

AIR CHARTER SERVICE GROUP PLC

ANNUAL REPORT AND ACCOUNTS

YEAR ENDED 31 JANUARY 2009

AIR CHARTER SERVICE GROUP PLC
CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 JANUARY 2009

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AIR CHARTER SERVICE GROUP PLC

OFFICERS AND ADVISERS

THE BOARD OF DIRECTORS

CDS Leach
Mrs CJ Leach
J Bowman
R Courtney (appointed 23 April 2008)
AE Bauckham
S Pitt
DV Malempre
WRMC Foyle

COMPANY SECRETARY

Mrs CJ Leach

REGISTERED OFFICE

Charter House
45C High Street
Hampton Wick
Kingston upon Thames
Surrey
KT1 4DG

REGISTERED NUMBER

04028491

AUDITOR

Menzies LLP
Chartered Accountants &
Registered Auditors
3rd Floor
Kings House
12-42 Wood Street
Kingston upon Thames
Surrey
KT1 1TG

AIR CHARTER SERVICE GROUP PLC

CHAIRMAN'S STATEMENT

YEAR ENDED 31 JANUARY 2009

I am pleased to report on another year of strong results for our group despite an extended period of very tough trading conditions. Sales increased in both our cargo and passenger divisions and our established offices overseas all delivered improved sales and profitability.

The record sales and profit for the year are a testament to our geographical diversification strategy, which has provided considerable protection against the adverse effects of the economic downturn. Our Dubai office, which opened just three years ago, has become our most profitable overseas office and continues to thrive. Our New York and Moscow offices also delivered strong results and our overseas regions, in total, now contribute one quarter to our group's operating profit. Our group continues to expand overseas with two new offices opening during the year in Hong Kong and in Spain.

Our cargo business showed very strong growth in sales and margin despite the substantial decline in the automotive market. Our group's focus on increasing its share of government work paid off with a considerable increase in sales in this sector which is largely recession proof. We are pleased to have been chosen by, and to be working with, a number of government bodies internationally.

During the past year we have seen the closure of many charter airlines and brokers. Whilst the coming year continues to present a difficult trading environment, our group remains well diversified, debt free and with a strong cash position. The Board of Directors is therefore very confident that the group will emerge from these trading conditions a stronger and better placed business.

During this tough period our success has been substantially due to the skill and dedication of our staff. We have continued to invest heavily in training during 2008 and continue to do so in 2009.

A highlight of the year was the independent survey of staff yielding a ranking in the Sunday Times "Top 100 best companies to work for" list: A satisfying achievement for the whole management team in what is a "people business".

Management figures available at the time of writing are, encouragingly, showing further growth in 2009. Additionally, we are actively laying certain foundations to facilitate possibly rapid growth when the upturn finally arrives. We look forward with cautious optimism to the future.



CD Leach
Chairman

Date: 29 May 2009

AIR CHARTER SERVICE GROUP PLC

DIRECTORS' REPORT

The directors present their report and the financial statements of the Group for the year ended 31 January 2009.

PRINCIPAL ACTIVITY AND BUSINESS REVIEW

The principal activities of the company during the year were that of a holding company and the trading companies of the Group lease and charter aircraft.

Review of the business and future developments

The results for the year are set out in the consolidated income statement on page 7 of these financial statements and a review can be found in the Chairman's statement.

The financial statements show a good set of results for the year, reflecting the underlying growth of our core businesses.

Financial performance

The Group uses gross profit in measuring the performance of business areas and also EBITDA in measuring performance of different offices.

Gross profit increased 25% from £9.6 million to £12.0 million, and EBITDA (before exceptional costs) increased from £2.6 million to £3.0 million. All overseas regions improved in terms of sales and profitability, as the Group continues its strategy of developing the international businesses.

Administrative expenses increased by £2.2 million, mainly due to increased staff costs and marketing activities, combined with the opening of two new offices, Hong Kong and Spain. The Group continues to focus on the recruitment and training of quality staff and the development of overseas offices.

Risks and uncertainty

Given the ad-hoc nature of the air charter market, forward visibility is limited as our clients book charter flights on relatively short notice. Working capital requirements can fluctuate significantly due to variations in client and supplier payment terms from one period to the next.

RESULTS AND DIVIDENDS

The profit for the year after taxation amounted to £1.7 million (2008: £1.1 million) and dividends paid during the year were £1.0 million (2008: £661,000).

FINANCIAL INSTRUMENTS

Details of the Group's financial risk management objectives and policies are included in note 14 to the accounts.

DIRECTORS

The directors who served the company during the year were as follows:

CDS Leach
Mrs CJ Leach
J Bowman
R Courtney (appointed 23 April 2008)
AE Bauckham
S Pitt
DV Malempre
WRMC Foyle

POLICY ON THE PAYMENT OF CREDITORS

The Group pays its suppliers in advance of carriage or post flight for certain suppliers. Payment terms are agreed for each individual transaction. As at the year end the number of days' purchases outstanding was 6 days.

DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRS) as adopted for use in the European Union.

AIR CHARTER SERVICE GROUP PLC

DIRECTORS' REPORT

The directors are required to prepare financial statements for each financial year which present fairly the financial position of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;
- state that the Group has complied with IFRS, 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 Group will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

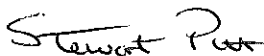
In so far as the directors are aware:

- there is no relevant audit information of which the Group's auditor is unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

AUDITOR

On 1 July 2008, Menzies, the Company's auditors, transferred its business to Menzies LLP, a limited liability partnership incorporated under the Limited Liability Partnership Act 2000. The Company's consent has been given to treat the appointment of Menzies as extending to Menzies LLP with effect from 1 July 2008 under the provisions of section 26(5) of the Companies Act 1989. Accordingly, a resolution approving the re-appointment of Menzies LLP will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors on 29 May 2009



Stewart Pitt
Director

AIR CHARTER SERVICE GROUP PLC

REPORT OF THE INDEPENDENT AUDITORS

We have audited the financial statements of Air Charter Service Group plc for the year ended 31 January 2009 which comprise the Consolidated Income Statement, Consolidated Statement of Recognised Income and Expenses, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Cash Flow Statement, Company Cash Flow Statement and the related notes to the financial statements. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's shareholders, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditors' 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 shareholders as a body, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards as adopted for use in the European Union are set out on pages 3 and 4.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Report of the Directors is consistent with the financial statements.

In addition, we report to you if, in our opinion, 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 directors' remuneration and other transactions with the company is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Report of the Directors and the Chairman's Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 Group'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.

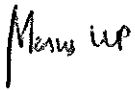
In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

AIR CHARTER SERVICE GROUP PLC

REPORT OF THE INDEPENDENT AUDITORS

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs adopted for use in the European Union, of the state of the Group's affairs as at 31 January 2009 and of its profit and cash flow for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRS as adopted for use in the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 January 2009 and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulations; and
- the information given in the Directors' report is consistent with the financial statements.



Menzies LLP
Chartered Accountants & Registered
Auditors
3rd Floor, King's House
12-42 Wood Street
Kingston Upon Thames
Surrey
KT1 1TG

Date: 10 June 2009

AIR CHARTER SERVICE GROUP PLC
CONSOLIDATED INCOME STATEMENT
YEAR ENDED 31 JANUARY 2009

GROUP	Note	2009 £'000	2008 £'000
Revenue	2	130,897	86,115
Cost of sales		(118,941)	(76,479)
Gross profit		11,956	9,636
Administrative expenses		(9,485)	(7,297)
Operating profit before exceptional items		2,471	2,339
Exceptional items	4	-	(630)
Operating profit	3	2,471	1,709
Finance income		50	74
Profit before tax		2,521	1,783
Tax	7	(791)	(733)
Profit for the financial year		<u>1,730</u>	<u>1,050</u>
Attributable to:			
Equity holders of the parent		1,714	1,052
Minority Interests		16	(2)
		<u>1,730</u>	<u>1,050</u>

The results for the current and prior year are derived from continuing operations.

AIR CHARTER SERVICE GROUP PLC

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSES

YEAR ENDED 31 JANUARY 2009

GROUP	2009 £'000	2008 £'000
Exchange differences on translation of foreign operations	107	(2)
Net (expense) / income recognised directly in equity	<u>107</u>	<u>(2)</u>
Profit for the period	<u>1,730</u>	<u>1,050</u>
Total recognised income for the period	<u><u>1,837</u></u>	<u><u>1,048</u></u>
Attributable to:		
Equity holders of the parent	1,821	1,050
Minority interest	16	(2)
	<u><u>1,837</u></u>	<u><u>1,048</u></u>

AIR CHARTER SERVICE GROUP PLC
CONSOLIDATED BALANCE SHEET
YEAR ENDED 31 JANUARY 2009

GROUP	Note	2009 £'000	2008 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	892	856
Deferred tax	8	116	-
		<u>1,008</u>	<u>856</u>
Current assets			
Trade and other receivables	12	5,833	4,668
Cash and cash equivalents		2,644	2,875
		<u>8,477</u>	<u>7,543</u>
Total assets		<u>9,485</u>	<u>8,399</u>
LIABILITIES			
Current liabilities			
Trade and other payables	13	(6,300)	(6,308)
Current tax liabilities		(535)	(329)
		<u>(6,835)</u>	<u>(6,637)</u>
Total liabilities		<u>(6,835)</u>	<u>(6,637)</u>
Net assets		<u>2,650</u>	<u>1,762</u>
EQUITY			
Called up share capital	16	229	229
Share premium account	18	32	32
Translation reserve	18	110	1
Share based payment reserve	18	65	14
Retained earnings	18	2,200	1,486
		<u>2,636</u>	<u>1,762</u>
Attributable to equity holders of the parent			
Minority interest		14	-
Total equity		<u>2,650</u>	<u>1,762</u>

These financial statements were approved by the Board of Directors and authorised for issue on 29 May 2009.

