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COMPANY NUMBER

COSMOS TOURS (U.K.) LIMITED

Financial statements
30 November 1986



COSMOS TOURS (U.K.) LIMITED

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DIRECTORS' REPORT
30 November 1986

The directors submit their report and financial statements for the year ended 30 November 1986.

PRINCIPAL ACTIVITY, REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The company did not trade during the year and does not intend to trade in the foreseeable future. During the year the company acquired 88.04% of the issued share capital of a fellow subsidiary, Monarch Aircraft Engineering Limited.

DIRECTORS

The directors of the company who served during the year were:

M. Austin

F. Mantegazza

Neither director has any interest in shares which falls to be disclosed in this report.

AUDITORS

A resolution proposing the reappointment of Finnie & Co., Chartered Accountants, as auditors to the company will be put to the annual general meeting.

By order of the board



P.S. ALBERTINI

Secretary

7 July 1987

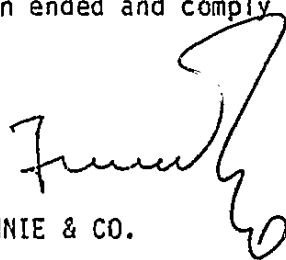
COSMOS TOURS (U.K.) LIMITED
REPORT OF THE AUDITORS

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To the members of Cosmos Tours (U.K.) Limited

We have audited the financial statements on pages 3 to 6, 10 to 23, and 27 to 35 in accordance with approved Auditing Standards.

In our opinion the financial statements, which have been prepared under the historical cost convention, give a true and fair view of the state of financial affairs of the company and of the group insofar as it concerns members of the company at 30 November 1986 and of the results and source and application of funds of the group for the year then ended and comply with the Companies Act 1985.



FINNIE & CO.
Chartered Accountants
LONDON
7 July 1987

COSMOS TOURS (U.K.) LIMITED

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PROFIT AND LOSS ACCOUNT
Year ended 30 November 1986

	note	1986 £	1985 £
Fees receivable		500	-
Administrative expenses		(500)	(33)
LOSS ON ORDINARY ACTIVITIES BEFORE AND AFTER TAX	1	- =====	(33) =====

COSMOS TOURS (U.K.) LIMITED

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BALANCE SHEET
30 November 1986

	note	£	1986	£	£	1985	£
FIXED ASSETS							
Investments	2		1,149,967			351,884	
CURRENT ASSETS							
Cash at bank		4,871			-		
CREDITORS: amounts falling due within one year	3	379			1,425		
NET CURRENT ASSETS/(LIABILITIES)			4,492			(1,425)	
TOTAL ASSETS LESS CURRENT LIABILITIES			1,154,459			350,459	
CREDITOR: amount falling due after more than one year	4		1,154,400			350,400	
			59			59	
			=====			=====	
CAPITAL AND RESERVES							
Called up share capital	5		100			100	
Reserves	7		(41)			(41)	
			59			59	
			=====			=====	

Directors:

M. AUSTIN

F. MAITEGAZZA

The financial statements were approved by the board on 7 July 1987

COSMOS TOURS (U.K.) LIMITED

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NOTES ON THE FINANCIAL STATEMENTS
Year ended 30 November 1986

1	LOSS ON ORDINARY ACTIVITIES AFTER TAX	1986 £	1985 £
	is stated after charging:		
	Auditors' remuneration	350	-
		=====	=====
2	INVESTMENTS		
	Cost		
	Monarch Airlines Limited		
	75.2% of the issued share capital, comprising:		
	73,200 'A' ordinary shares of £1 each		
	(representing 91.5% of the issued		
	'A' ordinary shares)	331,684	331,684
	2,000 'B' ordinary shares of £1 each		
	(representing 10% of the issued 'B'		
	ordinary shares)	20,200	20,200
		<u>351,884</u>	<u>351,884</u>
	Monarch Aircraft Engineering Limited		
	88.04% of the issued share capital		
	4,402 ordinary shares of £1 each	798,083	-
		<u>1,149,967</u>	<u>351,884</u>
		=====	=====

Subsidiary	Principal Activity	Country of incorporation
Monarch Airlines Limited	Airline operator	UK
Monarch Aircraft Engineering Limited	Aircraft engineering	UK

In the opinion of the directors, the preparation of consolidated accounts would not give better information to the shareholders. In accordance with Section 229 of the Companies Act 1985, the financial statements of Monarch Airlines Limited and Monarch Aircraft Engineering Limited are included on pages 7 to 23, and 24 to 35 respectively.

3	CREDITORS	1986 £	1985 £
	Amounts falling due within one year:		
	Bank overdraft	-	1,396
	Other creditors	379	29
		<u>379</u>	<u>1,425</u>
		=====	=====

COSMOS TOURS (U.K.) LIMITED

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NOTES ON THE FINANCIAL STATEMENTS (continued)
Year ended 30 November 1986

4	CREDITOR	1986 £	1985 £
	Amount falling due after one year:		
	Interest free loan from ultimate holding company	1,154,400 =====	350,400 =====
	There are no terms for the repayment of the loan but the ultimate holding company has indicated that it will not demand repayment of the loan before 1 December 1987.		
5	CALLED UP SHARE CAPITAL	1986 £	1985 £
	Authorised		
	200 ordinary shares of £1 each	200 ===	200 ===
	Issued and fully paid		
	100 ordinary shares of £1 each	100 ===	100 ===
6	ULTIMATE HOLDING COMPANY		
	In the opinion of the directors the ultimate holding company is Cosmos Guide Holding International N.V., a company registered in Curacao, Netherlands Antilles.		
7	PROFIT AND LOSS ACCOUNT	1986 £	1985 £
	Balance at 1 December 1985	(41)	(8)
	Loss for the year	-	(33)
	Balance at 30 November 1986	(41) ===	(41) ===

MONARCH AIRLINES LIMITED

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FINANCIAL STATEMENTS
30 November 1986

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DIRECTORS' REPORT
30 November 1986

The directors submit their report and financial statements for the year ended 30 November 1986.

