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AIRTOURS LIMITED
(FORMERLY PENDLE TRAVEL SERVICES LIMITED)
AND ITS SUBSIDIARIES

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH SEPTEMBER 1986

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Grant Thornton
Chartered Accountants
Manchester M2 5HD



AIRTOURS LIMITED

REPORT OF THE DIRECTORS

The directors present their report together with financial statements for the year ended 30th September 1986.

1. Change of name

On 29th September 1986, the parent company changed its name from Pendle Travel Services Limited to Airtours Limited.

2. Principal activities

During the year, the parent company was principally engaged as tour operators and travel agents. The subsidiaries were dormant throughout the year.

3. Review of business

In November 1985, the company acquired the name of Carousel Holidays, a Midlands based tour operation, and issued a brochure under that name for 1986 summer holidays.

The demand for package tours has been high throughout the financial year. The company has achieved a significant increase in turnover but has not maintained its profit margins, severe competition and the existing low margin commitments on acquisition of the Carousel Holidays summer 1986 programme being the principal contributory factors.

On 8th December 1986 a contract for the sale of the retail travel agencies for £2,750,000 in cash was signed. The directors considered that there were no real prospects for improvement in profitability from these units in the foreseeable future. They also consider that the sale will enable management to concentrate on the growth of the tour operating business.

The contract for the sale of the retail travel agencies provides for the effective transfer of that undertaking to the purchaser at 30th September 1986. If the sale had been reflected in the balance sheet, net assets would have been increased by approximately £1,700,000 after allowing for taxation.

The profit for the year after taxation amounted to £1,279,000. An interim dividend of £315,000 was paid on the 29th September 1986. The directors do not propose to pay a final dividend, and the profit of £964,000 has been retained.

4. Directors

The directors in office at the end of the year are listed below. Apart from Mr. D. Collins, who was appointed to the Board on 4th December 1985, all served on the Board throughout the year.

In accordance with the Articles, members will be asked to confirm the appointment of Mr. D. Collins.

Mr. D. Crossland and Mr. L.T. James retire by rotation and being eligible offer themselves for re-election.

AIRTOURS LIMITED

REPORT OF THE DIRECTORS (CONTINUED)

4. Directors (continued)

The interests of the directors in the ordinary shares of the company and its subsidiaries at 1st October 1985 (or the date of their appointment to the Board if later) and at 30th September 1986 as recorded in the register maintained by the company in accordance with the provisions of the Companies Act 1985, were as follows:

	<u>1986 and 1985</u>
D. Crossland	330,000
T. Trickett	170,000
H.H. Collinson	-
T. Lovelock	-
L.T. James	-
D. Collins	-

5. Fixed assets

The principal items of capital expenditure in the year were the acquisition of new computer hardware and software (£926,000) and the refurbishment of the company's head office and five of its retail agencies (£155,000).

The net book value of fixed assets sold during the year was £68,000.

6. Auditors

Grant Thornton offer themselves for re-appointment as auditors in accordance with Section 384(1) of the Companies Act 1985.

Registered office

Waveill House,
Holcombe Road,
Helmshore,
Rossendale,
Lancashire.

BY ORDER OF THE BOARD

D. Crossland
D. CROSSLAND

CHAIRMAN

REPORT OF THE AUDITORS TO THE MEMBERS OF AIRTOURS LIMITED
(FORMERLY PENDLE TRAVEL SERVICES LIMITED)

We have audited the financial statements on pages 4 to 18 in accordance with approved Auditing Standards.

In our opinion the financial statements, which have been prepared under the historical cost convention, as modified by the revaluation of certain properties, give a true and fair view of the state of affairs of the group and the company at 30th September 1986, and of the profit and source and application of funds of the group for the year then ended, and comply with the Companies Act 1985.

GRANT THORNTON

AIRTOURS LIMITED AND ITS SUBSIDIARIES

ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention except that freehold and long leasehold properties are shown at their revalued amounts.