Signed on behalf of the Board by:


C D S Leach


S Pitt

AIR CHARTER SERVICE GROUP PLC

COMPANY BALANCE SHEET

YEAR ENDED 31 JANUARY 2009

COMPANY

	Note	2009 £'000	2008 £'000
Non-current assets			
Investments in subsidiaries	11	264	200
Current assets			
Trade and other receivables	12	102	75
Cash and cash equivalents		2	41
		<u>104</u>	<u>116</u>
Net assets		<u>368</u>	<u>316</u>

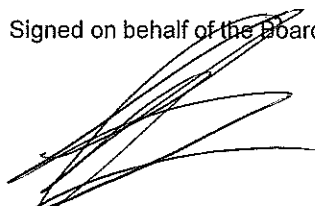
EQUITY

Called up share capital	16	229	229
Share premium account	18	32	32
Share based payment reserve	18	65	14
Retained earnings	18	42	41
Total equity		<u>368</u>	<u>316</u>

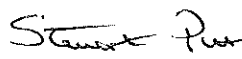
In accordance with the exemptions permitted by s230 of the Companies Act 1985 the income statement and the statement of total recognised gains and losses of the company have not been presented. In the accounts of the company the profit for the financial year amounted to £815 (2008: £41,240) and net income recognised directly in equity amounted to £815 (2008: £41,240).

These financial statements were approved by the Board of Directors and authorised for issue on 29 May 2009

Signed on behalf of the Board by:



C D S Leach



S Pitt

AIR CHARTER SERVICE GROUP PLC
CONSOLIDATED CASH FLOW STATEMENT
YEAR ENDED 31 JANUARY 2009

GROUP	2009 £'000	2008 £'000
Reconciliation of operating profit to operating cash flows		
Operating profit	2,471	1,709
Depreciation	483	279
(Profit)/Loss on disposal of property, plant & equipment	(34)	19
Translation differences on flows	134	(2)
Share based payment expense	51	14
Operating cash flows before movements in working capital	3,105	2,019
(Increase) / decrease in receivables	(1,165)	1,067
Decrease in payables	(8)	(178)
Cash generated from operations	1,932	2,908
Tax paid	(728)	(686)
Net cash from operating activities	1,204	2,222
Investing activities		
Interest received	50	75
Proceeds on disposal of plant, property and equipment	57	3
Purchases of plant, property and equipment	(542)	(614)
Net cash used in investing activities	(435)	(536)
Financing activities		
Proceeds from issue of share capital	-	-
Dividends paid	(1,000)	(661)
Net cash used in financing activities	(1,000)	(661)
Net increase / (decrease) in cash and cash equivalents	(231)	1,025
Cash and cash equivalents at the beginning of the period	2,875	1,850
Cash and cash equivalents at the end of the period	2,644	2,875

Cash and cash equivalents represent the sum of the Group's bank balances and cash in hand at the balance sheet date as disclosed on the face of the balance sheet.

AIR CHARTER SERVICE GROUP PLC

CASH FLOW STATEMENT

YEAR ENDED 31 JANUARY 2009

COMPANY	2009 £'000	2008 £'000
Operating profit	-	-
(Increase) / decrease in receivables	(40)	-
Net cash from operating activities	(40)	-
Investing activities		
Interest received	1	2
Dividends received	1,000	700
Net cash from investing activities	1,001	702
Financing activities		
Dividends paid	(1,000)	(661)
Net cash used in financing activities	(1,000)	(661)
Net (decrease) / increase in cash and cash equivalents	(39)	41
Cash and cash equivalents at the beginning of the period	41	-
Cash and cash equivalents at the end of the period	2	41

Cash and cash equivalents represent the sum of the company's bank balances and cash in hand at the balance sheet date as disclosed on the face of the balance sheet.

AIR CHARTER SERVICE GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 JANUARY 2009

1. ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) including International Accounting Standards (IAS) and interpretations issued by the International Accounting Standards Board (IASB) and its committees, and as interpreted by any regulatory bodies applicable to the company as adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical cost basis.

Basis of consolidation

The consolidated financial statements incorporate the results of the company and all of its subsidiary undertakings up to 31 January 2009. Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of the subsidiary undertakings acquired in the year are included in the consolidated profit and loss account from the date of acquisition.

The Group consolidated financial statements incorporate the financial statements of Air Charter Service Group PLC and its subsidiary undertakings. As permitted by Section 230 of the Companies Act 1985, a separate income statement is not presented in respect of the company.

Key accounting judgements and sources of estimation uncertainty

The Group makes various judgements in applying its accounting policies and various assumptions and estimates, including about the future, when determining the carrying value of certain assets and liabilities. As at 31 January 2009 there were no such judgements or assumptions that had a significant effect on the amounts recognised in the financial statements, or a significant risk of causing material adjustment to the carrying amounts of assets and liabilities in the next financial year.

