

HD Air Limited (formerly BAC Express Airlines Limited)

Company Registration No: 2545411

Directors' report and financial statements

For the period ended 31 October 2007



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HD AIR LIMITED (FORMERLY BAC EXPRESS AIRLINES LIMITED)

COMPANY INFORMATION

Directors
C G Howe-Davies
J A Howe-Davies
M Forsyth (resigned 1/11/2007)

Company secretary
R Green

Company number
2545411

Registered office
2morrow Court
Appleford Road
Sutton Courtenay
Oxfordshire
OX14 4FH

Auditors
Mazars LLP
Seacourt Tower
West Way
Oxford
OX2 0JG

HD AIR LIMITED (FORMERLY BAC EXPRESS AIRLINES LIMITED)

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HD AIR LIMITED (FORMERLY BAC EXPRESS AIRLINES LIMITED)

DIRECTORS' REPORT FOR THE PERIOD ENDED 31 OCTOBER 2007

The directors present their report and the financial statements for the period ended 31 October 2007.

Principal activities

The principal activity of the company continued to be that of an operator of aircraft, principally related to the transportation of cargo.

The directors believe that the company's performance reflects the high cost of returning planes it has purchased to daily operations. With additional contracts won late in the accounting period and further contract negotiations and cost reductions since the year end, it is anticipated that the company will return to profits in the near future.

Going concern

The financial statements have been prepared on a going concern basis the validity of which depends upon the continuing support of 2morrow Group Limited, the company's parent company, and its fellow subsidiaries. C G Howe- Davies, a director and majority shareholder of 2morrow Group Limited, has undertaken to provide the company and the group with the necessary financial support for the foreseeable future. As a consequence the directors consider it appropriate that these financial statements are prepared on a going concern basis.

Directors

The directors who served during the period :

C G Howe-Davies
J A Howe-Davies
M Forsyth (resigned 1/11/2007)

Change of name

On 16 November 2007, the company changed its name to HD Air Limited.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual 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). The financial statements are required by law to 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;
- 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 proper accounting records that 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 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.

HD AIR LIMITED (FORMERLY BAC EXPRESS AIRLINES LIMITED)

DIRECTORS' REPORT FOR THE PERIOD ENDED 31 OCTOBER 2007

Statement of disclosure to auditors

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

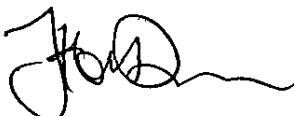
- so far as that director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the Company's auditors in connection with preparing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

Auditors

The auditors, Mazars LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

The report of the directors has been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies and in accordance with the Financial Reporting Standard for Smaller Entities (effective January 2007).

This report was approved by the board on 15 October 2008 and signed on its behalf.



J A Howe-Davies
Director

HD AIR LIMITED (FORMERLY BAC EXPRESS AIRLINES LIMITED)

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HD AIR LIMITED (FORMERLY BAC EXPRESS AIRLINES LIMITED)

We have audited the financial statements of HD Air Limited (formerly BAC Express Airlines Limited) for the period ended 31 October 2007 which comprise of the Profit and Loss Account, the Balance Sheet and related notes. These financial statements have been prepared in accordance with the Financial Reporting Standard for Smaller Entities and the accounting policies set out in the notes to the financial statements.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, whether the financial statements are properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, 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 Directors' Report and consider the implications for our report if we become aware of any apparent misstatement.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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.

HD AIR LIMITED (FORMERLY BAC EXPRESS AIRLINES LIMITED)

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HD AIR LIMITED (FORMERLY BAC EXPRESS AIRLINES LIMITED)

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice applicable for smaller companies, of the state of the company's affairs as at 31 October 2007 and of its loss for the period then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Mazars LLP

Mazars LLP

Chartered Accountants
and Registered Auditors

Seacourt Tower

West Way

Oxford

OX2 0JG

15 October 2008

HD AIR LIMITED (FORMERLY BAC EXPRESS AIRLINES LIMITED)

PROFIT AND LOSS ACCOUNT FOR THE PERIOD ENDED 31 OCTOBER 2007

	Note	10 months ended 31 October 2007 £	As restated Year ended 31 December 2006 £
Turnover	1	3,085,510	2,000,525
Cost of sales		(2,643,202)	(1,616,322)
Gross profit		442,308	384,203
Administrative expenses		(801,958)	(518,533)
Operating loss	2	(359,650)	(134,330)
Interest payable		(25,320)	(12)
Loss on ordinary activities before taxation		(384,970)	(134,342)
Tax on loss on ordinary activities	4	120,232	39,581
Loss on ordinary activities after taxation	10	(264,738)	(94,761)

The notes on pages 7 to 13 form part of these financial statements.

