

Business Air Limited

Directors' report and financial statements

For the period from 1 April 1996 to 31 December 1996

Company Registration No 104657

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Business Air Limited

<i>Contents</i>	<i>Page</i>
Directors and advisers	1
Directors' report	2
Statement of Directors' responsibilities	3
Report of the Auditors	4
Profit and loss account	5
Balance sheet	6
Accounting policies	7 - 8
Notes	9 - 15
Detailed profit and loss account	-

Business Air Limited

Directors and advisers

Directors

I G Woodley
Sir M D Bishop CBE
A Reid
T R P Liddiard

Secretary

Roy Roxburgh

Registered office

Iain Smith & Co
18-20 Queen's Road
Aberdeen

Auditors

KPMG
Heritage Court
41 Athol Street
Douglas
Isle of Man
IM99 1HN

Bankers

Bank of Scotland
103 George Street
Edinburgh

Business Air Limited

Directors' report

The Directors present their annual report and the audited financial statements for the period from 1 April 1996 to 31 December 1996.

Change of accounting date

The company has changed its accounting date from 31 March to 31 December.

Principal activity

The principal activity of the Company is that of an airline operator.

Results and dividend

The Company made a loss for the period before taxation of £815,677 (1996 (note 20): loss £2,685,526). The Directors do not recommend the payment of a dividend (1996: £Nil). The retained loss for the year after taxation of £668,639 (1996 (note 20): loss £2,685,526) has been transferred to reserves.

Directors and their disclosable interests

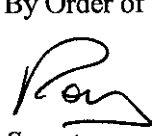
The Directors of the Company who held office during the period and their disclosable interests in the shares of the Company at 31 March 1996 and 31 December 1996 were as set out below:

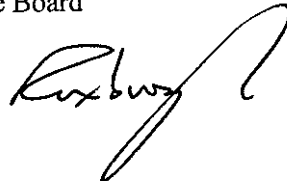
		£1 ordinary shares	
		31 December 1996	31 March 1996
I G Woodley		-	141,671
Sir M D Bishop CBE	(appointed 25 April 1996)	-	-
A Reid	(appointed 25 April 1996)	-	-
T R P Liddiard	(appointed 25 April 1996)	-	-
A J Duncan	(resigned 25 April 1996)	-	-

Auditors

Subsequent to the period end, Deloitte & Touche resigned as auditors of the Company and the Directors appointed KPMG as auditors of the Company. A resolution to appoint KPMG will be proposed at the forthcoming Annual General Meeting.

By Order of the Board


Secretary



18-20 Queen's Road
Aberdeen

Business Air Limited

Statement of Directors' responsibilities

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial period 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;
- state whether applicable 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 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 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.



Heritage Court
41 Athol Street
Douglas
Isle of Man
IM99 1HN

Report of the Auditors to the members of Business Air Limited

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

Respective responsibilities of Directors and Auditors

As described on page 3 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 affairs of the Company as at 31 December 1996 and of the loss of the Company for the period from 1 April 1996 to 31 December 1996 and have been properly prepared in accordance with the Companies Act 1985.

hens

12 June 1997

*Chartered Accountants
Registered Auditors*



Business Air Limited

Profit and loss account

for the period from 1 April 1996 to 31 December 1996

	Notes	1996 £	(Note 20) 1996 £
Turnover	1	18,947,432	24,337,127
Cost of sales		(17,341,490)	(23,048,765)
Gross profit		1,605,942	1,288,362
Overhead expenses		(2,458,011)	(3,696,723)
Interest income		41,164	317,917
Interest expense		(4,772)	(595,082)
Loss on ordinary activities before taxation	3	(815,677)	(2,685,526)
Taxation	4	147,038	-
Loss on ordinary activities after taxation		(668,639)	(2,685,526)
Dividends		-	-
Retained loss for the period		(668,639)	(2,685,526)
Retained loss brought forward		(11,477,220)	(8,791,694)
Retained loss carried forward		(12,145,859)	(11,477,220)

In both the current and preceding financial years, there were no recognised gains or losses other than those dealt with in the profit and loss account.

