

ATLANTIC AEROENGINEERING LIMITED

**REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31ST.DECEMBER 1998**



ATLANTIC AEROENGINEERING LIMITED

DIRECTORS: Mr.W.J.Foden
Mr.G.Overton
Mr.N.Hirons
Mr.P.Law
Mr.C.Neale

SECRETARY: Mr.R.A.K.Crabtree O.B.E.

REGISTERED OFFICE: Hangar 5,
Coventry Airport,
Baginton,
Warwickshire, CV8 3AZ.

COMPANY NUMBER: 1994993 (England & Wales)

CONTENTS

Page 1 & 2	Directors' report
Page 3	Auditors' report
Page 4	Profit and loss account
Page 5	Balance sheet
Page 6	Cash flow statement
Page 7 - 12	Notes to the financial statements

**DIRECTORS' REPORT
FOR THE YEAR ENDED 31ST.DECEMBER 1998**

The directors present their annual report and the audited financial statements of the company for the year ended 31st.December 1998.

DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the 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;
- 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 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 of fraud and other irregularities.

YEAR 2000

The company has undertaken a Year 2000 compliance review and initiated the actions considered necessary to mitigate any risks identified.

PRINCIPAL ACTIVITY

The principal activity of the company in the year under review was the provision of aircraft maintenance and repair facilities.

REVIEW OF BUSINESS

A summary of the results of the year's trading is given on page 4.

The retained profit for the year is transferred to reserves.

DIVIDENDS

The directors do not recommend the payment of a dividend.

ATLANTIC AEROENGINEERING LIMITED

Page 2

**DIRECTORS' REPORT
FOR THE YEAR ENDED 31ST.DECEMBER 1998**

DIRECTORS

The directors, all of whom held office throughout the year, were;

Mr.W.J.Foden
Mr.G.Overton

The following directors were appointed on 6th.January 1998;

Mr.P.Broadaway (resigned 26th.March 1999)
Mr.F.Theobald (resigned 14th.May 1998)
Mr.N.Hirons
Mr.P.Law
Mr.C.Neale

The company's articles of association do not require directors to retire by rotation.

None of the directors had any interests in the shares of the company or in the shares of the holding company.

AUDITORS

The auditors, D.A.Owen & Co., have indicated their willingness to accept re-appointment under Section 385(2) of the Companies Act 1985.

A handwritten signature in black ink, appearing to read 'R.A.K. Crabtree', is written over a horizontal line.

R.A.K.CRABTREE O.B.E.
Company Secretary

Approved by the board on 31st.August 1999

AUDITORS' REPORT TO THE MEMBERS
FINANCIAL STATEMENTS FOR YEAR ENDED 31ST.DECEMBER 1998

We have audited the financial statements on pages 4 to 12 which have been prepared under the historical cost convention and the accounting policies set out on page 8.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 1 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31st.December 1998, and of its loss for the year then ended and have been properly prepared in accordance with the provisions of the Companies Act 1985.



D.A. OWEN & CO.

Chartered Accountants
Registered Auditors

Alexandra House
58 Clarendon Avenue
Leamington Spa
Warwickshire

Dated: 31st.August 1999

ATLANTIC AEROENGINEERING LIMITED

Page 4

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

	Note	<u>1998</u> £	<u>1997</u> £
TURNOVER	2	6,633,614	4,810,774
Cost of sales		(5,323,488)	(3,711,285)
GROSS PROFIT		1,310,126	1,099,489
Net operating expenses		(1,482,918)	(977,628)
OPERATING (LOSS)/PROFIT	3	(172,792)	121,861
Interest payable & similar charges	4	(1,109)	(600)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAX		(173,901)	121,261
Tax on (loss)/profit on ordinary activities	7	39,534	(46,987)
RETAINED (LOSS)/PROFIT FOR THE FINANCIAL YEAR		(134,367)	74,274
Retained profits brought forward		83,507	9,233
RETAINED (LOSSES)/PROFITS CARRIED FORWARD		<u>£ (50,860)</u>	<u>£ 83,507</u>

All recognised gains and losses are included in the Profit and Loss Account.