The timing of recognition of certain turnover and expenditure in the financial statements has been changed to conform with general industry practice. The effects of the changes are shown in note 15. Except for these changes, the principal accounting policies have remained unchanged and are set out below.

a) Basis of consolidation

The group financial statements consolidate the financial statements of the company and of its subsidiaries (see Note 7). The financial statements of each company in the group are prepared to 30th September. All unrealised internal profits are eliminated on consolidation.

None of the subsidiaries has traded during the year and consequently no profit or loss arises in their individual financial statements.

b) Turnover

Turnover is the total amount receivable by the group from the sale of package holidays and other services supplied to customers in the ordinary course of business, net of VAT and trade discounts. Revenue and expenses relating to package holidays are taken to profit and loss account on flight departure. In previous years revenue and expenses were taken to profit and loss account at the point the final invoice became payable.

c) Investment income

Investment income comprises interest receivable on bank deposits.

d) Depreciation

Depreciation on leasehold properties and computer equipment is calculated to write down their cost or valuation by equal annual instalments over their expected useful lives.

Depreciation on other tangible fixed assets is calculated on the reducing balance method and aims to write down the cost of all such assets other than freehold land and buildings over their expected useful lives.

The rates/periods generally applicable are:

Long leasehold premises	2%
Short leasehold premises	Period of lease
Computer equipment	4 years
Fixtures, fittings and equipment	10%
Motor vehicles	25%

No depreciation is provided on freehold premises. This policy does not comply with the provisions of Statement of Standard Accounting Practice No.12 or the Companies Act 1985, Schedule 4, Paragraph 18. However, all freehold premises have been disposed of since the year end.

AIRTOURS LIMITED AND ITS SUBSIDIARIES

ACCOUNTING POLICIES (CONTINUED)

e) Deferred taxation

Deferred taxation is the taxation attributable to timing differences between profits or losses computed for taxation purposes and results as stated in the financial statements.

Deferred taxation is provided to the extent that it is probable that a liability or asset will crystallise and not provided to the extent that it is probable that a liability or asset will not crystallise. Deferred taxation not provided is disclosed as a contingent liability.

Deferred taxation is calculated at the rate at which it is estimated that the tax will be paid when the timing differences reverse.

Debit balances arising in respect of advance corporation tax on dividends payable or proposed are carried forward to the extent that it is foreseen that sufficient corporation tax will be assessed in the succeeding period to allow offset.

f) Foreign currencies

Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date, or to the extent that foreign currency denominated liabilities are covered by forward exchange contracts at the appropriate contract rates. All realised exchange differences are dealt with through the profit and loss account.

g) Brochure and promotional costs

Brochure and promotional costs are charged to profit and loss account in the season to which they relate. In previous years these costs have been written off when incurred.

h) Leased assets

Subject to the note below on retail agency assets, where assets are financed by leasing agreements which give risks and rewards approximating ownership ("finance leases") they are treated as if they had been purchased outright on credit. They are therefore initially recorded as a fixed asset and a liability at a sum equal to the fair value of the asset. Leasing payments on such assets are regarded as consisting of a capital element which reduces the outstanding liability and an interest charge.

All other leases are regarded as operating leases and the total payments made under them are charged to the profit and loss account on a straight-line basis over the lease term.

Under the transitional provisions of Statement of Standard Accounting Practice No.21, the disclosure of commitments under operating and finance leases is required. Under the terms of the agreement for the sale of the retail agencies, the obligations arising from leased assets have been assigned. Consequently no disclosure of lease commitments at 30th September 1986 has been made in these financial statements.