PRINCIPAL ACTIVITIES

The company's principal activity remains that of an airline operator. Its wholly owned trading subsidiary is engaged in the business of tour operating and seat broking.

RESULTS AND DIVIDENDS

The results for the year are set out in the profit and loss account and the notes relating to it. The directors do not propose the payment of a dividend.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

As indicated last year, the results for 1986 have been improved by the surplus on disposal of aircraft and generally from the introduction of Boeing 737-300 aircraft to the fleet. The directors expect this increased level of trading to be sustained and improved during 1987. Further growth is expected in 1987 with the delivery of three additional aircraft.

EMPLOYMENT POLICY

It is the policy of the company that training, career development and promotion opportunities should be available to all employees. The directors are committed to encouraging employee involvement in the business.

DIRECTORS

The directors who have served during the year together with their interests in the shares of the company are as follows:

		30 November 1985 and 1986	
		'A' Ordinary	'B' Ordinary
W.H. Hodgson	(Chairman and non-executive director)	-	1,000
A.J.A. Snudden		-	2,000
J.M. Rainbow		-	-
P.C. Dorrington	(appointed 18 June 1986)	-	-
D.D. McAngus	(appointed 18 June 1986)	-	-
M.C. McKee	(appointed 18 June 1986)	-	-

FIXED ASSETS

The basis for accounting for fixed assets and the changes in the year are set out in note 2 and notes 10 and 11 respectively.

AUDITORS

The reappointment as auditors of Finnie & Co., Chartered Accountants, will be proposed at the annual general meeting.

By order of the board

M.J. ELLINGHAM
Secretary
22 April 1987

MONARCH AIRLINES LIMITED

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REPORT OF THE AUDITORS

To the members of Monarch Airlines Limited

We have audited the financial statements on pages 10 to 23 in accordance with approved Auditing Standards.

In our opinion the financial statements, which have been prepared under the historical cost convention, give a true and fair view of the state of affairs of the company and the group at 30 November 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.

FINNIE & CO.

Chartered Accountants

LONDON

22 April 1987

MONARCH AIRLINES LIMITED

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CONSOLIDATED PROFIT AND LOSS ACCOUNT
Year ended 30 November 1986

	note	1986 £	1985 £
TURNOVER	1 & 3	107,751,516	85,808,374
Costs and overheads less other income	5	106,263,033	89,477,823
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAX	3 & 6	1,488,483	(3,669,449)
Tax on profit/(loss) on ordinary activities	7	400,000	305,000
PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAX		1,088,483	(3,974,449)
Extraordinary item	8	5,511,722	-
PROFIT/(LOSS) FOR THE FINANCIAL YEAR TRANSFERRED TO/(FROM) RESERVES	19	6,600,205	(3,974,449)
		=====	=====

MONARCH AIRLINES LIMITED

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CONSOLIDATED BALANCE SHEET
30 November 1986

	note	£	1986	£	£	1985	£
FIXED ASSETS							
Intangible assets	10	887,614			739,495		
Tangible assets	11	71,819,060			83,801,057		
Investments	12	26,350			100		
				72,733,024			84,540,652
CURRENT ASSETS							
Stocks	13	227,960			145,657		
Debtors	14	7,745,728			4,108,665		
Cash at bank and in hand		11,521,426			1,380,273		
				19,495,114			5,634,595
CREDITORS: amounts falling due within one year	15	26,075,493			19,747,817		
NET CURRENT LIABILITIES				(6,580,379)			(14,113,222)
TOTAL ASSETS LESS CURRENT LIABILITIES				66,152,645			70,427,430
CREDITORS: amounts falling due after more than one year	16			(53,653,904)			(67,028,894)
PROVISIONS FOR LIABILITIES AND CHARGES							
Deferred tax	17			(3,005,000)			(505,000)
				9,493,741			2,893,536
				=====			=====
CAPITAL AND RESERVES							
Called up share capital	18			100,000			100,000
Profit and loss account	19			9,393,741			2,793,536
				9,493,741			2,893,536
				=====			=====

Directors:

A.J.A. SNUDDEN

M.C. McKEE

MONARCH AIRLINES LIMITED

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BALANCE SHEET
30 November 1986

	note	£	1986	£	1985	£
FIXED ASSETS						
Intangible assets	10	887,614			739,495	
Tangible assets	11	71,752,915			83,750,895	
Investments	12	41,350			15,100	
			72,681,879			84,505,490
CURRENT ASSETS						
Stocks	13	227,960			145,657	
Debtors	14	7,425,125			3,775,788	
Cash at bank and in hand		11,503,325			1,380,248	
			19,156,410		5,301,693	
CREDITORS: amounts falling due within one year	15	25,510,330			19,478,462	
NET CURRENT LIABILITIES			(6,353,920)		(14,176,769)	
TOTAL ASSETS LESS CURRENT LIABILITIES						
			66,327,959			70,328,721
CREDITORS: amounts falling due after more than one year						
	16		(53,653,904)		(67,028,894)	
PROVISIONS FOR LIABILITIES AND CHARGES						
Deferred tax	17		(2,995,000)		(495,000)	
			9,679,055		2,804,827	
CAPITAL AND RESERVES						
Called up share capital	18		100,000		100,000	
Profit and loss account	19		9,579,055		2,704,827	
			9,679,055		2,804,827	

Directors:

A.J.A. SHUDDEN

M.C. MCKEE

NOTES ON THE FINANCIAL STATEMENTS
30 November 1986

1 TURNOVER

Turnover represents the invoiced value of airline traffic revenue and related income.

