

Eastern Airways (UK) Limited

**Director's report and financial
statements**

Registered number 3468489

30 September 2002



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Company information

Director	Global Aviation Holdings Limited
Secretary	Global Aviation Limited
Company number	03468489
Registered office	Charter House 56 High Street Sutton Coldfield B72 1UJ
Auditors	KPMG LLP St Nicholas House Park Row Nottingham NG1 6FQ
Business address	Schiphol House, Schiphol Way Humberside International Airport Kirmington DN39 6YH
Bankers	NatWest Bank PLC 39 Grimsby Road Cleethorpes Lincolnshire DN35 7GB
Solicitors	Stockdale and Reid 52 Howard Street North Shields Tyne and Wear NE30 1AP

Director's report

The director presents the annual report and audited financial statements for the year ended 30 September 2002.

Principal activities and business review

The principal activity of the company continues to be the operation of airline services. The results of the company for the financial year ended 30 September 2002 are as disclosed in the attached financial statements.

Dividends

The director does not recommend the payment of a dividend (2001: *£nil*).

Director and director's interests

The director who served during the year was:

Global Aviation Holdings Limited

The company's immediate parent, Eastern Airways (Europe) Limited is owned jointly by Magnificent Obsessions Limited, P & B Investment Holdings (Grimsby) Limited and Global Aviation Limited in which Messrs R Lake and B Huxford have interests. Messrs R Lake and B Huxford qualify as shadow directors under section 741(2) of the Companies Act 1985. Through their interests in Magnificent Obsessions Limited, P & B Investment Holdings (Grimsby) Limited and Global Aviation Limited, Messrs R Lake and B Huxford each have a 50% interest in the share capital of Eastern Airways (UK) Limited.

At 30 September 2002, Global Aviation Holdings Limited, through its subsidiary Global Aviation Limited, has an interest in 112,000 ordinary shares in the company's immediate parent, Eastern Airways (Europe) Limited.

Auditors

KPMG were re-appointed auditors at the last Annual General Meeting. However, since that date their business has been transferred to a limited liability partnership, KPMG LLP. Accordingly KPMG resigned as auditors on 17 May 2002 and the director thereupon appointed KPMG LLP to fill the vacancy arising. A resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



Global Aviation Limited
Secretary

Registered Office:

Charter House
56 High Street
Sutton Coldfield
B72 1UJ

17 December 2002

Statement of director's responsibilities

Company law requires the director to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the director is 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 financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The director is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable the director to ensure that the financial statements comply with the Companies Act 1985. The director has general responsibility for taking such steps as are reasonably open to the director to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



KPMG LLP

St Nicholas House
Park Row
Nottingham
NG1 6FQ
United Kingdom

Independent auditors' report to the members of Eastern Airways (UK) Limited

We have audited the financial statements on pages 5 to 15.

Respective responsibilities of the director and auditors

The director is responsible for preparing the director's report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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 director's 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 director's remuneration and transactions with the company is not disclosed.

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 director 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 30 September 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

Chartered Accountants
Registered Auditor

17 December 2002

Profit and loss account
for the year ended 30 September 2002

	<i>Note</i>	2002 £000	2001 £000
Turnover	2	21,886	14,835
Cost of sales		(15,458)	(10,436)
Gross profit		6,428	4,399
Administrative expenses		(5,563)	(3,970)
Operating profit		865	429
Interest receivable and similar income	5	5	4
Interest payable and similar charges	6	(76)	(2)
Profit on ordinary activities before taxation	7	794	431
Tax on profit on ordinary activities	8	(241)	(117)
Profit on ordinary activities after taxation transferred to reserves	16	553	314

There were no recognised gains or losses in either the current or preceding year other than those disclosed in the profit and loss account.

In both the current and preceding year, the company made no material acquisitions and had no discontinued operations.