The accounting policies and notes on pages 7 to 14 form part of these financial statements.

Business Air Limited

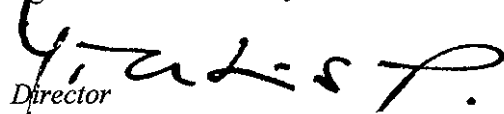
Balance sheet

as at 31 December 1996

	Notes	£	1996 £	(Note 20) 1996 £
Fixed assets				
Tangible fixed assets	5		87,124	121,353
Current assets				
Stock	6	681,472		588,989
Amounts due from group companies	7	592,655		-
Debtors	8	3,550,085		3,570,707
Cash at bank and in hand		497,286		2,166,578
		<u>5,321,498</u>		<u>6,326,274</u>
Creditors: amounts falling due within one year				
Bank overdraft	9	426,798		598,791
Amounts due to group companies	7	500,160		-
Other creditors and accruals	10	3,008,991		3,737,810
		<u>3,935,949</u>		<u>4,336,601</u>
Net current assets			<u>1,385,549</u>	<u>1,989,673</u>
Total assets less current liabilities			<u>1,472,673</u>	<u>2,111,026</u>
Creditors: amounts falling due after more than one year			-	-
Provisions for liabilities and charges	11		<u>(346,530)</u>	<u>(316,244)</u>
Net assets			<u>1,126,143</u>	<u>1,794,782</u>
Capital and reserves				
Share capital	12		164,909	164,909
Share premium			13,107,093	13,107,093
Profit and loss account			<u>(12,145,859)</u>	<u>(11,477,220)</u>
Equity shareholders' funds			<u>1,126,143</u>	<u>1,794,782</u>

The accounting policies and notes on pages 7 to 14 form part of these financial statements.

These financial statements were approved by the Board of Directors on 9 June 1997 and were signed on their behalf by:


Director


Director

Business Air Limited

Accounting policies

(forming part of the financial statements for the period from 1 April 1996 to 31 December 1996)

Basis of accounting

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

Depreciation

Fixed assets are depreciated on a straight line basis calculated to write down their cost to the current estimated residual values over their expected useful life. These estimates are reviewed regularly and adjusted as appropriate.

Computer equipment	3 years
Plant and machinery	5 years
Motor vehicles	4 years
Fixtures and fittings	3 - 5 years

Stocks

Stocks consist of consumable spares and tickets. All items are valued at the lower of cost and net realisable value.

Leased assets

Rental costs under operating leases are charged to the profit and loss account in the year in which they are incurred.

Deferred training costs

Costs arising from the training of new crews on aircraft are deferred and written-off over 36 months once training is completed.

Taxation

Provision is made for all taxation for which these financial statements provide the basis of assessment.

Deferred taxation

Taxation deferred by capital allowances and other timing differences is provided for except to the extent that a liability is not expected to arise in the foreseeable future.

Business Air Limited

Accounting policies (continued)

(forming part of the financial statements for the period from 1 April 1996 to 31 December 1996)

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are expressed at the rates prevailing at the balance sheet date, or at the forward contract rate where applicable. Transactions in foreign currencies during the year are translated at the rate of exchange ruling on the date of the transaction. Profits or losses on translation are taken to the profit and loss account.

Aircraft maintenance costs

Future expenditure on each aircraft's next major airframe and engine overhaul is estimated and an accrual made on a flying hour basis so as to spread the cost of non-routine maintenance over the period to the next major overhaul. Routine maintenance is expensed in the year in which it is incurred.

Pension costs

The Company operates a defined contribution pension scheme and pays contributions into individual accounts for eligible employees. The assets of the defined contribution pension scheme are held by an insurance company investing in various funds. Each individual is free to choose the pension funds of their choice from the selection available from the insurance company.

Business Air Limited

Notes

(forming part of the financial statements for the period from 1 April 1996 to 31 December 1996)

1 Turnover

Turnover represents the charges made for carrying passengers, cargo and charter revenue.