HD AIR LIMITED (FORMERLY BAC EXPRESS AIRLINES LIMITED)

BALANCE SHEET AS AT 31 OCTOBER 2007

	Note	£	31 October 2007 £	£	31 December 2006 £
Fixed assets					
Tangible fixed assets	5		869,959		408,112
Current assets					
Stocks		228,239		-	
Debtors	6	700,485		1,116,185	
Cash at bank		572		2,517	
			929,296	1,118,702	
Creditors: amounts falling due within one year	7	(2,076,185)		(1,560,044)	
Net current liabilities			(1,146,889)		(441,342)
Total assets less current liabilities			(276,930)		(33,230)
Provisions for liabilities					
Deferred tax	8		(69,511)		(48,473)
Net liabilities			(346,441)		(81,703)
Capital and Reserves					
Called up share capital	9		70,000		70,000
Share premium account	10		750,000		750,000
Profit and loss account	10		(1,166,441)		(901,703)
Shareholders' deficit			(346,441)		(81,703)

The financial statements have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies and in accordance with the Financial Reporting Standard for Smaller Entities (effective January 2007).

The financial statements were approved and authorised for issue by the board and were signed on its behalf on
15 OCTOBER 2008



J A Howe-Davies
Director

The notes on pages 7 to 13 form part of these financial statements.

HD AIR LIMITED (FORMERLY BAC EXPRESS AIRLINES LIMITED)

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 OCTOBER 2007

1. Accounting policies

1.1 Accounting convention

The financial statements have been prepared under the historical cost convention and in accordance with the Financial Reporting Standard for Smaller Entities (effective January 2007).

1.2 Compliance with accounting standards

The financial statements are prepared in accordance with applicable accounting standards, which have been applied consistently (except as otherwise stated).

1.3 Going concern

The financial statements have been prepared on a going concern basis the validity of which depends upon the continuing support of 2morrow Group Limited, the company's parent company. C G Howe-Davies, a director and majority shareholder of 2morrow Group Limited, has undertaken to provide the company and the group with the necessary financial support for the foreseeable future. As a consequence the directors consider it appropriate that these financial statements are prepared on the going concern basis.

1.4 Cash flow

The financial statements do not include a Cash flow statement because the company, as a small reporting entity, is exempt from the requirement to prepare such a statement under the Financial Reporting Standard for Smaller Entities (effective January 2007).

1.5 Turnover

Turnover represents sales to external customers derived from aircraft operated for cargo and freight purposes at invoiced amounts less value added tax or local taxes on sales. Turnover is wholly generated within the UK and Europe.

1.6 Tangible fixed assets and depreciation

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:

Motor vehicles	-	25%	straight line
Aircraft	-	10%	straight line

1.7 Leasing and hire purchase

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible fixed assets. Assets acquired by finance lease are depreciated over the shorter of the lease term and their useful lives. Assets acquired by hire purchase are depreciated over their useful lives. Finance leases are those where substantially all of the benefits and risks of ownership are assumed by the company. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the profit and loss account so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

HD AIR LIMITED (FORMERLY BAC EXPRESS AIRLINES LIMITED)

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 OCTOBER 2007

1. Accounting policies (continued)

1.8 Leasing

Rentals under operating leases are charged on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the period until the date the rent is expected to be adjusted to the prevailing market rate.

1.9 Stocks

Stocks are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow-moving stocks. Cost includes all direct costs and an appropriate proportion of fixed and variable overheads.

1.10 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.

1.11 Foreign currency translation

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.

1.12 Prior year restatement

Cost of sales increased and administration costs have decreased by £282,687 following the reallocation of staff salaries and national insurance to cost of sales. The reallocation is considered to reflect a true and fair view of the gross profit of the company.

HD AIR LIMITED (FORMERLY BAC EXPRESS AIRLINES LIMITED)

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 OCTOBER 2007

2. Operating loss

The operating loss is stated after charging:

	10 months ended 31 October 2007 £	Year ended 31 December 2006 £
Depreciation of tangible fixed assets:		
- owned by the company	45,614	353
- held under finance leases	31,250	-
Auditors' remuneration	6,500	3,000
Loss/(Profit) on foreign exchange transactions	2,654	203
Operating lease rentals - Plant and machinery	45,674	11,079
Operating lease rentals - Other assets	455,222	406,590
	<u>455,222</u>	<u>406,590</u>

3. Directors' remuneration

	10 months ended 31 October 2007 £	Year ended 31 December 2006 £
Aggregate emoluments	40,249	20,500
	<u>40,249</u>	<u>20,500</u>

All pension contributions have been made by the parent company, 2morrow Group Limited.