All of the company's operations are classed as continuing.

The annexed notes form part of these financial statements.

ATLANTIC AEROENGINEERING LIMITED

Page 5

BALANCE SHEET
AT 31ST.DECEMBER 1998

	Note	1998 £	1997 £
FIXED ASSETS			
Tangible assets	8	235,600	251,930
CURRENT ASSETS			
Stocks & work in progress	9	2,086,706	1,379,897
Debtors	10	76,020	371,106
Cash at bank		1,200	2,109
		2,163,926	1,753,112
CREDITORS			
Amounts falling due within one year	11	(494,267)	(516,848)
NET CURRENT ASSETS		1,669,659	1,236,264
TOTAL ASSETS LESS CURRENT LIABILITIES		1,905,259	1,488,194
CREDITORS			
Amounts falling due after more than one year	12	(1,949,645)	(1,398,396)
		(44,386)	89,798
PROVISION FOR LIABILITIES AND CHARGES	13	(6,374)	(6,191)
TOTAL ASSETS LESS CURRENT LIABILITIES		£ (50,760)	£ 83,607
CAPITAL AND RESERVES			
Called up share capital	14	100	100
Profit and loss account		(50,860)	83,507
	18	£ (50,760)	£ 83,607

These financial statements were approved by the Board on 31st.August 1999

On behalf of the Board,

WILLIAM JAMES FODEN Director

The annexed notes form part of these financial statements.

ATLANTIC AEROENGINEERING LIMITED

Page 6

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 1998

	Note	<u>1998</u> £	<u>1997</u> £
NET CASH INFLOW FROM OPERATING ACTIVITIES	15	<u>111,049</u>	<u>94,770</u>
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest paid		<u>(1,109)</u>	<u>(600)</u>
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		<u>(1,109)</u>	<u>(600)</u>
TAXATION		109,940	94,170
Corporation tax paid		<u>(32,217)</u>	<u>-</u>
		<u>77,723</u>	<u>94,170</u>
CAPITAL EXPENDITURE			
Payments to acquire tangible fixed assets		(78,632)	(94,034)
Receipts from sale of fixed tangible assets		-	1,500
		<u>(78,632)</u>	<u>(92,534)</u>
(DECREASE)/INCREASE IN CASH		<u>£ (909)</u>	<u>£ 1,636</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 1998

1 ACCOUNTING POLICIES

Basis of accounting

These financial statements have been prepared under the historic cost convention.

Depreciation

Depreciation has been computed to write off the tangible fixed assets over their estimated useful lives, in equal instalments on the following basis;

Vehicles	: 20%
Short-term leasehold premises	: 20%
Plant & machinery	: 20%
Fixtures, fittings & equipment	: at rates varying between 10% and 20%

Stocks

Stocks and work in progress have been valued at the lower of cost and net realisable value; in respect of work in progress and finished goods cost includes a relevant proportion of overheads according to the stage of completion.

Foreign currencies

Transactions denominated in foreign currencies are translated into sterling and recorded at the rate of exchange ruling at the date of the transaction. Balances at the year end denominated in a foreign currency are translated into sterling at the rate of exchange ruling at the balance sheet date.

Deferred taxation

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

Leasing

Rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the period of the lease.

Pensions

The company operates a defined contribution scheme for its employees. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge therefore represents contributions paid by the company to the scheme.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 1998

2 TURNOVER

The company's turnover represents the value, excluding value added tax, of goods and services supplied to customers during the year. 6.0% of the company's turnover related to exports (1997 : 8.1%)

3 OPERATING (LOSS)/PROFIT

	<u>1998</u> £	<u>1997</u> £
Net operating expenses include:		
Auditors' remuneration and expenses	2,500	2,400
Depreciation of owned assets	94,963	82,104
Hire of equipment & vehicles - operating leases	11,039	7,482
Hire of other assets - operating leases	148,246	136,933
Directors' emoluments	191,235	15,693
Directors' pension contributions	6,776	14,394
	<u> </u>	<u> </u>