2 ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The financial statements have been prepared under the historical cost convention.

CONSOLIDATION

The group financial statements consolidate the financial statements of Monarch Airlines Limited and its trading subsidiary, Monarch Air Travel Limited (formerly Luton Handling Company Limited), made up to 30 November 1986.

The financial statements of Monarch Airlines Retirement Benefits Plan Limited the non-trading subsidiary, have not been consolidated as its activities are of a dissimilar nature.

FIXED ASSETS

Capitalisation

Finance leases relating to aircraft and engines are capitalised as fixed assets and depreciated over the shorter of the estimated useful lives of the assets and the periods of the leases. The company's obligations under finance leases are shown in note 16.

Other principal fixed assets are capitalised on the basis of orders placed.

Depreciation - tangible assets

Fixed assets are depreciated from the date when brought into use at rates estimated to reduce them to their residual values over the shorter of their useful lives and the periods of the leases. The principal bases used are as follows:

Short leasehold improvements	15% on a reducing balance basis
Aircraft and engines	Straight line over 10-12 years to a residual value of 45 per cent of cost
Finance leases	
Rotables and consumables	Expenditure net of disposals is written off over periods of between ten and twelve years.
Aircraft modifications and special work	Straight line basis on varying periods ending between April 1988 and November 1995.
Plant and equipment	Principally on a straight line basis at varying rates of between 15% and 33 1/3%.

No depreciation is provided on freehold property.

NOTES ON THE FINANCIAL STATEMENTS (continued)
30 November 1986

2 ACCOUNTING POLICIES (continued)

Depreciation - intangible assets

Boeing 757 initial training and introduction costs Straight line to November 1995. Subsequent training costs are charged to revenue as incurred.

Boeing 737 initial training and introduction costs Straight line to April 1990. Subsequent training costs are charged to revenue as incurred.

STOCKS

Stocks are stated at the lower of cost and net realisable value.

OPERATING LEASES

Amounts payable under operating leases are charged to revenue as incurred.

ENGINE OVERHAUL PROVISIONS

General aircraft and engine maintenance costs are written off as they are incurred.

CONVERSION OF FOREIGN CURRENCIES

Monetary assets and liabilities denominated in foreign currencies are converted into sterling at market rates ruling on the balance sheet date.

DEFERRED TAX

Deferred tax in respect of accelerated capital allowances and other timing differences is provided under the liability method except where such timing differences are expected, with reasonable probability, to continue in the foreseeable future.

3 TURNOVER AND PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAX

The turnover and profit/(loss) on ordinary activities before tax are attributable to the principal activities, those of operating an airline, tour operating and seat broking.

4 PARENT COMPANY PROFIT AND LOSS ACCOUNT

As permitted by section 228 of the Companies Act 1985, the separate profit and loss account of Monarch Airlines Limited has not been included in these financial statements.

The amount of profit attributable to the parent company for the year is £6,874,228 (1985: Loss £3,748,195).

5 COSTS AND OVERHEADS LESS OTHER INCOME

	1986 £	1985 £
Cost of sales	102,373,748	88,220,911
Administrative expenses	4,626,390	3,335,257
Commission receivable	-	(730,083)
Profit on sale of fixed assets	(14,788)	(989,432)
Interest receivable	(805,358)	(393,020)
Interest payable	83,041	34,190
	<u>106,263,033</u>	<u>89,477,823</u>
	=====	=====

NOTES ON THE FINANCIAL STATEMENTS (continued)
30 November 1986

6	PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAX is stated after charging:	1986 £	1985 £
	Auditors' remuneration	22,600	20,000
	Operating lease rentals - aircraft and engines	15,760,445	13,311,590
	- land and buildings	153,695	122,855
	Finance lease charges	4,053,650	4,201,189
	Depreciation - tangible assets	5,728,305	5,420,413
	- intangible assets	279,705	223,227
		=====	=====
	Directors' emoluments:		
	As managers	171,935	35,310
	Directors' pension fund contributions	115,417	4,900
		=====	=====
		287,352	40,210
		=====	=====

Directors' pension fund contributions for the year include extra payments made in respect of certain directors, in order to bring forward their retirement year.

Emoluments (excluding pension fund contributions):

Chairman	-	-
Highest paid director	119,637	31,939
	=====	=====
Other directors:	Number	Number
£0 - £ 5,000	1	1
£10,001 - £15,000	2	-
£20,001 - £25,000	1	-
£30,001 - £35,000	-	1
	=====	=====

The number of employees whose emoluments exceeded £30,000 was as follows:

£30,001 - £35,000	33	13
£35,001 - £40,000	9	4
£40,001 - £45,000	4	1
	=====	=====
	46	18
	=====	=====

7 TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

The charge is based on the profit (1985: loss) for the year:

	Group		Company	
	1986 £	1985 £	1986 £	1985 £
Corporation tax at 37%	60,000	-	60,000	-
Group relief payment	-	-	140,000	(22,400)
Deferred tax	340,000	305,000	340,000	295,000
	=====	=====	=====	=====
	400,000	305,000	540,000	272,600
	=====	=====	=====	=====

NOTES ON THE FINANCIAL STATEMENTS (continued)
30 November 1986

8 EXTRAORDINARY ITEM

Surplus on disposal of aircraft
Less: taxation

£
7,671,722
2,160,000
5,511,722
=====

9 STAFF COSTS

Wages and salaries
Social security costs
Other pension costs

1986 £	1985 £
6,981,884	5,743,466
633,780	398,061
691,849	493,785
<u>8,307,513</u>	<u>6,635,312</u>
=====	=====