4. Taxation

	10 months ended 31 October 2007 £	Year ended 31 December 2006 £
Analysis of tax charge/(credit) in the period		
Current tax (see note below)		
Group taxation relief	(141,270)	(88,054)
Deferred tax (see note 8)		
Origination and reversal of timing differences	21,038	48,473
	<u>(120,232)</u>	<u>(39,581)</u>
Tax on loss on ordinary activities		

HD AIR LIMITED (FORMERLY BAC EXPRESS AIRLINES LIMITED)

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 OCTOBER 2007

5. Tangible fixed assets

	Other fixed assets £
Cost	
At 1 January 2007	408,465
Additions	538,711
At 31 October 2007	<u>947,176</u>
Depreciation	
At 1 January 2007	353
Charge for the period	76,864
At 31 October 2007	<u>77,217</u>
Net book value	
At 31 October 2007	<u>869,959</u>
At 31 December 2006	<u>408,112</u>

The net book value of assets held under finance leases or hire purchase contracts, included above, are as follows:

	31 October 2007 £	31 December 2006 £
Aircraft	<u>343,750</u>	<u>-</u>

6. Debtors

	31 October 2007 £	31 December 2006 £
Trade debtors	457,452	933,732
Amounts owed by group undertakings and undertakings in which the company has a participating interest	72,155	1,343
Other debtors	170,878	181,110
	<u>700,485</u>	<u>1,116,185</u>

HD AIR LIMITED (FORMERLY BAC EXPRESS AIRLINES LIMITED)

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 OCTOBER 2007

7. Creditors: Amounts falling due within one year

	31 October 2007 £	31 December 2006 £
Bank loans and overdrafts	-	194
Net obligations under finance leases and hire purchase contracts	375,000	-
Trade creditors	479,958	367,234
Amounts owed to group undertakings and undertakings in which the company has a participating interest	1,111,932	622,707
Taxation and social security	18,092	13,034
Other creditors	91,203	556,875
	<u>2,076,185</u>	<u>1,560,044</u>

8. Deferred taxation

The provision for deferred taxation is made up as follows:

	31 October 2007 £	31 December 2006 £
Accelerated capital allowances	<u>69,511</u>	<u>48,473</u>

9. Share capital

	31 October 2007 £	31 December 2006 £
Authorised		
100,000 Ordinary shares of £1 each	<u>100,000</u>	<u>100,000</u>
Allotted, called up and fully paid		
70,000 Ordinary shares of £1 each	<u>70,000</u>	<u>70,000</u>

HD AIR LIMITED (FORMERLY BAC EXPRESS AIRLINES LIMITED)

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 OCTOBER 2007

10. Reserves

	Share premium account £	Profit and loss account £
At 1 January 2007	750,000	(901,703)
Loss for the period	-	(264,738)
At 31 October 2007	<u>750,000</u>	<u>(1,166,441)</u>

11. Prior year restatement

Cost of sales have increased and administration costs have decreased by £282,480 following the reallocation of staff salaries and national insurance to cost of sales. The reallocation is considered to reflect a true and fair view of the gross profit of the company.

12. Contingent liabilities

A cross guarantee was entered into in September 2006 by all companies within the group in support of all group bank borrowings and bank loans. Loans outstanding at 31 October 2007 were £1,374,684 (31 December 2006: £610,021).

13. Financial commitments

At 31 October 2007 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings		Other	
	31 October 2007 £	31 December 2006 £	31 October 2007 £	31 December 2006 £
Expiry date:				
Within 1 year	<u>-</u>	<u>2,925</u>	<u>88,693</u>	<u>91,096</u>

14. Control

The company is a wholly owned subsidiary of 2morrow Group Limited, a company registered and incorporated in the United Kingdom, and the parent of the largest and smallest group of which HD Air Limited is a member. Copies of the consolidated financial statements are available from Companies House. The directors consider C G Howe-Davies to be the company's ultimate controlling party, by virtue of his majority shareholding in 2morrow Group Limited.

HD AIR LIMITED (FORMERLY BAC EXPRESS AIRLINES LIMITED)

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 OCTOBER 2007

15. Related party transactions

The company has taken advantage of the exemption conferred by Financial Reporting Standard 8, 'Related Party Disclosures', not to disclose with other group companies or investees of the group headed by 2morrow Group Limited on the grounds that at least 90% of the voting rights in the company are controlled within that group and the ultimate parent company prepares consolidated financial statements.

During the year an aircraft was purchased from the joint arrangement in which 2morrow Group Limited has a 50% interest for £375,000 (2006:£400,000). The purchase in 2007 was through a hire purchase arrangement on which £24,917 of interest has accrued resulting in a final balance of £399,917 being owed at the year end (2006: £400k creditor but no hire purchase arrangement).

Stock of £228,239 was also purchased during the year from the joint arrangement. As at the year end a creditor of £111,643 remained outstanding.

During the year £458,833 (2006: nil) of income was received from BAC Leasing Limited, the company which owns the other 50% in the joint arrangement. As at the year end £63,000 (2006:nil) remained outstanding.

16. Post balance sheet events

On 16 November 2007, the company changed its name to HD Air Limited.