	1996 £	(Note 20) 1996 £
Scheduled services	8,553,549	15,297,086
Charter and other income	10,393,883	9,040,041
	<u>18,947,432</u>	<u>24,337,127</u>

The Directors consider that the Company operates solely as an airline operator in one geographic segment, the United Kingdom.

2 Information regarding directors and employees

	1996 £	(Note 20) 1996 £
Directors' emoluments:		
Other emoluments	<u>68,780</u>	<u>94,863</u>
Remuneration of the Chairman and highest paid Director	<u>52,476</u>	<u>89,864</u>
	Number	Number
Scale of other Directors' remuneration		
£0 - £5,000	<u>1</u>	<u>5</u>
£5,001 - £10,000	<u>2</u>	<u>-</u>
	£	£
Employee costs during the year:		
Wages and salaries	3,321,064	3,859,675
Social Security costs	281,665	367,785
Other pension costs	122,035	176,450
	<u>3,724,764</u>	<u>4,403,910</u>
	Number	Number
Average number of employees:		
Air crews	117	118
Engineering	7	7
Administration	107	97
	<u>231</u>	<u>222</u>

Business Air Limited

Notes (continued)

(forming part of the financial statements for the period from 1 April 1996 to 31 December 1996)

3 Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging:

	1996	(Note 20)
	£	1996
		£
Amortisation of deferred training costs	457,285	639,981
Amortisation of deferred development costs	60,880	373,184
Rentals under operating leases:		
Aircraft hire	2,995,047	3,148,976
Other operating lease	51,381	75,064
Depreciation:		
Own assets	56,440	179,788
Assets held under finance leases and hire purchase contracts	-	317,065
Auditors' remuneration:		
Audit fees	22,000	37,500
Other fees	11,197	11,345
Other interest payable	3,244	308,077
Interest on finance leases	-	230,593
Pension costs	122,035	176,450
Foreign exchange loss	59,446	94,710
	<u>122,035</u>	<u>176,450</u>

4 Taxation

	1996	(Note 20)
	£	1996
		£
UK corporation tax based on the results for the period	-	-
Amount receivable in respect of losses surrendered to group undertakings under group relief	147,038	-
	<u>147,038</u>	<u>-</u>

Corporation tax losses arising during the period and brought forward from previous years are available for carry forward to offset against future trading income.

Business Air Limited

Notes (continued)

(forming part of the financial statements for the period from 1 April 1996 to 31 December 1996)

5 Tangible fixed assets

	Computer equipment £	Plant and machinery £	Motor vehicles £	Fixtures & fittings £	Total £
<i>Cost</i>					
As at 1 April 1996	259,405	205,307	51,840	91,672	608,224
Additions	14,625	-	3,900	3,686	22,211
Disposals	-	-	(9,410)	-	(9,410)
As at 31 December 1996	274,030	205,307	46,330	95,358	621,025
<i>Depreciation</i>					
As at 1 April 1996	222,169	148,508	47,181	69,013	486,871
Charge for the period	22,738	20,462	2,391	10,849	56,440
Eliminated on disposals	-	-	(9,410)	-	(9,410)
As at 31 December 1996	244,907	168,970	40,162	79,862	533,901
<i>Net book value</i>					
As at 31 December 1996	29,123	36,337	6,168	15,496	87,124
As at 31 March 1996	37,236	56,799	4,659	22,659	121,353

Included in the net book value of tangible fixed assets are amounts of £Nil (1996 (note 20): £Nil) relating to assets held under finance lease agreements. The associated depreciation charge for the year in respect of these assets was £Nil (1996 (Note 20): £317,065).

