

Blue Sky Five Limited

Report and Financial Statements

Year Ended

31 December 2010

Company Number 06033619



Blue Sky Five Limited

Report and financial statements for the year ended 31 December 2010

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Director

Vahid Alaghband

Registered office

5 Stanhope Gate, London, W1K 1AH

Company number

06033619

Auditors

BDO LLP, 55 Baker Street, London, W1U 7EU

Blue Sky Five Limited

Report of the director for the year ended 31 December 2010

The director presents his report together with the audited financial statements for the year ended 31 December 2010

Results and dividends

The profit and loss account is set out on page 5 and shows the profit for the year

The director does not propose to recommend a dividend

Principal activities, trading review and future developments

Since the majority of the company's trading transactions are denominated in US dollars, the director believes that it is more meaningful to reflect the company's results in that currency rather than sterling

The principal activity of the company was the beneficial ownership and future leasing of a Boeing 747-400 aircraft with the serial number 25395 (the "Aircraft")

As reported in the company's previous director's report attached to the company's financial statements for the period ended 31 December 2009, on 21 March, 2008, the US Department of Commerce Bureau of Industry and Security ("BIS") issued a temporary order (the "Temporary Denial Order") on an ex-parte basis against the company. Temporary Denial Orders were issued also against the company's director and a number of related and unrelated companies. The Temporary Denial Order barred all named parties from participating, directly or indirectly, in any transaction involving export of U.S. origin goods to Iran. On 17 September 2008, the BIS renewed the original Temporary Denial Order for a further 180 days until March 2009. In March 2009 it was again renewed to September 2009.

On 10 September 2009 the Temporary Denial Order was lifted against the company, the company's director and a number of related companies. Accordingly the company ceased to be constrained by the Temporary Denial Order as of that date.

On 31 July 2008, the company's loan facility held with PK AirFinance US Inc ("PK") expired and was not renewed due to the Temporary Denial Order, resulting in the transfer of collateral ownership of the Aircraft to PK. PK enforced its mortgage on 31 July 2008 and took possession of the Aircraft. As a result of the transfer of ownership of the Aircraft to PK the company's investment in the Aircraft was accounted for as a receivable from PK. A provision was made against the receivable from PK, in the prior year, to reflect the market value at that time of the Aircraft, based on a third party guide dated January 2010.

On 21 September 2010 a settlement was reached between, inter alia, the company and PK. As part of the overall settlement agreement the loan facility and accrued interest from PK was extinguished in exchange for the company relinquishing all rights to any residual interest in the Aircraft. Under the settlement, the company is required to pay \$2m to PK in three equal instalments due on or before 15 January 2011, 15 February 2011 and 15 March 2011 respectively.

The group also agreed to reimburse PK up to \$4m of its legal costs incurred in relation to the claims against Mahan. This liability will be reduced by any legal costs recovered by PK from Mahan. The group has provided for this amount. The company is jointly and severally liable for this amount.

As a result of the settlement agreement, the company has reversed part of the previously recognised impairment against the receivable, to reflect the value for which the PK asset and liability were extinguished on 21 September 2010.

In August 2007, Crypton Limited, the company's ultimate parent company, entered into loan agreements with Blue Sky Aviation Co FZE ("FZE"), a third party subsidiary of Mahan Air ("Mahan"), to procure the refinancing of the loans from PK. FZE breached those loan agreements and Crypton Limited and its subsidiaries are claiming damages as a consequence of this breach. Blue Sky Five is claiming damages of \$107m. This claim was heard in the English Courts in July 2009 and February 2010 and, on 21 December 2009 and 25 March 2010, judgments were handed down. The Court found that FZE had an obligation to comply with the loan agreements and had failed to do so. However, the Court failed to award Crypton Limited and its subsidiaries damages for the breach of the loan agreements. Crypton Limited and its subsidiaries have lodged an appeal against the judgment.

At the date of issue of these Financial Statements, the company's only material liabilities, excluding amounts due to group companies and related parties are in relation to the agreement to pay PK up to \$4 million of legal costs in relation to its claims against Mahan, as noted above. During September 2011 the director understands that Mahan and PK reached a settlement in relation to the aircraft owned by Blue Sky Two Limited and Blue Sky Three Limited. The director understands that as part of the settlement Mahan will pay to PK, in relation to legal costs, sufficient to extinguish the company's \$4m liability to PK. Neither the director, nor any other director of the company's fellow subsidiary companies had any knowledge or involvement in this settlement and are currently unable to determine with certainty that the company is not liable for all or part of the \$4 million due.