Retirement benefits are accruing to six (1997 one) directors under a money purchase scheme

4 INTEREST PAYABLE & SIMILAR CHARGES

On trade facilities & other debts	<u>1,109</u>	<u>600</u>
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5 REMUNERATION OF DIRECTORS

Directors' remuneration:		
Emoluments	191,235	15,693
Pension contributions	6,776	14,394
	<u>198,011</u>	<u>30,087</u>
Emoluments, excluding pension contributions:		
Chairman	<u>-</u>	<u>-</u>
Highest paid director	<u>49,121</u>	<u>15,693</u>

The emoluments, excluding pension contributions, of the directors, including the chairman and highest paid director, were within the following ranges:

	<u>1998</u> Number	<u>1997</u> Number
£ 10,001 - £ 15,000	1	-
£ 15,001 - £ 20,000	-	1
£ 25,001 - £ 30,000	1	-
£ 30,001 - £ 35,000	2	-
£ 35,001 - £ 40,000	1	-
£ 45,001 - £ 50,000	1	-
	<u> </u>	<u> </u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST.DECEMBER 1998

6 STAFF COSTS

The average number of persons employed by the company, including directors, during the year, analysed by category, was as follows:

	1998 Number	1997 Number
Engineers, fitters and ramp staff	76	64
Administrative, clerical and store keepers	29	25
	<u>105</u>	<u>89</u>

The aggregate payroll costs of these persons were as follows:

	1998 £	1997 £
Salaries and wages	2,559,489	1,626,410
Social security costs	247,797	157,500
Other pension costs	35,545	22,600
	<u>2,842,831</u>	<u>1,806,510</u>

7 TAX ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES

Corporation tax at 31% (1997 at 33%/31%)	-	(40,796)
- surrendered to group company	40,000	-
- underprovided - prior year	(283)	(6,191)
Deferred tax provision	(183)	-
	<u>39,534</u>	<u>(46,987)</u>

8 TANGIBLE ASSETS

	<u>Vehicles</u> £	<u>Plant/ machinery & equipmt</u> £	<u>Fixtures fittings</u> £	<u>Short-term leasehold properties</u> £	<u>Total</u> £
Cost:					
At 1st.January 1998	84,329	315,670	30,380	129,975	560,354
Additions	12,600	62,356	1,323	2,353	78,632
At 31st.December 1998	<u>96,929</u>	<u>378,026</u>	<u>31,703</u>	<u>132,328</u>	<u>638,986</u>
Depreciation:					
At 1st.January 1998	50,355	167,838	5,943	84,288	308,424
Charge for year	15,184	57,594	3,105	19,079	94,962
At 31st.December 1998	<u>65,539</u>	<u>225,432</u>	<u>9,048</u>	<u>103,367</u>	<u>403,386</u>
Net book value:					
At 31st.December 1998	<u>31,390</u>	<u>152,594</u>	<u>22,655</u>	<u>28,961</u>	<u>235,600</u>
Net book value:					
At 31st.December 1997	<u>33,974</u>	<u>147,832</u>	<u>24,437</u>	<u>45,687</u>	<u>251,930</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST.DECEMBER 1998

	<u>1998</u> £	<u>1997</u> £
9 STOCKS		
Aircraft spares & consumables	1,706,431	1,376,622
Work in progress	380,275	3,275
	<u>2,086,706</u>	<u>1,379,897</u>

10 DEBTORS

Trade debtors	18,602	367,248
Other debtors	5,818	100
Prepayments & accrued income	51,600	3,758
	<u>76,020</u>	<u>371,106</u>

11 CREDITORS

Amounts falling due within one year:		
Trade creditors	348,951	307,535
Group creditors	25,000	-
Other creditors	-	74,694
Accruals & deferred income	3,431	3,500
Corporation tax	41,079	73,013
Social security & other taxes	75,806	58,106
	<u>494,267</u>	<u>516,848</u>

12 CREDITORS

Amounts falling due after one year		
Group companies	1,949,645	1,398,396
	<u>1,949,645</u>	<u>1,398,396</u>

