

Monarch Holdings plc

Report and Financial Statements

Year Ended

30 April 1998



BDO

BDO Stoy Hayward
Chartered Accountants

MONARCH HOLDINGS PLC

Annual report and financial statements for the year ended 30 April 1998

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Directors

D L Bernstein
F J Donagh

Secretary and registered office

M J Ellingham, 66 Broomfield Road, Chelmsford, Essex, CM1 1SW.

Company number

1165001

Auditors

BDO Stoy Hayward, 66 Broomfield Road, Chelmsford, Essex, CM1 1SW.

MONARCH HOLDINGS PLC

Report of the directors for the year ended 30 April 1998

The directors present their report together with the audited financial statements of the group for the year ended 30 April 1998.

Results and dividends

The results of the group for the year together with the dividends are set out in the consolidated profit and loss account and the notes relating to it.

Principal activities, review of business and future developments

The group's principal activities are those of airline operators, aircraft engineers and tour operators specialising in the sale of airline seats.

The board is pleased to have achieved a pre tax profit in excess of £18m for the year ended 30 April 1998 and is anticipating a satisfactory level of profit for the year ended 30 April 1999.

The introduction of further Airbus aircraft is planned in 1999.

The board wishes to thank the staff of all group companies for the efforts they have made during the year.

Year 2000 compliance

As is well known, many computer and digital storage systems express dates using only the last two digits of the year and will thus require modification or replacement to accommodate the year 2000 and beyond in order to avoid malfunctions and resulting widespread commercial disruption. This is a complex and pervasive issue. The operation of our business depends not only on our own computer systems, but also to a significant degree on those of our suppliers and customers. This could expose us to further risk in the event that there is a failure by other parties to remedy their own Year 2000 issues.

The company is well advanced in the process of assessing the risks to our business resulting from the date change to the Year 2000. Once this phase is completed we can assess the likely impact on our activities and develop prioritised action plans to deal with the key risks.

A final phase is intended, the purpose of which is to create contingency plans to deal with events that might arise despite the best endeavours of the group and its suppliers to identify and resolve all the non-compliance conditions that could impact upon business performance.

At this stage the group is unable to quantify the costs associated with any remedial action with any degree of certainty. However, based on the information currently available, there is no reason to believe that the total cost will have a material adverse effect on the consolidated financial position or results of the group.

Employment policy

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

MONARCH HOLDINGS PLC

Report of the directors for the year ended 30 April 1998 *(Continued)*

Disabled persons

Full and fair consideration has and will be given to employment applications from disabled persons having regard to their particular aptitude and abilities. If an appropriate vacancy is available, then, where practicable, arrangements will be made to continue under normal terms and conditions the employment of an employee who becomes disabled. Disabled employees are given fair consideration for training, career development and promotion.

Charitable donations

During the year the group made charitable donations of £1,497 (1997 - £1,851).

Market value of land and buildings

The directors are of the opinion that there is no material difference between the market value of long leasehold property and the amount at which it is shown in the financial statements.

Directors

The directors and their shareholdings in the company at the beginning and end of the year were:

	Ordinary shares of £1 each	
	At 30 April 1998 £	At 1 May 1997 £
Executive		
D L Bernstein	375	-
Non-Executive		
F J Donagh	-	-

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departure disclosed and explained in the financial statements; and

MONARCH HOLDINGS PLC

Report of the directors for the year ended 30 April 1998 *(Continued)*

Directors' responsibilities *(continued)*

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Statement of creditor payment practice

The company's policy for the year to 30 April 1999 for all suppliers, is to fix terms of payment when agreeing the terms of each business transaction, to ensure the supplier is aware of those terms and to abide by the agreed terms of payment.

As the company has no trade creditors, the number of days' purchases represented by the trade creditors at 30 April 1998 was nil.

Auditors

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

By order of the Board



D L Bernstein
Director

25 September 1998

MONARCH HOLDINGS PLC

Report of the auditors

To the shareholders of Monarch Holdings plc

We have audited the financial statements on pages 5 to 30 which have been prepared under the accounting policies set out on pages 10 to 12.