The Balli Financial Services Limited group's only expectations of income are in relation to its claims against Mahan, or any settlement thereof.

Blue Sky Five Limited

Report of the director for the year ended 31 December 2010 (*continued*)

In addition the company is reliant on the support of its parent company, Balli Financial Services Limited. Balli Financial Services Limited has indicated that it will provide this support but no legal commitment has been given. Whilst the circumstances outlined above present material uncertainties that may cast significant doubt on the company's ability to continue as a going concern, the director anticipates that the issues facing the company will be resolved. For these reasons, the director has concluded that the going concern basis has been appropriately adopted in the preparation of these financial statements.

Directors

The directors of the company during the year, who had no interest in the ordinary share capital of the company, were

H Alaghband (terminated 23 July 2010)

V Alaghband (appointed 23 July 2010)

Director's responsibilities

The director is responsible for preparing the director's 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 director has elected to prepare the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the director must not approve the financial statements unless he is 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 director is required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting 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 director is 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 him to ensure that the financial statements comply with the Companies Act 2006. He is 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.

Auditors

The current director has taken all the steps that he ought to have taken to make himself aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The director is not aware of any relevant audit information of which the auditors are unaware.

BDO LLP has expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

On behalf of the Board



Vahid Alaghband

1 December 2011

Blue Sky Five Limited

Independent auditor's report

To the members of Blue Sky Five Limited

We have audited the financial statements of Blue Sky Five Limited for the year ended 31 December 2010, which comprise the profit and loss account, balance sheet and the related notes. 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 auditors

As explained more fully in the statement of directors' responsibilities, 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 (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 website at 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 December 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with the United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of Matter – Going Concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in note 13 to the financial statements concerning the company's ability to continue as a going concern. As disclosed in note 13, the company is jointly and severally liable for up to \$4m for legal costs of PK AirFinance US Inc ("PK") to the extent that these are not recovered from Mahan Air. The director is currently unable to determine with certainty that the company is not liable for all or part of the \$4m potentially due. The company is reliant on the support of its parent company, Balli Financial Services Limited. Balli Financial Services Limited has indicated that it will provide this support, although no legal commitment has been given and there is no certainty that Balli Financial Services Limited has access to sufficient liquid resources to finance its continued support of the company.

As disclosed in note 13, Cryton Limited and its subsidiaries, the company's ultimate parent company, are pursuing an appeal for a legal claim for damages amounting to \$107 million in respect of Blue Sky Five Limited from Blue Sky Aviation FZE. There is no guarantee that the appeal will be successful. If the company is successful in its appeal, uncertainties remain on whether the company will be able to enforce the judgment and recover the damages from Mahan or FZE.

These conditions along with other matters disclosed in note 13 to the financial statements, indicate the existence of material uncertainties which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

Blue Sky Five Limited

Report of the independent auditors (*continued*)

Opinion on other matters 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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company 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



Douglas Lawson (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London
United Kingdom
1 December 2011

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

Blue Sky Five Limited

Profit and loss account for the year ended 31 December 2010

	Note	2010 \$	2009 \$
Turnover		-	-
Cost of sales		-	(590)
Gross profit/(loss)		-	(590)
Administrative expenses		(770,094)	(1,066,259)
Exceptional item – reversal of impairment	3	2,365,555	6,218,996
Profit on ordinary activities before interest		1,595,461	5,152,147
Interest payable	4	5,343,750	(4,125,000)
Profit on ordinary activities before taxation	2	6,939,211	1,027,147
Taxation charge on profits/(losses) from ordinary activities	6	-	-
Profit for the financial year transferred from reserves		6,939,211	1,027,147

All amounts relate to continuing activities

All recognised gains and losses are included in the profit and loss account

The profit for the year represents the movement in shareholders' deficit

The notes on pages 7 to 11 form part of these financial statements

Blue Sky Five Limited

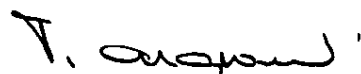
Balance sheet at 31 December 2010

Company number 05940078

	Note	2010 \$	2009 \$
Current assets			
Debtors	7	-	46,058,996
Creditors amounts falling due within one year	8	12,651,352	65,649,559
Net current liabilities		(12,651,352)	(19,590,563)
Total assets less current liabilities		(12,651,352)	(19,590,563)
Capital and reserves			
Called up share capital	9	2	2
Profit and loss account	10	(12,651,354)	(19,590,565)
Shareholders' deficit		(12,651,352)	(19,590,563)

All amounts within shareholders' deficit are equity

The financial statements were approved and authorised for issue by the Board on 1 December 2011



V Alaghband
Director

The notes on pages 7 to 11 form part of these financial statements

Blue Sky Five Limited

Notes forming part of the financial statements for the year ended 31 December 2010

1 Accounting policies

The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards. The following principal accounting policies have been applied:

Turnover

Turnover will be recognised when the Aircraft is leased out as stipulated within the Aircraft lease agreement.