13 PROVISION FOR LIABILITIES AND CHARGES

Deferred taxation:		
Balance at 1st.January 1998	6,191	-
Charge for the year	183	6,191
	<u>6,374</u>	<u>6,191</u>
Balance at 31st.December 1998	<u>6,374</u>	<u>6,191</u>

The amount provided for deferred taxation and the full potential liability, calculated under the liability method at 31% (1997 at 31%), is as follows:

	<u>Provided</u> <u>1998</u> £	<u>Potential</u> <u>1998</u> £	<u>Provided</u> <u>1997</u> £	<u>Potential</u> <u>1997</u> £
Accelerated capital allowances	<u>6,374</u>	<u>6,374</u>	<u>6,191</u>	<u>6,191</u>

14 SHARE CAPITAL

	<u>1998</u> £	<u>1997</u> £
Authorised, allotted, called up and fully paid ordinary shares of £1 each	<u>100</u>	<u>100</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST.DECEMBER 1998

	<u>1998</u> £	<u>1997</u> £
15 RECONCILIATION OF OPERATING PROFIT TO NET CASH IN/(OUT)FLOW FROM OPERATING ACTIVITIES		
Operating (loss)/profit	(172,792)	121,861
Depreciation charges	94,962	82,104
Loss on disposal of fixed assets	-	25
Receipt from group companies for group tax relief	40,000	-
Decrease/(increase) in stocks	(706,809)	(497,276)
Decrease/(increase) in debtors	295,086	(238,933)
Increase/(decrease) in creditors	560,602	626,989
Net cash inflow from operating activities	<u>111,049</u>	<u>94,770</u>

16 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

(Decrease)/increase cash in the year	(909)	1,636
Change in net funds	(909)	1,636
Net funds/(debt) at 1st.January 1998	2,109	473
Net funds at 31st.December 1998	<u>1,200</u>	<u>2,109</u>

17 ANALYSIS OF CHANGES IN NET DEBT

	<u>At 1 Jan 98</u> £	<u>Cash flows</u> £	<u>At 31 Dec 98</u> £
Cash in hand, at bank	<u>2,109</u>	<u>(909)</u>	<u>1,200</u>

18 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	<u>1998</u> £	<u>1997</u> £
(Loss)/profit for the financial year	(134,367)	74,274
Opening shareholders' funds	83,607	9,333
Closing shareholders' funds/(deficit)	<u>(50,760)</u>	<u>83,607</u>

19 CONTINGENT LIABILITIES

The company has given a guarantee to its bankers to secure the borrowing facilities of the group and third parties which at the year end amounted to £ Nil. (1997 : £ Nil)

20 CAPITAL COMMITMENTS

Capital expenditure commitments at the year end were £ Nil. (1997 £ Nil)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST.DECEMBER 1998

21 GOING CONCERN

These accounts have been prepared on the going concern basis, which assumes the continuing support of the parent company.

22 ULTIMATE HOLDING COMPANY

The company is a wholly owned subsidiary of Atlantic Holdings Limited, a company incorporated in Jersey.

23 INTER-COMPANY TRADING - GROUPS

During the year there were the following transactions with other group companies and balances outstanding at the end of the year;

<u>Name of company</u>	<u>Type of transaction</u>	Amounts sold/ (bought) £	Balance due from/(to) group Co. £
Atlantic Air Transport Ltd	Engineering sales	6,225,383	-
Highland Airways Ltd	Engineering sales	20,378	-
CFS Aeroproducts Ltd	Engineering sales	423	-
Coventry Aeroparts Ltd	Purchase of spares	(189,222)	
Noel Trigg Associates Ltd	Purchase of services	(25,000)	(25,000)
Atlantic Holdings Ltd	Assignment of group inter-company loans	-	(1,949,645)
		<u>6,031,962</u>	<u>(1,974,645)</u>

24 CONTROLLING INTERESTS

The company is controlled by Atlantic Holdings Limited, the ultimate holding company.