6 Stock

	1996 £	(Note 20) 1996 £
Goods for resale	32,657	59,196
Consumable stock	648,815	529,793
	681,472	588,989

Business Air Limited

Notes (continued)

(forming part of the financial statements for the period from 1 April 1996 to 31 December 1996)

7 Amounts due from/to group companies

	1996	(Note 20) 1996
	£	£
<i>Amounts due from group companies</i>		
Current accounts		
British Regional Airlines Limited (formerly Manx Airlines (Europe) Limited)	177,872	-
British Regional Airlines (Scotland) Limited (formerly Loganair Limited)	32,372	-
British Midland Airways Limited	274,825	-
Airlines of Britain Holdings Plc	22,161	-
International Cargo Marketing Limited	85,425	-
	<u>592,655</u>	<u>-</u>
<i>Amounts due to group companies</i>		
Current accounts		
Manx Airlines Limited	169,285	-
British Midland Airways Limited	99,780	-
British Regional Airlines (Scotland) Limited (formerly Loganair Limited)	137,663	-
British Regional Airlines Limited (formerly Manx Airlines (Europe) Limited)	93,432	-
	<u>500,160</u>	<u>-</u>

Amounts due from/to group companies are unsecured, interest free and repayable on demand.

8 Debtors

	1996	(Note 20) 1996
	£	£
Trade debtors	729,494	2,670,064
Sundry debtors and prepayments	2,499,706	404,492
Deferred training costs	320,885	435,271
Deferred route development costs	-	60,880
	<u>3,550,085</u>	<u>3,570,707</u>

9 Bank overdraft

Subsequent to the period end, the bank overdraft was secured by a fixed and floating charge over the whole assets of the Company in favour of the Bank of Scotland.

Business Air Limited

Notes (continued)

(forming part of the financial statements for the period from 1 April 1996 to 31 December 1996)

10 Other creditors and accruals

	1996 £	(Note 20) 1996 £
Trade creditors	1,254,255	3,540,555
Sundry creditors and accruals	1,402,144	197,255
Provisions and charges	352,592	-
	<u>3,008,991</u>	<u>3,737,810</u>

11 Provision for liabilities and charges

	1996 £	(Note 20) 1995 £
Provision for maintenance costs	<u>346,530</u>	<u>316,244</u>

12 Share capital

	1996 £	(Note 20) 1996 £
<i>Authorised</i>		
1,124,253 ordinary shares of £1 each	<u>1,124,253</u>	<u>1,124,253</u>
<i>Issued and fully paid</i>		
164,909 ordinary shares of £1 each	<u>164,909</u>	<u>164,909</u>

12 Leasing commitments

(a) Operating leases

The future minimum lease payments to which the Company is committed to pay during 1997, under non-cancellable operating leases are as follows:

	1996 Land and buildings £	1996 Other operating leases £	(Note 20) 1996 Land and buildings £	(Note 20) 1996 Other operating leases £
On leases expiring within 12 months	18,500	865,314	47,616	435,856
On leases expiring in 2-5 years	13,900	1,625,261	-	2,150,937
On leases expiring in more than 5 years	-	-	-	-
	<u>32,400</u>	<u>2,490,575</u>	<u>47,616</u>	<u>2,586,793</u>

Business Air Limited

Notes (continued)

(forming part of the financial statements for the period from 1 April 1996 to 31 December 1996)

14 Capital commitments

As at 31 December 1996 the Company had authorised capital commitments of £Nil (1996 (note 20): £Nil) none of which had been contracted for.

15 Deferred taxation

The unprovided deferred taxation liability in respect of accelerated capital allowances is £Nil (1996 (note 20): £Nil).

16 Holding company

The Company is a wholly owned subsidiary undertaking of British Regional Airlines (Holdings) Limited (formerly Manx Airlines Holdings Limited) and the ultimate holding company as at 31 December 1996 was the BBW Partnership Limited. Both of these companies are incorporated in England and Wales.

17 Reconciliation of movements in shareholders' funds

	1996 £	(Note 20) 1996 £
Opening shareholders' funds	1,794,782	1,208,308
Loss for the period	(668,639)	(2,685,526)
Issue of share capital	-	40,656
Increase in share premium	-	3,231,344
Closing shareholders' funds	1,126,143	1,794,782

18 Related party transactions

Scandinavian Airline System Denmark Norway Sweden owns 40% of the issued share capital of Airlines of Britain (Holdings) PLC, the parent company of Business Air Limited. The Company made purchases of £46,998 and sales of £262,444 with this company during the period. The net balance due to the Company as at 31 December 1996 was £28,811.