Segment reporting

The Group's continuing operations are divided into two business segments, Cargo and Passenger services. The Group's primary reporting format is geographical segments and its secondary format is business segments. A geographical segment is a component of the Group that operates within a particular economic environment and is subject to risks and returns that are different from those of components operating in other economic environments. A business segment is a component of the Group that is engaged in providing a Group of related products and is subject to risks and returns that are different from those of other business segments.

Revenue recognition

The turnover shown in the income statement represents revenue in respect of flights undertaken during the year, exclusive of Value Added Tax. Revenue is recognised when a flight commences as the economic benefits are deemed to have passed to the customer at this point. Amounts invoiced to customers in respect of future flights are deferred at the balance sheet date.

Property, plant and equipment

Property, plant and equipment are stated at cost, net of depreciation and any recognised impairment loss.

Depreciation is calculated so as to write off the cost of an asset, over their estimated useful lives, using the straight-line method as follows:

Leasehold property	over the period of the leases
Motor vehicles	25% per annum straight line
Fixtures and fittings	25% per annum straight line
Computer equipment	33% per annum straight line

Residual values and useful economic lives are reviewed annually. Property, plant and equipment are assessed for impairment annually or more often if events or changes in circumstances indicate that the carrying value may not be recoverable. Where an impairment review is deemed necessary, it is performed in accordance with the policies set out below.

AIR CHARTER SERVICE GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 JANUARY 2009

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

Pension costs

The Group operates a defined contribution scheme for employees. The assets of the scheme are held separately from those of the Group. The annual contributions payable are charged to the Group income statement.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it related to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and where they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Impairment of tangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount and the impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the

AIR CHARTER SERVICE GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 JANUARY 2009

asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised as income immediately.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables do not carry any interest and are measured at their nominal value as reduced by any appropriate allowances for irrecoverable amounts. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original term of the receivable. The amount of the provision is the difference between the carrying amount and the recoverable amount and this difference is recognised in the income statement.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges are accounted for on an accruals basis in profit or loss using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables

Trade payables are not interest bearing and are stated at their nominal value.

Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate prevailing at the time of the transaction based on a monthly average rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Sterling at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate ruling at the date of the transaction.

Financial statements of foreign operations

On consolidation the assets and liabilities of overseas foreign operations are translated at exchange rates prevailing at the balance sheet date. Income and expenses are translated at the average rate for the period. Exchange differences arising are classified as equity and transferred to the Group's translation reserve. On disposal of a foreign entity, the deferred accumulated amount recognised in equity relating to that particular foreign operation is recognised in the income statement. The Group has taken advantage of the exemption conferred by IFRS1 not to fully retrospectively apply IAS 21. The gain or loss on disposal of these operations therefore excludes translation differences that arose before the date of transition to IFRS and includes later translation differences.

AIR CHARTER SERVICE GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 JANUARY 2009

Functional and presentation currency

The historical financial information is presented in Pounds Sterling and in round thousands, which is the Group's functional and presentation currency.

Share-based payments

The Group has applied the requirements of IFRS 2 Share-based payments. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested at 1 January 2005.

The Group operates an equity-settled share-based payment scheme under which share options are issued to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Fair value is measured by use of the Black Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The Group has also applied the requirements of IFRIC 11 for the first time, requiring an entry to a separate capital account (entitled Capital Contribution in the financial statements) based on the share based payment expense recognised to date. Prior year comparatives have not been restated.

Exceptional items

Exceptional items are presented in the financial statements where there are material items of income and expense which, because of their nature and the expected rarity of the circumstances, which generates them, they should be presented separately to shareholders so as to enhance their judgement of the current year's financial performance and its comparability with prior years.

New standards and interpretations not yet adopted

At the date of authorisation of these financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

International Financial Reporting Standards (IFRSs)

IFRS 1 (amended) / IAS 27 (amended) Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
IFRS 2 (amended) Share-based Payment – Vesting Conditions and Cancellations
IFRS 3 (revised 2008) Business Combinations
IFRS 8 Operating Segments
IAS 1 (revised 2007) Presentation of Financial Statements
IAS 23 (revised 2007) Borrowing Costs
IAS 27 (revised 2008) Consolidated and Separate Financial Statements
IAS 32 (amended) / IAS 1 (amended) Puttable Financial Instruments and Obligations Arising on Liquidation

International Financial Reporting Interpretations Committee (IFRIC)

IFRIC 12 Service Concession Arrangements
IFRIC 15 Agreements for the Construction of Real Estate
IFRIC 16 Hedges of a Net Investment in a Foreign Operation

The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the company's financial statements in the period of initial application, with the exception of additional segmental disclosures required by IFRS 8 and also the amendment to IAS 1 which may result in some changes to the presentation of the financial statements.