Respective responsibilities of directors and auditors

As described on pages 2 and 3 the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

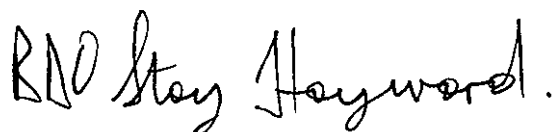
Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 30 April 1998, and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



BDO STOY HAYWARD

*Chartered Accountants
and Registered Auditors
Chelmsford*

14 October 1998

MONARCH HOLDINGS PLC**Consolidated profit and loss account for the year ended 30 April 1998**

	Note	1998 £'000	1997 £'000
Turnover	1 & 2	419,878	387,219
Cost of sales		364,723	336,406
		<hr/>	<hr/>
Gross profit		55,155	50,813
Administrative expenses		38,249	35,274
		<hr/>	<hr/>
		16,906	15,539
Other operating income		1,543	1,303
		<hr/>	<hr/>
Operating profit	4	18,449	16,842
Interest receivable		3,366	3,613
Interest payable	7	(3,023)	(3,499)
		<hr/>	<hr/>
Profit on ordinary activities before tax	2	18,792	16,956
Tax on profit on ordinary activities	8	5,190	2,971
		<hr/>	<hr/>
Profit for the financial year		13,602	13,985
Dividends	9	8,900	6,000
		<hr/>	<hr/>
Retained profit for the year	20	4,702	7,985
		<hr/> <hr/>	<hr/> <hr/>

All amounts relate to continuing activities.

A statement of the movement of reserves can be found in note 20.

The notes on pages 10 to 30 form part of these financial statements.

MONARCH HOLDINGS PLC**Statement of total recognised gains and losses for the year ended 30 April 1998**

	Note	Group		Company	
		1998 £'000	1997 £'000	1998 £'000	1997 £'000
Profit for the financial year		13,602	13,985	2,598	6,011
Exchange adjustment	20	(703)	(2,330)	-	-
Total recognised gains and losses for the year		<u>12,899</u>	<u>11,655</u>	<u>2,598</u>	<u>6,011</u>

The notes on pages 10 to 30 form part of these financial statements.

MONARCH HOLDINGS PLC

Consolidated balance sheet at 30 April 1998

	Note	1998 £'000	1997 £'000
Fixed assets			
Intangible assets	10	10,856	11,532
Tangible assets	11	146,332	151,934
Investments	12	-	20
		<hr/>	<hr/>
		157,188	163,486
Current assets			
Stocks	13	7,706	7,524
Debtors - due within one year	14	36,919	42,934
- due after more than one year	14	14,425	10,990
Cash at bank and in hand	15	39,454	39,139
		<hr/>	<hr/>
		98,504	100,587
Creditors: amounts falling due within one year	16	122,890	123,782
		<hr/>	<hr/>
Net current liabilities		(24,386)	(23,195)
		<hr/>	<hr/>
Total assets less current liabilities		132,802	140,291
Creditors: amounts falling due after more than one year	17	39,129	50,363
Provision for liabilities and charges	18	23,303	23,557
		<hr/>	<hr/>
		70,370	66,371
		<hr/>	<hr/>
Capital and reserves			
Called up share capital - equity	19	50	50
Other reserve - equity	20	4,963	4,963
Profit and loss account - equity	20	65,357	61,358
		<hr/>	<hr/>
Shareholders' funds	21	70,370	66,371
		<hr/>	<hr/>

The financial statements were approved by the Board on 25 September 1998.

The notes on pages 10 to 30 form part of these financial statements.

