

Charter Air Limited

**Directors' report and financial
statements**

Registered number 5463440

For the year ended 31 March 2010

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Directors' report

The directors present their report and the audited financial statements for the year ended 31 March 2010

Principal activities

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

Business review

The results for the year are set out on page 4 of the financial statements and the loss for the year of £263,776 (2009 £6,783,682) has been transferred to reserves

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.

Proposed dividend

The directors do not recommend the payment of a dividend (2009 nil)

Directors

The directors of the Company during the year were as follows

G D McCallum
P C K McCall
A M Tai

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

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.

By order of the board



B A R Gerrard
Company Secretary

The School House
50 Brook Green
London
W6 7RR
12 October 2010

Statement of directors' responsibilities in respect of the Directors' report and the financial statements

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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

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, and
- 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent Auditors' Report to the Members of Charter Air Limited

We have audited the financial statements of Charter Air Limited for the year ended 31 March 2010 set out on pages 4 to 13. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK 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 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 members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out 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 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 (APB'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 APB's web-site at www.frc.org.uk/apb/scope/UKNP.

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 2010 and of its loss for the year then ended,
- have been properly prepared in accordance with UK 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
- 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.



H Green (Senior Statutory Auditor),
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

KPMG LLP
15 Canada Square
London
E14 5GL

14 October 2010

Profit and loss account
for the year ended 31 March 2010

	<i>Note</i>	Year ended 31 March 2010	Year ended 31 March 2009
		£	£
Turnover		2,802,894	3,144,301
Cost of sales		(2,413,182)	(2,642,888)
Gross profit		389,712	501,413
Administrative expenses		(792,829)	(851,282)
Operating loss		(403,117)	(349,869)
Interest receivable and similar income	5	962,470	6,260
Interest payable and similar charges	6	(405,245)	(5,914,126)
Profit / (loss) on ordinary activities before taxation	2	154,108	(6,257,735)
Tax (charge) / credit on loss on ordinary activities	7	(417,884)	525,947
Loss for the year		(263,776)	(6,783,682)

There were no recognised gains or losses in the current or preceding years other than those shown above, which were derived from continuing operations, consequently a statement of total recognised gains and losses has not been presented

The notes on pages 6 to 13 form part of these financial statements

Balance sheet
at 31 March 2010

	<i>Note</i>	2010 £	2009 £
Fixed assets			
Tangible assets	8	15,390,080	16,452,195
Current assets			
Debtors	9	1,811,408	2,664,130
Cash at bank		170,228	24,162
		<u>1,981,636</u>	<u>2,688,292</u>
Creditors: amounts falling due within one year	10	(11,600,976)	(11,109,577)
Net current liabilities		<u>(9,619,340)</u>	<u>(8,421,285)</u>
Total assets less current liabilities		5,770,740	8,030,910
Creditors: amounts falling due after one year	11	(13,785,805)	(15,782,199)
Net liabilities		<u>(8,015,065)</u>	<u>(7,751,289)</u>
Capital and reserves			
Called up share capital	12	1	1
Profit and loss account	13	(8,015,066)	(7,751,290)
Shareholders' deficit	14	<u>(8,015,065)</u>	<u>(7,751,289)</u>

The notes on pages 6 to 13 form part of these financial statements

These financial statements were approved by the board of directors on 12 October 2010 and were signed on its behalf by



G D McCallum
Director

Notes

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

The amendment to FRS 8 Related Parties Disclosures has been adopted in these financial statements for the first time. The amendment has the effect that only wholly-owned subsidiaries are exempt from disclosure of intra-group transactions and there is no longer a disclosure exemption available in parent company's own financial statements

Basis of preparation

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

The financial statements have been prepared under the historical cost accounting rules 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

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account

Taxation

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by Financial Reporting Standard 19

A net 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 differences can be deducted

Turnover

Turnover represents the amounts (excluding value added tax) derived from the chartering of aircraft

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

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

Notes (continued)

1 Accounting policies (continued)

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

The balance of the aircraft and engine cost is depreciated on a straight line basis over a period of 20 years, so as to reduce the cost to estimated residual value at the end of that period. The effective depreciation rate per annum in respect of the aircraft is 5%

2 Profit / (loss) on ordinary activities before taxation

	Year ended 31 March 2010 £	Year ended 31 March 2009 £
<i>Loss on ordinary activities before taxation is stated after charging</i>		
Auditors' remuneration		
Audit of these financial statements	10,000	10,000
Depreciation	1,062,115	1,081,219
	<u> </u>	<u> </u>

3 Remuneration of directors

The directors did not receive any remuneration during the year for services to the Company (2009 £nil)

Notes (continued)

4 Staff numbers and costs

The average number of persons employed by the company, other than directors of the Company, analysed by category, was as follows

	Number of employees	
	Year ended 31 March 2010	Year ended 31 March 2009
Cabin crew	4	5

The aggregate payroll costs were as follows

	Year ended 31 March 2010 £	Year ended 31 March 2009 £
Wages and salaries	202,149	277,860
Social security costs	22,300	31,887
Other pension costs	35,549	25,704
	<u>259,998</u>	<u>335,451</u>

5 Interest receivable and similar income

	Year ended 31 March 2010 £	Year ended 31 March 2009 £
Bank interest receivable	-	6,260
Net foreign exchange gains	962,470	-
	<u>962,470</u>	<u>6,260</u>