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2. SEGMENTAL INFORMATION

Segment information is presented in respect of the Group's geographical and business markets. The primary format, geographical segments, is based on the Group's management and internal reporting structure in five areas as detailed below. The following tables provide analysis between geographical markets:

	Europe	USA	Middle East	Russia	Asia	Total
2009	£'000	£'000	£'000	£'000	£'000	£'000
Revenue – intra segment	171	166	120	622	26	1,105
Revenue – external	91,558	13,523	15,529	6,860	3,427	130,897
Operating profit / (loss)	1,839	292	459	105	(224)	2,471
Finance income						50
Profit before tax						2,521
Taxation						(791)
Profit for the period						1,730
Segment assets	7,608	438	1,007	123	309	9,485
Segment liabilities	5,636	218	720	53	208	6,835
Depreciation	409	36	16	8	14	483
Capital expenditure	429	22	6	4	81	542
	Europe	USA	Middle East	Russia	Asia	Total
2008	£'000	£'000	£'000	£'000	£'000	£'000
Revenue – intra segment	60	149	72	612	-	893
Revenue – external	69,509	7,716	6,271	2,619	-	86,115
Operating profit / (loss) before exceptional items	2,267	82	(10)	-	-	2,339
Operating profit / (loss) after exceptional items	1,637	82	(10)	-	-	1,709
Finance income						74
Profit before tax						1,783
Taxation						(733)
Profit for the period						1,050
Segment assets	7,237	281	572	309	-	8,399
Segment liabilities	5,882	133	357	265	-	6,637
Depreciation	241	19	13	6	-	279
Capital expenditure	547	50	6	11	-	614

Intra-segment revenue reflects the level of revenue between segments and is priced at arm's length. The segment revenue is the sum of external and intra-group revenue.

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	2009 £'000	2008 £'000
Business segment – revenue		
Cargo	91,125	52,906
Passenger	39,772	33,209
	<u>130,897</u>	<u>86,115</u>
Cost of sales	(118,941)	(76,479)
Administrative expenses	(9,485)	(7,297)
Exceptional items	-	(630)
Operating profit	<u>2,471</u>	<u>1,709</u>
Finance income	50	74
Profit before tax	<u>2,521</u>	<u>1,783</u>
Taxation	(791)	(733)
Profit for the period	<u>1,730</u>	<u>1,050</u>

The directors have not disclosed segment assets by business segment on the basis that both business segments are served from several different geographical locations and the same segment assets are utilised in serving both business segments.

3. OPERATING PROFIT

Operating profit is stated after charging:

	2009 £'000	2008 £'000
Staff costs (note 5)	5,628	4,425
(Profit) / Loss on disposal of property, plant & equipment	(35)	19
Depreciation of owned fixed assets	483	279
Auditors remuneration: Group		
- as auditor	56	90
- for other services	16	23
Operating lease costs:		
- plant and equipment	1,056	2,136
- other	293	279
Foreign exchange (gains)	(312)	(57)
	<u></u>	<u></u>

Auditor's fees

The fees charged by the holding company auditor can be further analysed under the following headings for services rendered:

	2009 £'000	2008 £'000
Audit	22	53
Accounting	-	-
Taxation compliance	9	10
Business consultancy	-	13
	<u>31</u>	<u>76</u>

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The fees charged by the auditor's of the overseas entities can be further analysed under the following headings for services rendered:

	2009 £'000	2008 £'000
Audit of the financial statements	34	37
Taxation compliance	7	-
	<u>41</u>	<u>37</u>

4. EXCEPTIONAL ITEMS

Exceptional costs of £630,000 in the prior year, principally advisers fees, related to costs incurred in a proposed listing on the London Stock Exchange AIM market. The IPO did not take place due to market conditions prevailing at the time of the proposed listing.

5. PARTICULARS OF EMPLOYEES

The average number of staff employed by the Group during the financial year amounted to:

	2009 No	2008 No
Number of staff	<u>98</u>	<u>85</u>

The aggregate payroll costs of the above were:

	2009 £'000	2008 £'000
Wages and salaries	5,062	3,965
Share based payments	51	14
Social security costs	459	362
Other pension costs	56	84
	<u>5,628</u>	<u>4,425</u>

6. DIRECTORS' EMOLUMENTS

The directors' aggregate emoluments in respect of qualifying services were:

	2009 £'000	2008 £'000
Emoluments receivable	888	762
Value of company pension contributions to money purchase schemes	24	58
Share based payments	8	14
	<u>920</u>	<u>834</u>

Emoluments of highest paid director:

Total emoluments	228	207
Value of company pension contributions to money purchase schemes	6	24
	<u>234</u>	<u>231</u>

	No	No
Number of directors who accrued benefits under a money purchase pension scheme:	<u>6</u>	<u>5</u>

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The directors are considered the key management personnel of the Group within the definition set out in IAS24.