The average number of employees during the year was made up as follows:

Flight deck crew
Cabin crew
Traffic and operations
Administrative

Number	Number
131	118
306	245
100	114
147	146
<u>684</u>	<u>623</u>
=====	=====

10 INTANGIBLE FIXED ASSETS

Cost

At 1 December 1985

Additions

Disposals

At 30 November 1986

Amortisation

At 1 December 1985

Charge for the year

Disposals

At 30 November 1986

Net book values:

At 30 November 1986

At 30 November 1985

Group and Company
Crew Training and
Aircraft Introductory
Costs
£

1,585,349
578,929
(996,959)

1,167,319

845,854
279,705
(845,854)

279,705

887,614

=====

739,495

=====

11 TANGIBLE FIXED ASSETS
The group

Cost	Short leasehold improvements	Freehold property	Aircraft and engines	Rotables and consumables	Aircraft modifications & special work	Plant and equipment	Total
At 1 December 1985							
Additions	92,240	118,119	81,952,539	10,554,376	3,301,649	634,930	96,660,853
Disposals	7,154	351	-	6,327,902	365,083	251,197	6,951,687
	-	(6,926)	(15,656,603)	(1,375,420)	(335,482)	(91,654)	(17,466,085)
At 30 November 1986	106,394	111,544	66,295,936	15,506,858	3,331,250	794,473	86,146,455
Depreciation							
At 1 December 1985	70,530	-	8,392,113	2,483,791	1,615,820	297,542	12,859,796
Charge for the year	4,396	-	3,919,052	1,169,712	467,949	167,196	5,728,305
Disposals	-	-	(3,672,931)	(55,348)	(279,766)	(52,661)	(4,260,706)
At 30 November 1986	74,926	-	8,438,234	3,598,155	1,804,003	412,077	14,327,395
Net book values:							
At 30 November 1986	31,468	111,544	57,857,702	11,908,703	1,527,247	382,396	71,819,050
At 30 November 1985	28,710	118,119	73,560,426	8,070,585	1,685,829	337,388	83,801,057

The Aircraft and engines cost includes assets having a cost of £63,239,014 (1985: £78,895,617) which are subject to finance lease arrangements. The accumulated depreciation of these assets is £7,467,419 (1985: £7,670,224).

The Company

The cost and accumulated depreciation of the tangible fixed assets of the company differ by £98,287 and £32,142 respectively from the group tangible fixed assets representing those owned by Monarch Air Travel Limited (formerly Luton Handling Company Limited).

Net book values:	Short leasehold improvements	Freehold property	Aircraft and engines	Rotables and consumables	Aircraft modifications & special work	Plant and equipment	Total
At 30 November 1986	31,468	111,544	57,857,702	11,908,703	1,527,247	316,251	71,752,915
At 30 November 1985	28,710	118,119	73,560,426	8,070,585	1,685,829	287,226	83,750,895

NOTES ON THE FINANCIAL STATEMENTS (continued)
30 November 1986

12 INVESTMENTS

	At 1 December 1985 £	Additions £	At 30 November 1986 £
Cost and valuation			
Unlisted investment	-	26,250	26,250
Shares in group company not consolidated	100	-	100
Group investments	<u>100</u>	<u>26,250</u>	<u>26,350</u>
Shares in group company consolidated	15,000	-	15,000
Parent company investments	<u>15,100</u>	<u>26,250</u>	<u>41,350</u>
	=====	=====	=====

The company owns 100% of the called up share capital of the following companies, which are registered in England:

	Principal activities
Monarch Air Travel Limited (formerly Luton Handling Company Limited)	Tour operators and seat brokers
Monarch Airlines Retirement Benefits Plan Limited	Trustee of company pension scheme

The financial statements of Monarch Airlines Retirement Benefits Plan Limited have not been consolidated, as its activities are of a dissimilar nature.

13 STOCKS

	Group and Company 1986 £	1985 £
Consumables	67,203	79,230
Goods for resale	160,757	66,427
	<u>227,960</u>	<u>145,657</u>
	=====	=====

14 DEBTORS

	Group		Company	
	1986 £	1985 £	1986 £	1985 £
Amounts falling due within one year:				
Trade debtors	3,042,330	1,468,947	2,942,327	1,286,812
Other debtors	4,004,525	1,808,782	4,004,525	1,808,782
Prepayments	698,873	830,936	478,273	680,194
	<u>7,745,728</u>	<u>4,108,665</u>	<u>7,425,125</u>	<u>3,775,788</u>
	=====	=====	=====	=====

NOTES ON THE FINANCIAL STATEMENTS (continued)
30 November 1986

15 CREDITORS	Group		Company	
	1986	1985	1986	1985
	£	£	£	£
Amounts falling due within one year:				
Bank loan (secured)	40,177	-	40,177	-
Bank overdraft	-	13,234	-	-
Obligations under finance leases	3,890,127	4,817,264	3,890,127	4,817,264
Trade creditors	12,848,100	7,599,268	12,568,056	7,521,419
Payments received on account	3,289,427	2,149,087	2,938,431	1,932,109
Corporation tax	60,000	-	60,000	-
Other taxes and social security costs	373,410	297,466	373,410	297,466
Amounts owed to group companies	941,939	196,235	914,408	192,945
Amount owed to subsidiary	-	-	151,324	88,180
Other creditors	2,624,409	2,760,339	2,624,409	2,760,339
Accruals	2,007,904	1,914,924	1,949,988	1,868,740
	<u>26,075,493</u>	<u>19,747,817</u>	<u>25,510,330</u>	<u>19,478,462</u>
	=====	=====	=====	=====

16 CREDITORS

Amounts falling due after more than one year:

This comprises amounts payable more than twelve months after the balance sheet date in respect of aircraft finance and lease agreements and other loans. Amounts payable within twelve months totalling £3,930,304 (1985: £4,817,264) are included in creditors falling due within one year.

