Virgin Mobile USA Inc and Virgin Rail Group Limited.

### 17. Ultimate parent undertaking and controlling party

As at 31 March 2011 the Company is a subsidiary undertaking of Virgin Group Holdings Limited, a company incorporated in the British Virgin Islands.

The largest and smallest group in which the Company's results are consolidated are those for Virgin Wings Limited and Virgin Holdings Limited respectively, companies which are registered in England and Wales. Copies of the group accounts for Virgin Wings Limited and Virgin Holdings Limited can be obtained from Companies House, Crown Way, Cardiff, CF14 3UZ.