Balance sheet
at 30 September 2002

	Note	2002 £000	2001 £000
Fixed assets			
Tangible assets	9	3,856	368
Current assets			
Stock	10	16	162
Debtors	11	2,552	2,139
Cash at bank and in hand		664	78
		<u>3,232</u>	<u>2,379</u>
Creditors: amounts falling due within one year	12	<u>(3,373)</u>	<u>(2,344)</u>
Net current (liabilities)/assets		(141)	35
Total assets less current liabilities		3,923	403
Creditors: amounts falling due after more than one year	13	(1,877)	-
Provisions for liabilities and charges	14	(408)	(26)
Net assets		<u>1,430</u>	<u>377</u>
Capital and reserves			
Called up share capital	15	501	1
Profit and loss account	16	929	376
Equity shareholders' funds	17	<u>1,430</u>	<u>377</u>

These financial statements were approved by the director on 17 December 2002:


Global Aviation Holdings Limited
Director

Notes

(forming part of 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.

Basis of preparation

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

Cash flow statement

Under accounting standard FRS1, the company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary.

Tangible fixed assets and depreciation

Depreciation is provided to write off tangible fixed assets to their estimate residual value by equal instalments over their estimated useful economic lives as follows:

Portable buildings	- 25% per annum
Plant and machinery	- 25% per annum
Fixtures, fittings and equipment	- 15-25% per annum
Motor vehicles	- 25% per annum
Aircraft rotables	- 20 years from date of manufacture to their estimated residual value
Aircraft improvements	- over the life or remaining lease period of the relevant aircraft

For those aircraft that are owned, or held under finance leases, part of the initial cost of the aircraft is attributed to major components such as engines, airframe and landing gear. Depreciation is then charged against these components at a variable rate dependent on the actual usage of the aircraft. The remainder of the initial cost is depreciated to its residual value on a straight line basis over its estimated useful economic life of 20 years from date of manufacture.

Subsequent costs of periodic overhauls on these components are capitalised within tangible fixed assets and amortised over the period benefiting from these enhancements such that, over time, the depreciation charge will match the related maintenance expenditure.

Maintenance costs

The costs of periodic overhauls on owned and finance leased assets are capitalised and depreciated within tangible fixed assets as noted above, unless the liability for those overhauls has been passed to a third party as described below.

All other costs relating to maintenance of owned and finance leased aircraft are charged to the profit and loss account as incurred.

Provisions for periodic overhaul costs on aircraft held under operating leases are made with reference to the number of hours flown, or similar basis, over the lease period.

For certain owned, finance leased and operating leased aircraft arrangements have been entered into with maintenance providers under which monthly payments are made on a flying hour, or similar, basis which fix the costs associated with the maintenance of engines, airframe and landing gear. Under these arrangements no further liability will arise to the company in respect of the maintenance of these components.

Notes (continued)

1 Accounting policies (continued)

Leased assets

The cost of assets held under finance leases (or similar hire purchase contracts) is capitalised within the appropriate tangible fixed asset heading. The interest cost is charged over the term of the lease and the capital element of future lease payments is included in creditors.

Annual rentals payable or receivable under operating leases are charged or credited to the profit and loss account on a straight line basis over the lease term, unless another systematic and more rational basis is appropriate.

Stocks

Stocks are valued at the lower of cost and net realisable value including provision for obsolescence.

Foreign currencies

Transactions denominated in foreign currency are translated into sterling at the exchange rate ruling at the dates of the transactions, except where a transaction is to be settled at a contracted rate, when that rate is used. Monetary assets and liabilities denominated in foreign currency are translated into sterling at the exchange rate ruling at the balance sheet date. Differences arising on translation are transferred to the profit and loss account.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for 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 FRS19.

A deferred tax asset is recognised to the extent that it is regarded as recoverable. Provision is made at rates of taxation anticipated to be in force when the timing differences are expected to reverse.

Turnover

Turnover represents flown revenue from scheduled services, freight and other activities net of value added tax and Airport Passenger Duties.

2 Analysis of turnover

The total turnover of the company for the year has been derived from its principal activity wholly undertaken in the UK.