MONARCH HOLDINGS PLC

Balance sheet at 30 April 1998

	Note	1998 £'000	1997 £'000
Fixed assets			
Investments	12	12,162	12,162
Current assets			
Debtors - due within one year	14	7,166	4,077
- due after more than one year	14	2,975	2,250
Cash at bank and in hand		903	475
		<u>11,044</u>	<u>6,802</u>
Creditors: amounts falling due within one year	16	8,852	4,659
		<u>2,192</u>	<u>2,143</u>
Net current assets		2,192	2,143
Total assets less current liabilities		14,354	14,305
Creditors: amounts falling due after more than one year	17	13,650	13,650
		<u>704</u>	<u>655</u>
Capital and reserves			
Called up share capital - equity	19	50	50
Profit and loss account - equity	20	654	605
Shareholders' funds	21	704	655

The financial statements were approved by the Board on 25 September 1998.

Daneth Bernstein

D L Bernstein

F J Donagh
Directors

Francis J Donagh

The notes on pages 10 to 30 form part of these financial statements.

MONARCH HOLDINGS PLC

Consolidated cash flow statement for the year ended 30 April 1998

	Note	1998 £'000	1997 £'000
Net cash inflow from operating activities	25	52,884	48,990
Returns on investments and servicing of finance			
Interest received		3,085	3,317
Interest paid		(980)	(989)
Finance lease and hire purchase interest		(2,203)	(2,474)
Net cash outflow from returns on investments and servicing of finance		(98)	(146)
Taxation			
UK corporation tax paid		(2,841)	(2,244)
Capital expenditure and financial investments			
Engine overhaul		(11,220)	(6,869)
Payments to acquire intangible fixed assets		(954)	(1,540)
Payments to acquire tangible fixed assets		(21,671)	(24,561)
Receipts from sales of tangible fixed assets		454	435
Receipts from sales of intangible fixed assets		35	-
Net cash outflow for capital expenditure and financial investments		(33,356)	(32,535)
Equity dividends paid		(5,978)	(6,000)
Net cash inflow before use of liquid resources and financing		10,611	8,065
Management of liquid resources			
Realisation of short term deposits		3,777	4,030
Cash drawn from deposits pledged to providers of hire purchase finance		248	240
		4,025	4,270
Financing			
Capital element of finance lease and hire purchase payments	27	(7,171)	(9,992)
New bank loans	27	-	3,000
Bank loan repayments	27	(2,791)	(2,475)
Net cash outflow from financing		(9,962)	(9,467)
Increase in cash	26	4,674	2,868

The notes on pages 10 to 30 form part of these financial statements.

MONARCH HOLDINGS PLC

Notes forming part of the financial statements for the year ended 30 April 1998

1 Accounting policies

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of freehold property and in accordance with applicable accounting standards. The principal accounting policies which have not changed in the year, are:

Basis of consolidation

The group financial statements consolidate the financial statements of the company and all of its subsidiary undertakings as at 30 April 1998 using the acquisition method of accounting.

Goodwill

Goodwill arising on acquisition of a subsidiary undertaking is the difference between the fair value of the consideration paid and the fair value of the assets and liabilities acquired. It is amortised over 20 years from the date of acquisition.

Turnover

Turnover represents the invoiced value of airline traffic revenue and related income, engineering services and incidental revenue, and amounts receivable for flights and travel arrangements departing within the period, exclusive of intra-group trading and value added tax.

Fixed assets - capitalisation

Aircraft and engines held under finance leases and hire purchase contracts are capitalised as fixed assets. Obligations under finance leases and hire purchase contracts are shown in notes 16 and 17.

Intangible assets represent aircraft introduction, initial training costs and goodwill on consolidation. Subsequent training costs are charged to revenue as incurred.