AIRTOURS LIMITED AND ITS SUBSIDIARIES
GROUP PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30TH SEPTEMBER 1986

	<u>Notes</u>	<u>1986</u> £000	£000	<u>1985</u> £000
Turnover	1		66,059	36,339
Cost of sales			57,477	30,896
Gross profit			8,582	5,443
Selling costs		5,300		3,157
Administrative expenses		1,127		573
Other charges		633		398
			7,060	4,128
Operating profit			1,522	1,315
Interest receivable and sundry income	2		504	470
Profit on ordinary activities before taxation	1		2,026	1,785
Tax on profit on ordinary activities	4		747	846
Profit on ordinary activities after taxation	5		1,279	939
Dividends paid (63p per share, 1985 31.5p per share)			315	158
Profit retained by the company	15		964	781

The accounting policies and notes on pages 4 and 5, and 10 to 18 form part of these financial statements.

AIRTOURS LIMITED AND ITS SUBSIDIARIES
GROUP BALANCE SHEET AT 30TH SEPTEMBER 1986

	<u>Notes</u>	<u>£000</u>	<u>1986</u>	<u>£000</u>	<u>1985</u>
					<u>£000</u>
Fixed assets					
Intangible assets				28	
Tangible assets	6		1,695	1,025	
			1,695	1,053	
Current assets					
Debtors	8	6,074		1,980	
Investments	9	4,998		5,307	
Cash at bank and in hand		2,442		2,399	
		13,514		9,686	
Creditors: amounts falling due within one year	10	11,972		8,808	
Net current assets			1,542	878	
Total assets less current liabilities			3,237	1,931	
Creditors: amounts falling due after more than one year	11	671		372	
Provisions for liabilities	12	167		124	
			838	496	
Net assets			2,399	1,435	
Capital and reserves					
Called up share capital	14		500	500	
Share premium account	15		11	11	
Revaluation reserve	13		7	7	
Profit and loss account	15		1,881	917	
			2,399	1,435	

The financial statements were approved by the Board of Directors on

D CROSSLAND

)

) DIRECTORS

T TRICKETT

)

The accounting policies and notes on pages 4 and 5, and 10 to 18 form part of these financial statements

AIRTOURS LIMITED

BALANCE SHEET AT 30TH SEPTEMBER 1986

	<u>Notes</u>	<u>£000</u>	<u>1986</u> <u>£000</u>	<u>1985</u> <u>£000</u>
Fixed assets				
Intangible assets			-	28
Tangible assets	6		1,695	1,025
Investments	7		27	27
			<u>1,722</u>	<u>1,080</u>
Current assets				
Debtors	8	6,074		3,280
Investments	9	4,998		5,307
Cash at bank and in hand		2,442		2,399
		<u>13,514</u>		<u>9,686</u>
Creditors: amounts falling due within one year	10	11,972		8,808
Net current assets			<u>1,542</u>	<u>878</u>
Total assets less current liabilities			3,264	1,958
Creditors: amounts falling due after more than one year	11	724		425
Provisions for liabilities	12	167		124
			<u>891</u>	<u>549</u>
Net assets			<u>2,373</u>	<u>1,409</u>
Capital and reserves				
Called up share capital	14		500	500
Share premium account	15		11	11
Revaluation reserve	15		7	7
Profit and loss account	15		1,855	891
			<u>2,373</u>	<u>1,409</u>

The financial statements were approved by the Board of Directors on

D CROSSLAND

T TRICKETT

[Signature]
DIRECTORS

The accounting policies and notes on pages 4 and 5, and 10 to 18 form part of these financial statements

AIRTOURS LIMITED AND ITS SUBSIDIARIES
GROUP STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE YEAR ENDED 30TH SEPTEMBER 1986