6 Interest payable and similar charges

	Year ended 31 March 2010 £	Year ended 31 March 2009 £
Bank interest payable	155,716	418,073
Payable to group undertakings	249,529	591,290
Net foreign exchange losses	-	4,904,763
	<u>405,245</u>	<u>5,914,126</u>

Notes (continued)

7 Taxation

Analysis of charge in year

	Year ended 31 March 2010 £	Year ended 31 March 2009 £
<i>UK corporation tax</i>		
Current tax on income for the year	417,884	-
Total current tax	417,884	-
<i>Deferred tax</i>		
Origination/ reversal of timing differences	-	525,947
Total tax	417,884	525,947

Factors affecting the tax charge for the current year

The current tax charge for the year is higher (2009 higher) than the standard rate of corporation tax in the UK of 28% (2009 28%). The differences are explained below

	Year ended 31 March 2010 £	Year ended 31 March 2009 £
<i>Current tax reconciliation</i>		
Profit / (loss) on ordinary activities before tax	154,108	(6,257,735)
Current tax at 28% (2009 28%)	43,150	(1,752,166)
<i>Effects of</i>		
Expenses not deductible for tax	92,314	165,997
Income not taxable	(14,972)	-
Depreciation in excess of capital allowances	297,392	305,355
UK tax losses not utilised or not recognised	-	1,280,814
Total current tax charge	417,884	-

Notes (continued)

7 Taxation (continued)

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 likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing difference can be deducted

	2010 Recognised £	2010 Unrecognised £	2009 Recognised £	2009 Unrecognised £
<i>The deferred tax figures above comprise</i>				
Excess of capital allowances over depreciation	-	(1,128,694)	-	(813,302)
UK tax losses	-	(1,265,012)	-	(1,280,814)
	<hr/>	<hr/>	<hr/>	<hr/>
	-	(2,393,706)	-	(2,112,116)
	<hr/>	<hr/>	<hr/>	<hr/>

Notes (continued)

8 Tangible fixed assets

	Aircraft £	Capitalised maintenance £	Total £
Cost			
At beginning and end of year	18,395,736	979,170	19,374,906
	<hr/>	<hr/>	<hr/>
Accumulated depreciation			
At beginning of year	2,452,765	469,946	2,922,711
Charge for the year	919,787	142,328	1,062,115
	<hr/>	<hr/>	<hr/>
At end of year	3,372,552	612,274	3,984,826
	<hr/>	<hr/>	<hr/>
Net book value			
At 31 March 2010	15,023,184	366,896	15,390,080
	<hr/>	<hr/>	<hr/>
At 31 March 2009	15,942,971	509,224	16,452,195
	<hr/>	<hr/>	<hr/>

9 Debtors

	2010 £	2009 £
Trade debtors	722,360	778,674
Amounts owed by group undertakings	361,324	1,357,175
Other debtors	16,519	14,028
Prepayments and accrued income	711,205	514,253
	<hr/>	<hr/>
	1,811,408	2,664,130
	<hr/>	<hr/>

10 Creditors: amounts falling due within one year

	2010 £	2009 £
Bank loans	1,134,136	1,209,590
Trade creditors	202,538	232,895
Amounts owed to group undertakings	8,915,054	8,870,658
Corporation tax	964,790	546,906
Other creditors	-	1,100
Accruals and deferred income	384,458	248,428
	<hr/>	<hr/>
	11,600,976	11,109,577
	<hr/>	<hr/>

Notes (continued)

11 Creditors: amounts falling due after one year

	2010 £	2009 £
Bank loans	13,785,805	15,782,199
	<u> </u>	<u> </u>
Analysis of debt		
	2010 £	2009 £
Debt can be analysed as falling due		
Less than one year	1,134,136	1,209,590
Between one and two years	1,132,521	1,198,494
Between two and five years	12,653,284	14,583,705
In five years or more	-	-
	<u> </u>	<u> </u>
	14,919,941	16,991,789
	<u> </u>	<u> </u>

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

12 Called up share capital

	2010 £	2009 £
<i>Allotted, called up and fully paid</i>		
1 Ordinary share of £1 each	1	1
	<u> </u>	<u> </u>

13 Reserves

	Profit and loss account £
At beginning of year	(7,751,290)
Loss for the year	(263,776)
	<u> </u>
At end of year	(8,015,066)
	<u> </u>

Notes (continued)

14 Reconciliation of shareholders' deficit

	2010 £	2009 £
Opening shareholders' deficit	(7,751,289)	(967,607)
Loss for the financial year	(263,776)	(6,783,682)
	<hr/>	<hr/>
Closing shareholders' deficit	(8,015,065)	(7,751,289)
	<hr/>	<hr/>

15 Related party disclosures

At 31 March 2010 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.

At the year end, the Company had the following amounts outstanding with related parties:

	Related undertakings	
	2010 £	2009 £
Debtors	148,882	1,228,235
Sales	1,361,571	1,539,942
Expenses	78,157	-
	<hr/>	<hr/>

The related undertakings 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, Virgin Money Management Services Limited, Virgin Mobile USA Inc and Virgin Rail Group Limited.

16 Ultimate parent company

As at 31 March 2010 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.