3 Remuneration of directors

	2002 £000	2001 £000
Directors' emoluments	-	230

Notes (continued)

4 Staff numbers and costs

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

	Number of employees	
	2002	2001
Administration	40	30
Operations	65	70
	<hr/>	<hr/>
	105	100
	<hr/>	<hr/>

The aggregate payroll costs of these persons were as follows:

	2002	2001
	£000	£000
Wages and salaries	1,780	1,326
Social security costs	153	115
	<hr/>	<hr/>
	1,933	1,441
	<hr/>	<hr/>

5 Interest receivable and similar income

	2002	2001
	£000	£000
Bank interest	5	4
	<hr/>	<hr/>

6 Interest payable and similar charges

	2002	2001
	£000	£000
On bank loans and overdrafts	76	2
	<hr/>	<hr/>
	76	2
	<hr/>	<hr/>

7 Profit on ordinary activities before taxation

	2002	2001
	£000	£000
<i>Profit on ordinary activities before taxation is stated after charging/(crediting):</i>		
Auditors' remuneration - audit	24	25
- non-audit	5	13
Depreciation	249	71
Operating lease rentals - plant and machinery	5	5
- aircraft	7,752	4,951
	<hr/>	<hr/>

Notes (continued)

8 Taxation

	2002		2001	
	£000	£000	£000	£000
a) Analysis of charge in the year				
<i>UK corporation tax:</i>				
UK corporation tax at 30%	(13)		(95)	
(Under)/over provision in prior year	(4)		4	
	<hr/>		<hr/>	
Total current tax (note 8(b))		(17)		(91)
<i>Deferred tax:</i>				
Origination/reversal of timing differences	(225)		(26)	
Adjustment in respect of prior periods	1		-	
	<hr/>		<hr/>	
Deferred tax (note 14)		(224)		(26)
		<hr/>		<hr/>
		(241)		(117)
		<hr/>		<hr/>

b) Factors affecting the current tax charge for the year

	2002	2001
	£000	£000
Profit on ordinary activities before tax	794	431
	<hr/>	<hr/>
The current tax charge is lower (2001: lower) than the standard rate of corporation tax in the UK of 30% (2001: 30%).		
Corporation tax at 30% (2001: 30%)	(238)	(129)
Effects of:		
Expenses not deductible for tax purposes	(7)	(7)
Capital allowances in excess of depreciation	225	20
Utilisation of tax losses	-	20
Marginal relief	7	1
Adjustment in respect of prior periods	(4)	4
	<hr/>	<hr/>
Current tax charge for the year	(17)	(91)
	<hr/>	<hr/>

Notes (continued)

9 Tangible fixed assets

	Portable buildings £000	Plant and machinery £000	Fixtures, fittings and equipment £000	Aircraft and aircraft rotables £000	Motor vehicles £000	Total £000
Cost						
At 1 October 2001	87	70	174	68	77	476
Additions	46	22	47	3,631	8	3,754
Disposals	-	-	-	-	(30)	(30)
At 30 September 2002	133	92	221	3,699	55	4,200
Accumulated depreciation						
At 1 October 2001	18	23	46	-	21	108
Charge for year	24	20	48	142	15	249
On disposals	-	-	-	-	(13)	(13)
At 30 September 2002	42	43	94	142	23	344
Net book value						
At 30 September 2002	91	49	127	3,557	32	3,856
At 30 September 2001	69	47	128	68	56	368

At 30 September 2001 certain items classified as current asset stock, and carried at a cost of £150,000, were reclassified as components of tangible fixed assets. This reclassification more appropriately reflects their status as fixed, rather than current, assets.

10 Stocks

	2002 £000	2001 £000
Consumable stocks	16	162

At 30 September 2001 certain items classified as current asset stock, and carried at a cost of £150,000, were reclassified as components of tangible fixed assets. This reclassification more appropriately reflects their status as fixed, rather than current, assets.

11 Debtors

	2002 £000	2001 £000
Trade debtors	1,455	1,182
Amounts owed by group undertakings	598	457
Other debtors	298	167
Prepayments and accrued income	201	333
	2,552	2,139

Notes (continued)

12 Creditors: amounts falling due within one year

	2002 £000	2001 £000
Bank loans and overdraft	320	95
Trade creditors	962	878
Amounts owed to group undertakings	60	-
Taxation and social security	156	132
Other creditors	257	170
Accruals and deferred income	1,618	1,069
	<hr/> 3,373 <hr/>	<hr/> 2,344 <hr/>

The bank loans and overdraft are secured by a debenture incorporating a fixed and floating charge over the assets of the company. The interest rate varies with LIBOR.