	Group and Company	
	1986	1985
	£	£
Obligations under finance leases	51,016,328	64,528,894
Bank loan (secured)	137,576	-
Loan	2,500,000	2,500,000
	<u>53,653,904</u>	<u>67,028,894</u>
	=====	=====

These amounts are payable in the following periods from the balance sheet date:

In the second to fifth year inclusive	22,514,440	25,233,328
Over five years	31,139,464	41,795,566
	<u>53,653,904</u>	<u>67,028,894</u>
	=====	=====

The terms of the principal loan of £2,500,000 are as follows:

Repayments - Over a period of five years with repayments commencing 1 January 1989 in twenty equal quarterly instalments

Interest - Interest free until 1 January 1989 and thereafter at 10% per annum

The obligations under finance leases are effectively secured on the assets held under those leases.

The bank loan is secured by way of a floating charge over the company's rotatable and consumable fixed assets (see also note 21).

NOTES ON THE FINANCIAL STATEMENTS (continued)
30 November 1986

17 PROVISIONS FOR LIABILITIES AND CHARGES

Deferred tax

The total potential amount of deferred tax on timing differences and the amount for which provision has been made is:

The Group

	Provided		Potential	
	1986	1985	1986	1985
	£	£	£	£
Accelerated capital allowances	2,460,000	2,610,000	3,390,000	3,490,000
Assets subject to finance leases	420,000	1,550,000	420,000	1,550,000
Other timing differences	350,000	245,000	350,000	245,000
Trading losses	(225,000)	(3,900,000)	(225,000)	(3,900,000)
	<u>3,005,000</u>	<u>505,000</u>	<u>3,935,000</u>	<u>1,385,000</u>
	=====	=====	=====	=====

The Company

	Provided		Potential	
	1986	1985	1986	1985
	£	£	£	£
Accelerated capital allowances	2,450,000	2,600,000	3,380,000	3,480,000
Assets subject to finance leases	420,000	1,550,000	420,000	1,550,000
Other timing differences	350,000	245,000	350,000	245,000
Trading losses	(225,000)	(3,900,000)	(225,000)	(3,900,000)
	<u>2,995,000</u>	<u>495,000</u>	<u>3,925,000</u>	<u>1,375,000</u>
	=====	=====	=====	=====

If full provision had been made, the tax charge for the year would have increased by £50,000 (Company £50,000).

The potential liability to deferred tax has been computed at 35% being the rate at which timing differences are anticipated to reverse.

18 CALLED UP SHARE CAPITAL

	Group and Company	
	1986	1985
	£	£
Authorised, issued and fully paid		
80,000 'A' ordinary shares of £1 each	80,000	80,000
20,000 'B' ordinary shares of £1 each	20,000	20,000
	<u>100,000</u>	<u>100,000</u>
	=====	=====

19 RESERVES

	Group	Company
	£	£
Profit and loss account		
At 1 December 1985	2,793,536	2,704,827
Retained profit for year	6,600,205	6,874,228
	<u>9,393,741</u>	<u>9,579,055</u>
At 30 November 1986	=====	=====

NOTES ON THE FINANCIAL STATEMENTS (continued)
30 November 1986

20 CAPITAL COMMITMENTS

	Group and Company 1986 £	1985 £
Authorised and contracted for	-	-
Authorised but not contracted for	1,100,000	3,300,000

21 CONTINGENT LIABILITIES

The company has given a cross guarantee for a sterling term facility of £2,400,000 made available to Monarch Aircraft Engineering Limited to enable that company to finance the construction of a hangar. The total amount drawn down at 30 November 1986 was £2,285,505 (1985: £1,574,698).

The company has obtained a sterling credit facility of £2,600,000, of which £2,000,000 had been used to secure ordinary trade guarantees and £177,753 had been drawn down as a loan at 30 November 1986. Since the year-end the trade guarantees have been released. The loan and the facility are both secured by way of a floating charge over the company's rotatable and consumable fixed assets, and a fixed charge over the hangar.

The company has guaranteed the bank overdraft of Monarch Aircraft Engineering Limited up to a maximum of £200,000, none of which had been drawn down at 30 November 1986 (1985: None).

The company has a contingent liability of £522,408 (1985: £120,000) in respect of a counter-indemnity given in favour of Barclays Bank Plc in connection with the Civil Aviation Authority bonding arrangement with the trading subsidiary. This indemnity is supported by a charge over certain cash deposits totalling £244,000 at 30 November 1986. In addition, the company has given a guarantee to the Civil Aviation Authority in respect of liabilities of the trading subsidiary to third parties. At 30 November 1986 these liabilities amounted to £716,487.

At 30 November 1986, the company had commitments under forward exchange contracts entered into in the ordinary course of business amounting to £36,922,000 (1985: £26,770,000). No losses are expected to arise in respect of these contracts.

At 30 November 1986, there were other contingent liabilities and commitments of the company arising in the ordinary course of business. The directors are of the opinion that no material loss will arise under these arrangements.

22 OPERATING LEASE COMMITMENTS

As at 30 November 1986 the company had annual commitments under operating leases as set out below:

	Aircraft and engines £	Land and buildings £
Operating leases the commitment for which expires:		
Within one year	400,000	40,000
In the second to fifth year inclusive	12,100,000	90,000
Over five years	10,500,000	-
	23,000,000	130,000

NOTES ON THE FINANCIAL STATEMENTS (continued)
30 November 1986

23 POST BALANCE SHEET EVENTS

Operating lease commitments include £3.4m relating to leases signed before the year end concerning aircraft due for delivery in 1987.