Share options

The directors during the period and their beneficial interest in options to purchase ordinary shares in the Group were as follows:

	<i>Issue date</i>	<i>Exercise price</i> (pence)	<i>Held at 31 January 2008</i> No.	<i>Granted during year</i> No.	<i>Exercised during year</i> No.	<i>Expired, lapsed or cancelled</i> No.	<i>Held at 31 January 2009</i> No.
AE Bauckham	23 July 2007	43.2	229,410	-	-	-	229,410
S Pitt	23 July 2007	43.2	114,710	-	-	-	114,710

7. TAXATION ON ORDINARY ACTIVITIES

The tax charge comprises:

	2009 £'000	2008 £'000
(a) Current tax:		
In respect of the year:		
UK Corporation tax	746	723
Adjustment in respect of prior years	11	-
Foreign tax	150	10
Total current tax	907	733
Deferred tax (Note 8)	(116)	-
Tax on profit on ordinary activities	<u>791</u>	<u>733</u>

(b) Reconciliation of tax charge to profit per income statement

	2009 £'000	2008 £'000
Profit before taxation	<u>2,521</u>	<u>1,783</u>
Taxation at UK corporation tax rate of 28% / 30%	719	535
Effects of:		
Expenses not deductible for tax	25	206
Depreciation in excess of capital allowances	47	
UK and overseas taxes at differing rates	32	(6)
Adjustment in respect of prior years	11	1
Deferred tax	(43)	(3)
Total tax (note 7(a))	<u>791</u>	<u>733</u>

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8. DEFERRED TAX

	Share based payment £'000	Other timing differences £'000	Overseas tax losses £'000	Total £'000
At 1 February 2008	-	-	-	-
Credit to the income statement	18	25	73	116
At 31 January 2009	18	25	73	116

9. DIVIDENDS

	2009 £'000	2008 £'000
Paid during the year: Equity dividends on ordinary shares	1,000	661

10. PROPERTY, PLANT AND EQUIPMENT

Current year:

Group	Leasehold improvement £'000	Fixtures and fittings £'000	Motor vehicles £'000	Computer equipment £'000	Total £'000
Cost					
At 1 February 2008	328	296	259	582	1,465
Additions	35	20	132	355	542
Disposals	-	(4)	(134)	(39)	(177)
At 31 January 2009	363	312	257	898	1,830
Depreciation					
At 1 February 2008	92	135	168	214	609
Charge for the year	40	66	65	312	483
Disposals	-	(2)	(121)	(31)	(154)
At 31 January 2009	132	199	112	495	938
Net Book Value					
At 1 February 2008	236	161	91	368	856
At 31 January 2009	231	113	145	403	892

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Prior year:

Group	Leasehold improvement £'000	Fixtures and fittings £'000	Motor vehicles £'000	Computer equipment £'000	Total £'000
Cost					
At 1 February 2007	162	228	236	384	1,010
Additions	166	116	44	288	614
Disposals	-	(48)	(21)	(90)	(159)
At 31 January 2008	328	296	259	582	1,465
Depreciation					
At 1 February 2007	55	120	125	167	467
Charge for the year	37	50	64	128	279
Disposals	-	(35)	(21)	(81)	(137)
At 31 January 2008	92	135	168	214	609
Net Book Value					
At 1 February 2007	107	108	111	217	543
At 31 January 2008	236	161	91	368	856

The company did not hold any property, plant and equipment.

11. INVESTMENTS IN SUBSIDIARIES

Company	Subsidiary undertakings £'000
Cost and Net book value	
At 1 February 2008	200
Capital contribution	64
At 31 January 2009	264

Subsidiaries	Country of registration	Holding	%	Principal activity
Air Charter Service plc	England	Ordinary shares	100%	Leasing and chartering aircraft
<i>Held by Air Charter Service plc:</i>				
Air Charter Service Company Limited	Russia	Ordinary shares	75%	Leasing and chartering aircraft
Air Charter Service Inc	USA	Ordinary shares	100%	Leasing and chartering aircraft
Air Charter Service FZCO	Dubai	Ordinary shares	100%	Leasing and chartering aircraft
Air Charter Service (HK) Ltd	Hong Kong	Ordinary shares	100%	Leasing and chartering aircraft
ACS España Servicios de Charter Aéreo	Spain	Ordinary shares	100%	Leasing and chartering aircraft

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12. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Trade receivables	3,646	2,594	-	-
Amounts owed by Group undertakings	-	-	102	75
Other debtors	78	72	-	-
Prepayments and accrued income	2,109	2,002	-	-
	<u>5,833</u>	<u>4,668</u>	<u>102</u>	<u>75</u>

No interest is charged on receivables. An allowance has been made for estimated irrecoverable amounts from trade receivables. The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

13. TRADE AND OTHER PAYABLES

	Group		Company	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Trade payables	2,103	2,340	-	-
Other taxation and social security	150	120	-	-
Accruals and deferred income	4,047	3,840	-	-
Other creditors	-	8	-	-
	<u>6,300</u>	<u>6,308</u>	<u>-</u>	<u>-</u>

The directors consider the carrying amount of trade payables approximates to their fair value.