Foreign currencies

Foreign currency transactions of individual undertakings are translated at the rates ruling when they occur. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling on the balance sheet date. Any differences are taken to the profit and loss account.

Capitalisation of finance costs

Finance costs which are directly attributable to capital expenditure incurred on the Aircraft are capitalised at the standard rate of interest borne by the company. Capitalisation commences when finance costs are incurred and expenditure on the Aircraft begins. Capitalisation ceases when the capital expenditure is substantially complete in accordance with FRS 15.

2 Profit on ordinary activities before taxation

This has been arrived at after charging:

	2010 \$	2009 \$
Auditors' remuneration	23,018	21,469
	<u>23,018</u>	<u>21,469</u>

3 Exceptional item

	2010 \$	2009 \$
Reversal of impairment against PK receivable (note 13)	(2,365,555)	(6,218,996)
	<u>(2,365,555)</u>	<u>(6,218,996)</u>

Blue Sky Five Limited

Notes forming part of the financial statements for the year ended 31 December 2010

4 Interest payable

	2010 \$	2009 \$
(Reversal)/Bank loans	(5,343,750)	4,125,000
	<u>(5,343,750)</u>	<u>4,125,000</u>

Interest expense represents default interest payable on the PK AirFinance US Inc loan. On 31 July 2008, the company's loan facility held with PK expired and was not renewed due to the Temporary Denial Order, resulting in the transfer of collateral ownership of the Aircraft to PK. As a result of the loan facility not being renewed, the company was accruing default interest to PK under the terms of its loan facility agreement with PK.

On 21 September 2010 a settlement was reached between, inter alia, the company and PK. As part of the overall settlement agreement the loan facility and accrued interest from PK was extinguished in exchange for the company relinquishing all rights to any residual interest in the Aircraft.

5 Director

The director did not receive any emoluments from the company during the year.

6 Taxation on profit from ordinary activities

	2010 \$	2009 \$
Current UK corporation tax at 28% (2009 – 28%)	-	-
Current tax charge for the year	<u>-</u>	<u>-</u>
<i>Tax reconciliation</i>		
Profit on ordinary activities before tax	6,939,211	1,027,147
Profit on ordinary activities at the standard rate of corporation tax in the UK of 28% (2009 – 28%)	1,942,979	287,601
Effect of		
Losses brought forward utilised	<u>(1,942,979)</u>	<u>(287,601)</u>
Current tax charge for period	<u>-</u>	<u>-</u>

Blue Sky Five Limited

Notes forming part of the financial statements for the year ended 31 December 2010

7 Debtors falling due within one year

	2010 \$	2009 \$
Other debtors (see note 8)	-	46,058,996

On 21 September 2010 a settlement was reached between, inter alia, the company and PK. As part of the overall settlement agreement the loan facility and accrued interest from PK was extinguished in exchange for the company relinquishing all rights to any residual interest in the Aircraft previously owned by the company.

8 Creditors amounts falling due within one year

	2010 \$	2009 \$
Amounts due to other group companies	10,651,352	20,026,987
Other creditors	2,000,000	48,058,995
	<u>12,651,352</u>	<u>68,085,982</u>

On 21 September 2010 a settlement was reached between, inter alia, the company and PK. As part of the overall settlement agreement the loan facility and accrued interest from PK was extinguished in exchange for the company relinquishing all rights to any residual interest in the Aircraft previously owned by the company.