24 ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company to be Cosmos Guide Holding International N.V., incorporated in Curacao N.A.

25 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board on 22 April 1987.

MONARCH AIRLINES LIMITED

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Year ended 30 November 1986

23

	note	£	1986	£	1985	£
SOURCE OF FUNDS						
Generated from operations	1		7,633,032			984,759
OTHER SOURCES						
Finance leases		-			41,054,634	
Proceeds from disposals of tangible fixed assets					2,819,516	
Loan		20,891,667				
Decrease in working capital	2	187,049			3,208,799	
		3,435,269				
			24,513,985			47,082,949
			32,147,017			48,067,708
APPLICATION OF FUNDS						
Purchase of investments		26,250				
Purchase of fixed assets						
- intangible		578,929			157,750	
- tangible		6,951,687			44,193,264	
Loans repaid		9,295			1,465,367	
Finance leases		14,439,703			4,565,305	
			22,005,864			50,381,686
			10,141,153			(2,313,978)
			=====			=====
INCREASE/(DECREASE) IN CASH RESOURCES						
NOTES						
1 Generated from operations:						
Profit/(loss) before tax			1,488,483			(3,669,449)
Depreciation						
- intangible fixed assets			279,705			223,227
- tangible fixed assets			5,728,305			5,420,413
Profit on sale of tangible fixed assets			(14,566)			(989,432)
Intangible assets written off			151,105			-
			7,633,032			984,759
			=====			=====
2 Decrease/(increase) in working capital						
Stocks			(82,303)			(23,402)
Debtors			(3,637,063)			3,225,580
Creditors			7,154,635			6,621
			3,435,269			3,208,799
			=====			=====

WARCH AIRCRAFT ENGINEERING LIMITED

FINANCIAL STATEMENTS
30 November 1986

24

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ARCH AIRCRAFT ENGINEERING LIMITED

DIRECTORS' REPORT
30 November 1986

25

The directors submit their report and financial statements for the year ended 30 November 1986.

PRINCIPAL ACTIVITIES

The company's principal activities remain those of aircraft engineering and maintenance.

RESULTS AND DIVIDENDS

The results for the year are set out in the profit and loss account and the notes relating to it. The directors do not propose the payment of a dividend.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

In February 1986 the company's new hangar at Luton Airport was opened. As a result of the extra capacity, turnover rose by 47%, and the directors feel that the company is now in a good position to take advantage of any opportunities that may arise.

FIXED ASSETS

Changes in fixed assets are set out in notes 6 and 7.

EMPLOYMENT POLICY

It is the policy of the company that training, career development and promotion opportunities should be available to all employees. The directors are committed to encouraging employee involvement in the business.

DIRECTORS

The directors who have served during the year together with their interests in the ordinary shares of the company are as follows:

At 30 November 1985 and 1986

W.H. Hodgson (Chairman and non-executive director)

50

A.J.A. Snudden

-

J.M. Rainbow

-

M.C. McKee (appointed 18 June 1986)

-

AUDITORS

The reappointment as auditors of Finnie & Co., Chartered Accountants, will be proposed at the annual general meeting.

By order of the board

D.P.J. NEWMAN

Secretary

22 April 1987

MONARCH AIRCRAFT ENGINEERING LIMITED
REPORT OF THE AUDITORS

26

To the members of Monarch Aircraft Engineering Limited

We have audited the financial statements on pages 27 to 35 in accordance with approved Auditing Standards.

In our opinion the financial statements, which have been prepared under the historical cost convention, give a true and fair view of the state of the company's affairs at 30 November 1986 and of its profit and source and application of funds for the year then ended and comply with the Companies Act 1985.

FINNIE & CO.
Chartered Accountants
LONDON

22 April 1987

PROFIT AND LOSS ACCOUNT
Year ended 30 November 1986

	note	1986 £	1985 £
TURNOVER	1 & 2	16,483,333	11,214,936
Cost of sales		12,375,762	8,403,189
GROSS PROFIT		<u>4,107,571</u>	<u>2,811,747</u>
Administrative expenses		3,590,599	2,671,864
		<u>516,972</u>	<u>139,883</u>
Interest receivable		14,342	13,187
		<u>531,314</u>	<u>153,070</u>
Interest payable		<u>239,755</u>	<u>-</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX	2 & 3	291,559	153,070
Tax on profit on ordinary activities	4	<u>55,000</u>	<u>-</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAX TRANSFERRED TO RESERVES	15	<u>236,559</u> =====	<u>153,070</u> =====

WARCH AIRCRAFT ENGINEERING LIMITED

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BALANCE SHEET 30 November 1986

	note	1986	1985
		£	£
FIXED ASSETS			
Intangible assets	6	153,409	87,609
Tangible assets	7	3,871,098	3,353,674
Investments	8	81	3
		<u>4,024,588</u>	<u>3,441,286</u>
CURRENT ASSETS			
Stocks	9	1,359,611	1,350,675
Debtors	10	1,704,920	928,988
Cash at bank and in hand		183,395	23,098
		<u>3,247,926</u>	<u>2,302,761</u>
CREDITORS: amounts falling due within one year	11	<u>3,517,303</u>	<u>2,228,023</u>
NET CURRENT (LIABILITIES)/ASSETS		<u>(269,377)</u>	<u>74,738</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		3,755,211	3,516,024
CREDITORS: amounts falling due after more than one year	12	(2,236,506)	(2,283,878)
PROVISIONS FOR LIABILITIES AND CHARGES			
Deferred tax	13	(180,000)	(130,000)
		<u>1,338,705</u>	<u>1,102,146</u>
CAPITAL AND RESERVES			
Called up share capital	14	5,000	5,000
Profit and loss account	15	1,333,705	1,097,146
		<u>1,338,705</u>	<u>1,102,146</u>

Directors:

J.M. RAINBOW

A.J.A. SHUDDEN

NOTES ON THE FINANCIAL STATEMENTS
30 November 1986

1 ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The financial statements are prepared under the historical cost convention.