14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments are bank balances, trade and other receivables, trade and other payables. The company holds financial instruments in order to finance its operations, manage exposure to related risks and to ensure that adequate levels of working capital exist for the ongoing business.

Credit risk

Credit risk predominantly arises from trade receivables, cash and deposits with banks. Amounts shown in the trade receivables balance are net of allowances for doubtful debts (2009: £34,000, 2008: nil). The level of credit provided to customers is reviewed on a regular basis at Board level. Internal procedures for providing credit terms take account of external credit agency information, the customer's reputation in the industry and past trading experience. Given that the majority of sales are settled in advance of operation, the Group has no significant concentrations of credit risk and the group's exposure to bad debt has not been significant historically.

The trade receivables balance set out in note 12 above includes £2.1 million relating to sales invoiced in advance of carriage, with a corresponding balance included within deferred income. The remaining balance of £1.5 million represents trade receivables in relation to charters operated in the period, none of which was past due at the balance sheet date.

Credit risk on liquid funds is limited because such funds are deposited with banks with high credit ratings assigned by international credit rating agencies.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The finance function produces regular forecasts of expected cash inflows and outflows, which are reviewed at Board

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level. The Group aims to manage liquidity by ensuring that cash is collected efficiently, also by placing excess cash on low risk, short term interest bearing deposits. The Group has an overdraft facility available, although this was not in use at the balance sheet date.

Foreign currency risk

The Group buys and sells services denominated principally in Sterling, US Dollars and Euros and as a result financial instruments can be affected by movements in exchange rates. The Group aims to minimise exposure to foreign currency risk by matching sales and purchases in the same currency where possible. The Group also makes use of foreign exchange markets in order to maintain an appropriate mix of foreign currency bank balances for use within the business. The breakdown of cash and cash equivalents at the balance sheet date was as follows:

Currency	2009 Local (£'000)	2009 Closing rate	2009 GBP (£'000)	2008 Local (£'000)	2008 Closing rate	2008 GBP (£'000)
US Dollars	2,283	1.44	1,585	2,780	1.99	1,397
Euros	656	1.12	586	637	1.34	475
GB Pounds Sterling	359	1.00	359	808	1.00	808
Other various			114			195
			<u>2,644</u>			<u>2,875</u>

Foreign currency risk sensitivity analysis

The Group's principal foreign currency exposures are on cash and cash equivalents denominated in US dollars and the Euro. The table below illustrates the hypothetical sensitivity of the Group's reported operating profit to a 10% increase and decrease in the US dollar/Sterling and Euro/Sterling exchange rates at the year end, showing the effect of a revaluation of cash and cash equivalents:

	2009 Closing rate	2009 Adjusted rate	2009 Effect (£'000)	2008 Closing rate	2008 Adjusted rate	2008 Effect (£'000)
<i>Sterling strengthens by 10%</i>						
US Dollar	1.44	1.58	(144)	1.99	2.19	(127)
Euro	1.12	1.24	(53)	1.34	1.47	(43)
<i>Sterling weakens by 10%</i>						
US Dollar	1.44	1.30	176	1.99	1.79	155
Euro	1.12	1.01	65	1.34	1.21	53

15. OPERATING LEASE ARRANGEMENTS

The Group had the following minimum discounted outstanding commitments under non-cancellable operating leases which fall due:

	2009 £'000	2008 £'000
Land & buildings		
Within 1 year	266	255
Within 2 to 5 years	704	653
Over 5 years	141	221
	<u>1,111</u>	<u>1,129</u>
Leased aircraft		
Within 1 year	-	418
	<u>-</u>	<u>418</u>

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Payments for land & buildings represent rental charges for office accommodation. Payments for leased aircraft in the prior year were made to two aircraft owners under separate contracts, based upon hours flown with a minimum utilisation commitment. There were no aircraft under lease at the year end. The Company does not have any operating leases.

16. CALLED UP SHARE CAPITAL

Authorised share capital:

	2009 £'000	2008 £'000
100,000,000 Ordinary shares of £0.01 each	<u>1,000</u>	<u>1,000</u>

Allotted, called up and fully paid:

	No	2009 £'000	No	2008 £'000
Ordinary shares of £0.01 each	22,941,150	<u>229</u>	22,941,150	<u>229</u>

17. SHARE-BASED PAYMENTS

Equity based share options

The parent company, Air Charter Service Group PLC, set up a share option scheme for the benefit of employees on 23 July 2007. The options in this scheme vest on the third anniversary of grant. Options lapse if the employee leaves the company within the vesting period. There are no performance or market conditions associated with the share options. Details of the scheme are as follows:

<i>Grant date</i>	<i>Exercise price</i>	<i>Held at 31 January 2008</i>	<i>Granted during year</i>	<i>Exercised during year</i>	<i>Expired, lapsed or cancelled</i>	<i>Held at 31 January 2009</i>	<i>Remaining Life</i>
	<i>(pence)</i>	<i>No.</i>	<i>No.</i>	<i>No.</i>	<i>No.</i>	<i>No.</i>	<i>Years</i>
23 July 2007	43.2	1,068,860	-	-	235,870	832,990	1.5
18 February 2008	34.0	-	1,043,825	-	-	1,043,825	2.0

The weighted average exercise price of the options is the same as the exercise price.