9 Share capital

	2010 \$	2009 \$
<i>Authorised</i>		
1,000 ordinary shares of £1 each	2,000	2,000
<i>Called up, allotted and fully paid</i>		
1 ordinary shares of £1 each	2	2

10 Profit and loss account

	\$
As at 1 January 2010	(19,590,565)
Profit for the year	6,939,211
As at 31 December 2010	<u>(12,651,354)</u>

11 Cash flow statement

The company is exempt from the preparation of a cash-flow statement on the grounds that it is a wholly-owned subsidiary of Balli Financial Services Limited, a company registered in England, in whose financial statements a consolidated cash flow statement is prepared

12 Related party transactions

During the year, the company received financing from Balli Financial Services Limited, an intermediate parent company of the company. At 31 December 2010 the company owed \$10,651,352 (2009 - \$17,590,564), the highest amount owed during the year was \$17,590,564 (2009 - \$17,590,564)

The loan from Balli Financial Services Limited is repayable upon demand

13 Going concern

As reported in the company's previous director's report attached to the company's financial statements for the period ended 31 December 2009, on 21 March, 2008, the US Department of Commerce Bureau of Industry and Security ("BIS") issued a temporary order (the "Temporary Denial Order") on an ex-parte basis against the company. Temporary Denial Orders were issued also against the company's director and a number of related and unrelated companies. The Temporary Denial Order barred all named parties from participating, directly or indirectly, in any transaction involving export of U.S. origin goods to Iran. On 17 September 2008, the BIS renewed the original Temporary Denial Order for a further 180 days until March 2009. In March 2009 it was again renewed to September 2009.

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The group also agreed to reimburse PK up to \$4m of its legal costs incurred in relation to the claims against Mahan. This liability will be reduced by any legal costs recovered by PK from Mahan. The group has provided for this amount. The company is jointly and severally liable for this amount.

As a result of the settlement agreement, the company has reversed part of the previously recognised impairment against the receivable, to reflect the value for which the PK asset and liability were extinguished on 21 September 2010.

In August 2007, Crypton Limited, the company's ultimate parent company, entered into loan agreements with Blue Sky Aviation Co FZE ("FZE"), a third party subsidiary of Mahan Air ("Mahan"), to procure the refinancing of the loans from PK. FZE breached those loan agreements and Crypton Limited and its subsidiaries are claiming damages as a consequence of this breach. Blue Sky Five is claiming damages of \$107m. This claim was heard in the English Courts in July 2009 and February 2010 and, on 21 December 2009 and 25 March 2010, judgments were handed down. The Court found that FZE had an obligation to comply with the loan agreements and had failed to do so. However, the Court failed to award Crypton Limited and its subsidiaries damages for the breach of the loan agreements. Crypton Limited and its subsidiaries have lodged an appeal against the judgment.

At the date of issue of these Financial Statements, the company's only material liabilities, excluding amounts due to group companies and related parties are in relation to the agreement to pay PK up to \$4 million of legal costs in relation to its claims against Mahan, as noted above. During September 2011 the director understands that Mahan and PK reached a settlement in relation to the aircraft owned by Blue Sky Two Limited and Blue Sky Three Limited. The director understands that as part of the settlement Mahan will pay to PK, in relation to legal costs, sufficient to extinguish the company's \$4m liability to PK. Neither the director, nor any other director of the company's fellow subsidiary companies had any knowledge or involvement in this settlement and are currently unable to determine with certainty that the company is not liable for all or part of the \$4 million due.

The Balli Financial Services Limited group's only expectations of income are in relation to its claims against Mahan, or any settlement thereof.

13 Going concern *(continued)*

In addition the company is reliant on the support of its parent company, Balli Financial Services Limited. Balli Financial Services Limited has indicated that it will provide this support but no legal commitment has been given. Whilst the circumstances outlined above present material uncertainties that may cast significant doubt on the company's ability to continue as a going concern, the director anticipates that the issues facing the company will be resolved. For these reasons, the director has concluded that the going concern basis has been appropriately adopted in the preparation of these financial statements.

14 Ultimate holding company

The company's ultimate parent company is Crypton Limited, incorporated in the Cayman Islands.

The company's immediate parent company is Balli Financial Services Limited, a company incorporated in the United Kingdom.

The smallest and largest group in which the results of the company are consolidated is that headed by Balli Financial Services Limited. Copies of the consolidated financial statements of Balli Financial Services Limited can be obtained from Companies House, Crown Way, Cardiff, CF14 3UZ.

15 Contingent liability

As part of the settlement on 21 September 2010 between, inter alia, the company and PK, the company is jointly and severally liable for the amounts due to PK of \$6m as part of the settlement agreement and up to \$4m as part of legal costs. The company has provided for \$2 million of the settlement agreement and other group companies have provided for the balance and subsequent to the year end have settled the \$6m due.