TURNOVER

Turnover represents amounts receivable in the normal course of business from engineering services and incidental revenue.

STOCK AND WORK IN PROGRESS

Stock is stated at the lower of cost and net realisable value.

Work in progress is stated at direct cost of labour and materials together with an appropriate overhead element.

FIXED ASSETS

Capitalisation

The company's policy is to capitalise fixed assets on the basis of orders placed.

Depreciation

Fixed assets are depreciated from the date when brought into use, at rates estimated to reduce them to their residual value over their useful lives. The bases used are as follows:

Long and short leasehold property	Over terms of leases
Plant and equipment	Principally on a reducing balance basis at varying rates from 15% to 25%.

TRAINING COSTS

The initial training costs for ground engineers relating to the Boeing 757 and 737-300 series aircraft are written off over three years, other such costs being written off as incurred.

DEFERRED TAX

Deferred tax in respect of accelerated capital allowances and other timing differences is provided under the liability method except where such timing differences are expected, with reasonable probability, to continue in the foreseeable future.

2 TURNOVER AND PROFIT ON ORDINARY ACTIVITIES BEFORE TAX

Turnover and profit on ordinary activities before tax are attributable to the principal activities, those of aircraft engineering and maintenance. All turnover arose within the United Kingdom.

NOTES ON THE FINANCIAL STATEMENTS (continued)
30 November 1986

3	PROFIT ON ORDINARY ACTIVITIES BEFORE TAX is stated after crediting:	1986 £	1985 £
	Profit on sale of fixed assets	2,912	2,223
		=====	=====
	and after charging:		
	Auditors' remuneration	19,600	18,000
	Depreciation	376,560	278,615
	Hire of equipment	28,176	37,028
	Operating lease rentals - land and buildings	116,845	105,477
		=====	=====
	Directors' emoluments:		
	As managers	32,396	27,073
	Directors' pension fund contributions	4,207	3,833
		<u>36,603</u>	<u>30,906</u>
		=====	=====
	Emoluments (excluding pension contributions):		
	Chairman	Nil	Nil
	Highest paid director	26,446	24,012
		=====	=====
	Other directors:	Number	Number
	£0 - £5,000	2	1
		=====	=====
4	TAX ON PROFIT ON ORDINARY ACTIVITIES		
	The charge is based on the profit for the year:	£	£
	Corporation tax at 30% (1985: 35%)	5,000	-
	Group relief receipt	-	(105,000)
	Deferred tax	50,000	105,000
		<u>55,000</u>	<u>-</u>
		=====	=====
5	STAFF COSTS		
	Wages and salaries	5,549,503	4,036,532
	Social security costs	446,498	283,242
	Other pension costs	396,452	293,352
		<u>6,392,453</u>	<u>4,613,126</u>
		=====	=====

The average number of employees during the year was made up as follows:

	Number	Number
Engineers	236	151
Stores and drivers	31	23
Administrative and technical	158	163
	<u>425</u>	<u>337</u>
	===	===

No employees earned in excess of £30,000 during the year.

NOTES ON THE FINANCIAL STATEMENTS (continued)
30 November 1986

6 INTANGIBLE FIXED ASSETS

757 and 737-300
series initial
training costs
£

Cost	
At 1 December 1985	326,138
Additions	152,221
At 30 November 1986	478,359
Depreciation	
At 1 December 1985	238,529
Charge for the year	86,421
At 30 November 1986	324,950
Net book value:	
At 30 November 1986	153,409
At 30 November 1985	87,609

7 TANGIBLE FIXED ASSETS

	Land and buildings leasehold property long lease	short lease	Plant and equipment	Total
	£	£	£	£
Cost				
At 1 December 1985	2,522,458	248,764	1,708,132	4,479,354
Additions	70,922	171,834	578,732	821,488
Disposals	-	-	(80,852)	(80,852)
At 30 November 1986	2,593,380	420,598	2,206,012	5,219,990
Depreciation				
At 1 December 1985	27,613	132,882	965,185	1,125,680
Charge for the year	17,695	18,715	235,219	271,629
Disposals	-	-	(48,417)	(48,417)
At 30 November 1986	45,308	151,597	1,151,987	1,348,892
Net book value:				
At 30 November 1986	2,548,072	269,001	1,054,025	3,871,098
At 30 November 1985	2,494,845	115,882	742,947	3,353,674

The cost of the long leasehold property includes £68,058 (1985: £53,585) of capitalised interest.

NOTES ON THE FINANCIAL STATEMENTS (continued)
30 November 1986

8 INVESTMENTS

	£
Shares in related companies which are incorporated in the United Kingdom	
At 1 December 1985	3
Additions	78
At 30 November 1986	<u>81</u>
	===

The company owns 50% of the issued share capital of MD Engineering Limited, a company which has not traded in the year and is registered in England.

During the year the company increased its holding of shares in Aeronautical Training Group Limited (ATG) and now owns 95% of the issued share capital of that company. ATG provides training facilities to Monarch Aircraft Engineering Limited. In the opinion of the directors the activities of ATG are so dissimilar from those of Monarch Aircraft Engineering Limited that consolidated financial statements would be misleading, and accordingly the financial statements of ATG have not been consolidated. The unaudited financial statements of ATG for the year ended 31 July 1986 showed net assets of £9,991 (1985: £9,276).