Midland Airport Services Limited is a wholly owned company of the Directors of BBW Partnership Limited, the ultimate holding company of Business Air Limited. The Company made purchases of £5,756 during the period and the balance due to Midland Airport Services Limited as at 31 December 1996 was £5,736.

Subject to the above, the Company has taken advantage of the exemption under Financial Reporting Standard 8, 'Related Party Disclosures', whereby disclosure is not required of transactions with related parties as long as the company is at least a 90% subsidiary undertaking and the consolidated financial statements in which the company is included are publicly available.

Business Air Limited

Notes (continued)

(forming part of the financial statements for the period from 1 April 1996 to 31 December 1996)

19 Post balance sheet event

On 27 March 1997, the ultimate holding company undertook a group restructuring. As a result of this restructuring, the ultimate holding company is now BBW II Partnership Limited, a company incorporated in England and Wales.

20 Comparative figures

The comparative figures are for the period from 1 April 1995 to 31 March 1996.

Business Air Limited

Detailed profit and loss account

for the period from 1 April 1996 to 31 December 1996

	9 months to 31 December 1996		Year to 31 March 1996
	£	£	£
Turnover			
Contract	9,507,364	4,880,523	
Charter	117,664	242,339	
Brokerage	-	69,486	
Scheduled	8,553,549	15,297,086	
Other revenues	768,855	3,847,693	
	<u>18,947,432</u>		24,337,127
Cost of sales			
Wages and salaries	1,854,441	2,638,924	
Brokerage	(12,500)	58,054	
Sub-charter	(4,071)	191,283	
Aircraft lease	2,995,047	3,148,976	
Aircraft expenses	5,423,020	6,779,113	
Aircraft depreciation	-	317,065	
Fuel	842,171	1,396,455	
Engineering and maintenance	4,901,732	6,612,443	
Hangar rental	10,000	55,000	
Aircrew expenses	895,497	1,162,523	
Amortisation of deferred expenditure	436,153	688,929	
	<u>(17,341,490)</u>		(23,048,765)
Gross profit		<u>1,605,942</u>	<u>1,288,362</u>
Administrative expenses			
Wages and salaries	1,164,515	1,596,287	
Rent and rates	142,489	198,159	
Heat, light and electricity	18,345	16,067	
Repairs and renewals	6,415	10,517	
Telephone and telex	99,616	117,318	
Postage, stationery and printing	77,543	108,719	
Motor expenses	73,111	50,371	
Leasing costs	31,602	75,064	
Insurances	80,412	90,021	
Depreciation	54,700	138,176	
Legal, professional and audit fees	47,432	152,377	
General expenses	37,982	146,412	
Hotel, travel and entertaining	114,044	131,970	
Advertising and promotion	262,401	567,921	
Bank charges	18,244	18,151	
Reconstruction costs	1,378	50,000	
Gain on disposal of fixed assets	(255)	-	
Temporary staff and recruitment costs	70,214	13,394	
IATA charges	17,581	41,165	
Bad debts	43,504	8,489	
Exchange loss	59,446	94,710	
Pension fund	37,292	71,435	
	<u>(2,458,011)</u>		(3,696,723)
Operating loss		<u>(852,069)</u>	<u>(2,408,361)</u>

Business Air Limited

Detailed profit and loss account (continued)
for the period from 1 April 1996 to 31 December 1996

	9 months to 31 December 1996 £	Year to 31 March 1996 £
Operating loss	(852,069)	(2,408,361)
Other interest receivable and similar income	41,164	317,917
Interest payable and similar charges	(4,772)	(595,082)
	<hr/>	<hr/>
Loss on ordinary activities before taxation	<u>(815,677)</u>	<u>(2,685,526)</u>