	£000	1986	£000	1985
				£000
Source of funds				
From operations				
Profit on ordinary activities before taxation			2,026	1,785
Adjustments for items not involving the movement of funds				
Depreciation and amounts written off fixed assets	304			148
(Profit)/Loss on sale of fixed assets	(2)			13
			302	161
			2,328	1,946
From other sources				
Tax refund	8			-
Proceeds of disposals of tangible fixed assets	70			10
Lease finance	621			-
			699	10
			3,027	1,956
Application of funds				
Dividends paid	315			158
Tax paid	534			-
Purchase of tangible fixed assets	1,570			578
Lease and hire purchase payments	153			13
			2,572	749
			455	1,207
Net inflow of funds			=====	=====
Increase/(decrease) in work capital				
Debtors			3,538	731
Creditors: amounts falling due within one year			(2,002)	(2,657)
Creditors: amounts falling due after more than one year			75	(267)
			721	(2,189)
Net liquid funds				950
Cash at bank and in hand	43			2,446
Short-term deposits	(309)			-
			(266)	3,396
			455	1,207
Net increase in working capital			=====	=====

AIRTOURS LIMITED AND ITS SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH SEPTEMBER 1986

1. Turnover and profit on ordinary activities before taxation

	<u>Turnover</u>	
	<u>1986</u>	<u>1985</u>
	<u>£000</u>	<u>£000</u>
	14,883	10,497
	54,257	28,204
Travel agency	69,140	38,701
Tour operator	3,081	2,362
	66,059	36,339
	=====	=====
Deduct: internal trading		

The whole of the turnover arises within the United Kingdom.

An analysis of profit before taxation by class of business has not been given because, in the opinion of the directors, such an analysis is of limited use, having regard to the organisation of the company's activities, and the disposal of the travel agencies.

Profit on ordinary activities is stated after:

	<u>1986</u>	<u>1985</u>
	<u>£000</u>	<u>£000</u>
	77	43
Hire and leasing of equipment and vehicles	21	18
Auditors' remuneration	304	148
Depreciation	207	150
Directors' emoluments (Note 3)		

2. Interest receivable and sundry income

	<u>1986</u>	<u>1985</u>
	<u>£000</u>	<u>£000</u>
	493	460
	11	10
Interest receivable	504	470
Sundry income	=====	=====

AIRTOURS LIMITED AND ITS SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30TH SEPTEMBER 1986

3. Directors and employees

	<u>1986</u> <u>£000</u>	<u>1985</u> <u>£000</u>
Staff costs during the year		
Wages and salaries	2,088	1,354
Social security	184	120
	<u>2,272</u>	<u>1,474</u>
	=====	=====

The average number of employees of the group during the year was:

	<u>1986</u>	<u>1985</u>
Travel agency	131	109
Tour operator	152	111
	<u>283</u>	<u>220</u>
	=====	=====

Remuneration in respect of directors was payable as follows:

	<u>1986</u> <u>£000</u>	<u>1985</u> <u>£000</u>
Directors' management remuneration	207	150
	=====	=====

The emoluments of the directors, excluding pension contributions, were as follows:

	<u>1986</u> <u>£000</u>	<u>1985</u> <u>£000</u>
The chairman	45	34
	=====	=====
The highest paid director	45	41
	=====	=====
Other directors	<u>1986</u> <u>Number</u>	<u>1985</u> <u>Number</u>

£ 15,001 to £ 20,000	1	1
£ 20,001 to £ 25,000	-	1
£ 25,001 to £ 30,000	2	-
£ 30,001 to £ 35,000	-	1
£ 40,001 to £ 45,000	1	-

AIRTOURS LIMITED AND ITS SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30TH SEPTEMBER 1986

4. Tax on profit on ordinary activities

The taxation charge is based on the profit for the year and is made up as follows:

	<u>1986</u> <u>£000</u>	<u>1985</u> <u>£000</u>
Corporation tax @ 37.5% (1985 42.5%)	712	883
Deferred tax	<u>30</u>	<u>(3)</u>
	742	880
Adjustments in respect of prior years:		
Corporation tax	(8)	-
Deferred tax	<u>13</u>	<u>(34)</u>
	<u>747</u>	<u>846</u>
	===	===

Income and Corporation Taxes Act 1970

The company is a close company as defined by Section 282 of the Income and Corporation Taxes Act 1970.