9 STOCKS

	1986 £	1985 £
Consumables	385,843	370,489
Rotables	339,802	462,643
Work in progress	633,966	517,543
	<u>1,359,611</u>	<u>1,350,675</u>
	=====	=====

10 DEBTORS

Amounts falling due within one year:

Trade debtors	1,180,417	689,330
Amount owed by associated company	16,010	32,334
Amount owed by group company	384,750	148,534
Other debtors	34,285	13,808
Prepayments	89,458	44,982
	<u>1,704,920</u>	<u>928,988</u>
	=====	=====

11 CREDITORS

Amounts falling due within one year:

Bank loan (note 12)	63,805	115,602
Trade creditors	1,615,511	796,847
Amount owed to group company	17,800	17,800
Taxation	5,000	-
Other taxes and social security costs	189,277	129,253
Other creditors	1,518,539	1,057,349
Accruals	107,371	111,172
	<u>3,517,303</u>	<u>2,228,023</u>
	=====	=====

NOTES ON THE FINANCIAL STATEMENTS (continued)
30 November 1986

12 CREDITORS

	1986 £	1985 £
Amounts falling due after more than one year:		
Bank loan	2,229,425	2,283,878
Hire purchase agreement	7,081	-
	<u>2,236,506</u>	<u>2,283,878</u>
	=====	=====
Repayable within 5 years	385,528	390,475
Repayable after 5 years	1,914,783	2,009,005
	<u>2,300,311</u>	<u>2,399,480</u>
Included in current liabilities	63,805	115,602
	<u>2,236,506</u>	<u>2,283,878</u>
	=====	=====

The loan, which is secured by way of a charge on the long leasehold land and buildings, bears interest at the rate of 2½% above sterling LIBOR and is repayable over a period of eight years commencing 1 May 1986.

13 PROVISION FOR LIABILITIES AND CHARGES

Deferred tax

The total potential amount of deferred tax on timing differences and the amount for which provision has been made is:

	Provided		Potential	
	1986	1985	1986	1985
	£	£	£	£
Accelerated capital allowances	193,000	167,000	498,000	433,000
Losses	(67,000)	(68,000)	(67,000)	(84,000)
Other timing differences	54,000	31,000	54,000	31,000
	<u>180,000</u>	<u>130,000</u>	<u>485,000</u>	<u>380,000</u>
	=====	=====	=====	=====

If full provision had been made the tax charge for the year would have been increased by £55,000 (1985: increase - £40,000).

The potential liability to deferred tax has been computed at 35% being the rate at which timing differences are anticipated to reverse.

14 CALLED UP SHARE CAPITAL

	1986 £	1985 £
Authorised, issued and fully paid 5,000 ordinary shares of £1 each	5,000	5,000
	=====	=====

NOTES ON THE FINANCIAL STATEMENTS (continued)
30 November 1986

15 RESERVES

	1986 £
Profit and loss account	
At 1 December 1985	1,097,146
Retained profit for year	236,559
At 30 November 1986	<u>1,333,705</u> =====

16 CAPITAL COMMITMENTS

	1986 £	1985 £
Expenditure contracted for but not provided in the financial statements	Nil =====	Nil =====
Expenditure authorised but not contracted for	700,000 =====	500,000 =====

17 CONTINGENCIES

The company has given a cross guarantee, secured on the long leasehold land and buildings, for a loan facility up to a maximum amount of £2,600,000 made available to Monarch Airlines Limited, a group company. At 30 November 1986 the amount drawn under this facility was £177,753 (1985: £Nil) and a further £2,000,000 had been used to secure trade guarantees. The amount used to secure trade guarantees has been released since the year end.

18 OPERATING LEASE COMMITMENTS

At 30 November 1986 the company had annual commitments under operating leases as set out below:

	Land and buildings 1986 £
Operating leases the commitment for which expires	
Within one year	-
In the second to fifth year inclusive	10,000
Over five years	95,000 =====

19 ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company to be Cosmos Guide Holding International N.V., incorporated in Curacao N.A.

20 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board on 22 April 1987.

MONARCH AIRCRAFT ENGINEERING LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS
Year ended 30 November 1986

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	note	£	1986	£	1985	£
SOURCE OF FUNDS						
Generated from operations	1		646,697		429,462	
OTHER SOURCES						
Proceeds from sale of tangible fixed assets			35,347		10,875	
Loans			15,970		2,399,480	
Group relief received			-		105,000	
Decrease in working capital			551,210		-	
			<u>1,249,224</u>		<u>2,944,817</u>	
APPLICATION OF FUNDS						
Purchase of fixed assets						
- intangible		152,221		50,301		
- tangible		821,488		2,826,893		
- investments		78		1		
Increase in working capital	2	-		127,852		
Loans repaid		115,140		-		
			<u>1,088,927</u>		<u>3,005,047</u>	
INCREASE/(DECREASE) IN CASH RESOURCES			<u>160,297</u>		<u>(60,230)</u>	
			=====		=====	

NOTES:

1	Generated from operations:				
	Profit before tax		291,559		153,070
	Depreciation		358,050		278,615
	Profit on sale of tangible fixed assets		(2,912)		(2,223)
			<u>646,697</u>		<u>429,462</u>
			=====		=====
2	(Decrease)/increase in working capital:				
	Stocks		8,936		1,175,249
	Debtors		775,932		(1,053,899)
	Creditors		(1,336,078)		6,502
			<u>(551,210)</u>		<u>127,852</u>
			=====		=====