13 Creditors: amounts falling due after more than one year

	2002 £000
Bank loans (see note 12)	1,877
	<hr/>
<i>Repayments fall due as follows:</i>	
Between one and two years	320
Between two and five years	881
Over five years	676
	<hr/> 1,877 <hr/>

At 30 September 2001 there were no creditor amounts falling due after more than one year.

Notes (continued)

14 Provisions for liabilities and charges

	Deferred taxation £000	Maintenance provision £000	Total £000
Balance at 1 October 2001	26	-	26
Charge to profit and loss account	224	158	382
	<hr/>	<hr/>	<hr/>
Balance at 30 September 2002	250	158	408
	<hr/>	<hr/>	<hr/>

Movement on deferred taxation:

	2002 £000	2001 £000
At 1 October 2001	26	-
Charge to profit and loss account	224	26
	<hr/>	<hr/>
At 30 September 2002	250	26
	<hr/>	<hr/>
Difference between accumulated depreciation and capital allowances	250	26
	<hr/>	<hr/>

15 Called up share capital

	2002 £000	2001 £000
<i>Authorised</i>		
Equity: 1,000,000 Ordinary shares of £1 each	1,000	1
	<hr/>	<hr/>
<i>Allotted, called up and fully paid</i>		
Equity: 501,000 Ordinary shares of £1 each	501	1
	<hr/>	<hr/>

During the year 500,000 ordinary shares of £1 each were issued and fully paid at par value.

16 Profit and loss account

	2002 £000	2001 £000
At 1 October	376	62
Profit for the financial year	553	314
	<hr/>	<hr/>
At 30 September	929	376
	<hr/>	<hr/>

Notes (continued)

17 Reconciliation of movements in shareholders' funds

	2002 £000	2001 £000
Profit for the financial year	553	314
New equity share capital subscribed	500	-
	<hr/>	<hr/>
Net addition to shareholders' funds	1,053	314
Opening shareholders' funds	377	63
	<hr/>	<hr/>
Closing shareholders' funds	1,430	377
	<hr/>	<hr/>

18 Commitments

a) Capital commitments

At 30 September 2002, contracts for capital commitments amounted to £nil (2001: US\$3,000,000).

b) Annual commitments under non-cancellable operating leases are as follows:

Other	2002 £000	2001 £000
Operating leases which expire:		
Within one year	1	1
In the second to fifth years inclusive	3	4
	<hr/>	<hr/>
	4	5
	<hr/>	<hr/>

19 Related party disclosures

The company has taken advantage of the exemption contained within FRS8 and has therefore not disclosed transaction or balances with entities which form part of the group.

The company's joint ultimate holding companies are Magnificent Obsessions Limited and P & B Investment Holdings (Grimsby) Limited.

Global Aviation Limited owns 25% of the ordinary share capital of Eastern Airways (Europe) Limited and is a wholly owned subsidiary of Global Aviation Holdings Limited which is controlled jointly by Magnificent Obsessions Limited and P & B Investment Holdings (Grimsby) Limited.

The transactions with these related parties are as follows:

	2002 £000	2001 £000
Purchase of aircraft spares from Global Aviation Limited	(262)	(302)
Purchase of aircraft from Global Aviation Limited	(1,202)	-
Management charge payable to Magnificent Obsessions Limited	(250)	(143)
Management charge payable to P & B Investment Holdings (Grimsby) Limited	(173)	(87)
	<hr/>	<hr/>
Balance due (to)/from at 30 September		
Global Aviation Limited	(103)	(89)
Magnificent Obsessions Limited	(82)	(12)
P & B Investment Holdings (Grimsby) Limited	(111)	(7)
	<hr/>	<hr/>

Notes *(continued)*

20 Ultimate parent companies

Eastern Airways (UK) Limited is a wholly owned subsidiary of Eastern Airways (Europe) Limited, which is a company registered in England and Wales. Eastern Airways (Europe) Limited is ultimately controlled jointly by Magnificent Obsessions Limited and P & B Investment Holdings (Grimsby) Limited. All companies are registered in England and Wales.

The financial statements of the joint ultimate parent companies can be obtained from Charter House, 56 High Street, Sutton Coldfield, B72 1UL.