The cost of services received in respect of the share options in the scheme above is measured as the fair value of the options granted and the cost is spread over the expected life of the options. The total charge for the year relating to the employee share based plan was £51,000. The fair values were calculated using the Black-Scholes valuation method and the inputs to the model were as follows:

Options granted on 23 July 2007

Fair value	13.4 pence
Weighted average share price	47.0 pence
Expected volatility	30%
Expected life	3.5 years
Risk free rate	5.5%

Options granted on 18 February 2008

Fair value	11.0 pence
Weighted average share price	38.0 pence
Expected volatility	30%
Expected life	3.5 years
Risk free rate	5.3%

The expected volatility is based on the historic volatility of a listed company in the same sector as the Group.

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18. STATEMENT OF CHANGES IN EQUITY

Group Current Year	Share Capital £'000	Share Premium Account £'000	Share Option Reserve £'000	Translation Reserve £'000	Retained Earnings £'000	Total £'000	Minority Interest £'000	Total Equity £'000
At 1 February 2008	229	32	14	1	1,486	1,762	-	1,762
Exchange difference on translation of foreign operations	-	-	-	109	-	109	(2)	107
Fair value cost of options	-	-	51	-	-	51	-	51
Dividends paid	-	-	-	-	(1,000)	(1,000)	-	(1,000)
Profit for the period	-	-	-	-	1,714	1,714	16	1,730
At 31 January 2009	229	32	65	110	2,200	2,636	14	2,650

Group Prior Year	Share Capital £'000	Share Premium Account £'000	Share Option Reserve £'000	Translation Reserve £'000	Retained Earnings £'000	Total £'000	Minority Interest £'000	Total Equity £'000
At 1 February 2007	229	32	-	2	1,095	1,358	3	1,361
Exchange difference on translation of foreign operations	-	-	-	(1)	-	(1)	(1)	(2)
Fair value cost of options	-	-	14	-	-	14	-	14
Dividends paid	-	-	-	-	(661)	(661)	-	(661)
Profit for the period	-	-	-	-	1,052	1,052	(2)	1,050
At 31 January 2008	229	32	14	1	1,486	1,762	-	1,762

Company Current Year	Share Capital £'000	Share Premium Account £'000	Share Option Reserve £'000	Retained Earnings £'000	Total £'000
At 1 February 2008	229	32	14	41	316
Fair value cost of options	-	-	51	-	51
Dividends paid	-	-	-	(1,000)	(1,000)
Profit for the period	-	-	-	1,001	1,001
At 31 January 2009	229	32	65	42	368

Company Prior Year	Share Capital £'000	Share Premium Account £'000	Share Option Reserve £'000	Retained Earnings £'000	Total £'000
At 1 February 2007	229	32	-	-	261
Fair value cost of options	-	-	14	-	14
Dividends paid	-	-	-	(661)	(661)
Profit for the period	-	-	-	702	702
At 31 January 2008	229	32	14	41	316

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19. RELATED PARTY TRANSACTIONS

The company had the following balances with Group undertakings at the year end:

	2009 £'000	2008 £'000
Amounts owed by Group undertakings	<u>102</u>	<u>75</u>

During the year D Malempre, a director of the company, charged £57,349 (2008: £52,450) in respect of the provision of legal services. The remuneration of the directors who are the key management personnel of the Group is set out in note 6.

The Company received dividends of £1 million during the year from its subsidiary company, Air Charter Service plc (2008: £700,000).

20. CONTINGENT LIABILITIES

The Group operates in various overseas jurisdictions including Russia, the United Arab Emirates, United States of America and Asia. In emerging economies such as Russia, the Group faces possible exposures to business and fiscal environment risk over and above those the Group encounters in more developed countries, as emerging economies have been developing and evolving their legal and fiscal framework.

The directors have structured the Group's activities to manage its exposure to such evolving legal and fiscal frameworks. However it is possible that the Group could be subject to challenge by relevant authorities and if such a challenge were successful, the Group may become subject to taxation and/or other fiscal liabilities which could have a material effect on financial results and financial position.

The likelihood or outcome of any such challenge cannot be established with any degree of certainty. The directors have and continue to seek legal assistance to ensure the Group continues to monitor, and where possible mitigate any potential liabilities. Whilst the directors consider that challenges by relevant authorities are possible, they believe they have taken appropriate steps available to minimise the effect of any such challenge.

21. CONTROLLING PARTY

The company was under the control of its directors Mr CDS Leach and Mrs CJ Leach throughout the current and previous year. Mr and Mrs Leach, together, are the majority shareholders.