5. Profit for the financial year

The whole of the profit arises in the financial statements of the parent company. No subsidiary has traded in either of the two years ended 30 September 1986.

AIRTOURS LIMITED AND ITS SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30TH SEPTEMBER 1986

6. Tangible fixed assets

	<u>Land and buildings</u>				<u>Fixtures, fittings and equipment</u>	<u>Motor vehicles</u>
	<u>Total</u>	<u>Freeholds</u>	<u>Long</u>	<u>Short</u>	<u>£000</u>	<u>£000</u>
	<u>£000</u>	<u>£000</u>	<u>lease- holds</u>	<u>lease- holds</u>		
			<u>£000</u>	<u>£000</u>		
The group and the company						
Cost or valuation						
At 1st October 1985	1,286	48	52	95	851	240
Additions	1,570	-	2	60	1,356	152
Disposals	(92)	-	-	(3)	(7)	(82)
Transferred to assets held for resale	(780)	(48)	(54)	(129)	(549)	-
At 30th September 1986	1,984	-	-	23	1,651	310
Depreciation						
At 1st October 1985	261	-	4	38	158	61
Provided in year	304	-	1	20	235	48
Disposals	(24)	-	-	-	(2)	(22)
Transferred to assets held for resale	(252)	-	(5)	(54)	(193)	-
At 30th September 1986	289	-	-	4	198	87
Net book amount at 30th September 1986	1,695	-	-	19	1,453	223
Net book amount at 30th September 1985	1,025	48	48	57	693	179
The net book amount of motor vehicles includes:					<u>1986</u>	<u>1985</u>
					<u>£000</u>	<u>£000</u>
Commercial vehicles					81	100
Other vehicles					142	79
					<u>223</u>	<u>179</u>

The net book value of fixed assets of £1,695,000 includes an amount of £833,000 in respect of assets held under finance leases on which depreciation of £79,000 has been provided in the year.

The freehold, long leasehold and short leasehold properties, with the exception of those used by the tour operating business, have been sold after the year end (see notes 8 and 18).

AIRTOURS LIMITED AND ITS SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30TH SEPTEMBER 1986

7. Fixed asset investments

The company

Shares in
subsidiary
companies
£000

Cost and net book amount
At 1st October 1985 and
30th September 1986

27
===

At 30th September 1986 the company held more than 10% of the allotted share capital of the following companies:

	Country of registration	Class of share capital held	Proportion held	Nature of business
<u>Subsidiaries</u>				
Pendle Travel Services Limited (formerly Airtours Limited)	England	Ordinary	100%	Dormant
Airtours Publicity Limited (formerly Space and Time Limited)	England	Ordinary	100%	Dormant
Sunsales Limited	England	Ordinary	100%	Dormant
Airtours Vacations Limited	England	Ordinary	100%	Dormant
Carousel Holidays Limited	England	Ordinary	100%	Dormant
Skyseats Limited	England	Ordinary	100%	Dormant

No financial statements have been prepared in respect of Skyseats Limited which was incorporated on 29th August 1986.

AIRTOURS LIMITED AND ITS SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30TH SEPTEMBER 1986

8. Debtors

	<u>The group and the company</u>	
	<u>1986</u> £000	<u>1985</u> £000
Amounts falling due within one year:		
Trade debtors	3,692	1,109
Other debtors	243	90
Prepayments	1,583	781
Assets held for resale (note 18)	556	-
	<u>6,074</u>	<u>1,980</u>
	=====	=====

9. Current asset investments

	<u>The group and the company</u>	
	<u>1986</u> £000	<u>1985</u> £000
Money market deposits	4,998	5,307
	=====	=====

10. Creditors - amounts falling due within one year

	<u>The group and the company</u>	
	<u>1986</u> £000	<u>1985</u> £000
Trade creditors	9,008	6,458
Current taxation	1,515	1,337
Social security and other taxes	76	282
Other creditors	1,001	355
Accruals	242	325
Directors' current accounts	-	27
Amounts due under finance leases and hire purchase agreements (net of finance charges allocated to future periods)	130	24
	<u>11,972</u>	<u>8,808</u>
	=====	=====

AIRTOURS LIMITED AND ITS SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30TH SEPTEMBER 1986

11. Creditors - amounts falling due after more than one year

	<u>The group</u>		<u>The company</u>	
	<u>1986</u>	<u>1985</u>	<u>1986</u>	<u>1985</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Amounts owed to group companies	-	-	53	53
Directors' loan account	-	75	-	75
Amounts due under finance leases and hire purchase agreements (net of finance charges allocated to future periods)	671	297	671	297
	<u>671</u>	<u>372</u>	<u>724</u>	<u>425</u>
	===	===	===	===

Amounts due under finance leases and hire purchase agreements are all repayable within five years.

12. Provisions for liabilities

	<u>Deferred taxation (Note 13) £000</u>
The group and the company	
At 1st October 1985	124
Provided during the year	43
At 30th September 1986	<u>167</u> ===

13. Deferred taxation

Deferred taxation provided in the financial statements and the total potential liability, including the amount provided, are set out below.

	<u>Amount provided</u>		<u>Potential liability</u>	
	<u>1986</u>	<u>1985</u>	<u>1986</u>	<u>1985</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
The group and the company				
Accelerated capital allowances	167	124	167	124
Unrealised capital gains	-	-	6	6
	<u>167</u>	<u>124</u>	<u>173</u>	<u>130</u>
	===	===	===	===

AIRTOURS LIMITED AND ITS SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30TH SEPTEMBER 1986

14. Called up share capital

1986 and 1985
£000

Authorised
1,000,000 ordinary shares of £1 each

1,000
=====

Allotted, called up and fully paid
500,000 ordinary shares
of £1 each

500
=====

15. Share premium account and reserves

	<u>Share premium account £000</u>	<u>Revaluation reserve £000</u>	<u>Profit and loss account £000</u>
The group			
At 1st October 1985 (as restated)	11	7	917
Retained profit for the year	-	-	964
	-----	-----	-----
At 30th September 1986	11	7	1,881
	=====	=====	=====
The company			
At 1st October 1985 (as restated)	11	7	891
Retained profit for the year	-	-	964
	-----	-----	-----
At 30th September 1986	11	7	1,855
	=====	=====	=====

No provision has been made for taxation which would accrue if the properties were disposed of at their revalued amounts. The potential liability is disclosed in Note 13.

Movements on group reserves - Profit and loss account

	964	781
Retained profit for the year		
Retained profits at beginning of year		
As previously reported	1,302	486
Prior year adjustment (see note below)	(384)	(150)
	-----	-----
	917	336
	-----	-----
	1,881	1,117
	-----	-----
Capitalisation of reserves		(290)

Retained profits at end of year	1,881	917
	=====	=====

The prior year adjustment relates to the change in accounting policies on profit on holidays, and brochure and promotional costs, as explained on pages 4 and 5.

AIRTOURS LIMITED AND ITS SUBSIDIARIES
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30TH SEPTEMBER 1986

16. Capital commitments

Neither the group nor the company had any capital commitments at 30th September 1986 or 30th September 1985.

17. Contingent liabilities

There were no contingent liabilities at 30th September 1986 or 30th September 1985 except in respect of deferred taxation (see Note 13).

18. Subsequent event

A contract was signed on 8th December 1986 for the sale of the retail travel agencies for £2,750,000 in cash, the sale to be effective as at 30th September 1986. The directors considered that there were no prospects for improvement in profitability from these units in the foreseeable future and the sale will enable the management to concentrate on the growth of the tour operating business.

If the sale had been reflected in the balance sheet, net assets would have been increased by approximately £1,750,000 after allowing for taxation.