Fixed assets - 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 their estimated useful lives or the periods of applicable leases. The principal bases used are as follows:

- | | | |
|--------------------------|---|---|
| Freehold buildings | - | Straight line over 4 years. |
| Long leasehold property | - | Straight line over 50 years. |
| Short leasehold property | - | Over term of lease. |
| Residential property | - | Nil as it is the group's practice to maintain the property in good repair and the directors consider any depreciation would not be material. |
| Aircraft and engines | - | Straight line over 10-12 years to a residual value of 45% or 40% of cost. Subsequent to the primary lease period aircraft are depreciated over 10 years to a residual value of 10% of cost. |

MONARCH HOLDINGS PLC

Notes forming part of the financial statements for the year ended 30 April 1998 (*Continued*)

1 Accounting policies (*continued*)

Fixed assets - depreciation (continued)

- Rotables and consumables - Net expenditure is written off over periods of between 12 and 22 years.
- Aircraft modifications and special work - Straight line over periods of between 7 and 22 years.
- Aircraft simulator - Straight line over 10 years to a residual value of 20% of cost.
- Plant and equipment - Straight line over 3 to 4 years.

Intangible assets

Aircraft introductory and initial crew training costs are amortised over 5 years.

Fixed assets - reclassification

Rotable and consumable assets are reclassified when purchased from Monarch Airlines Limited by Monarch Aircraft Engineering Limited to enable the latter to carry out its principal activity.

Investments

Investments held as fixed assets are stated at cost while current asset investments are shown at the lower of cost and net realisable value.

Stock

Stock and work in progress are valued at the lower of cost and net realisable value.

Work in progress includes the direct cost of labour and materials together with an appropriate overhead element.

Foreign currencies

Foreign currency transactions are translated at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Any differences are taken to the profit and loss account.

The cost of aircraft and engines which have been financed by loans and hire purchase arrangements in foreign currency are adjusted at each year end to take account of the sterling cost of related repayments during the year and the translation of outstanding liabilities on such foreign currency borrowings at the year end rate of exchange.

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.

MONARCH HOLDINGS PLC

Notes forming part of the financial statements for the year ended 30 April 1998 (*Continued*)

1 Accounting policies (*continued*)

Finance leases and hire purchase contracts

Assets held under finance leases and hire purchase contracts are capitalised and are depreciated over their useful lives. Finance costs are charged to the profit and loss account over the period of the lease or hire purchase contract so as to produce a constant periodic rate of charge on the remaining balance of the obligation for each accounting period.

Operating leases

Amounts payable under operating leases are charged to the profit and loss account as incurred.

Rental income from operating leases is recognised on a straight line basis over the period of the lease.

Pension costs

Retirement benefits to employees of certain companies within the group are provided by a defined benefit scheme which is funded by contributions from the group and employees and paid to separately administered funds.

Contributions to these funds are charged to the profit and loss account so as to spread the cost of pensions over the employee's working lives. The regular cost is attributed to individual years using the projected unit method. Variations in pension cost, which are identified as a result of actuarial valuations, are amortised over the average expected remaining working lives of employees. Differences between the amounts funded and the amounts charged to the profit and loss account are treated as either provisions or prepayments in the balance sheet.

Engine overhaul and maintenance costs

Dependent upon the provisions of the financing or lease arrangements engine overhaul costs are usually either accrued or amortised on the basis of hours flown. Other engine and airframe maintenance costs are in the main written off as incurred.

Payments received on account

Payments received on account represent revenue receivable in advance from customers in respect of contractual commitments for the following year.

Component repair costs

The group is responsible for repairing certain components removed during the maintenance of aircraft and the estimated cost of outstanding repairs is included within liabilities.

The actual costs of component repairs in the year for certain aircraft maintained by the group are reviewed against the expected costs and where appropriate further provision is made to take account of repair costs which are deemed to have accrued.

MONARCH HOLDINGS PLC

Notes forming part of the financial statements for the year ended 30 April 1998 (*Continued*)

2 Turnover, profit before tax and net assets

Turnover, profit before tax and net assets were contributed as follows:

	Turnover		Profit before tax		Net assets	
Description of class of business:	1998 £'000	1997 £'000	1998 £'000	1997 £'000	1998 £'000	1997 £'000
Airline operations	326,415	309,345	13,631	10,162	51,245	50,002
Engineering services	36,863	35,074	2,706	4,876	14,496	14,005
Sale of airline seats	56,600	42,800	2,455	1,918	4,629	2,364
	<u>419,878</u>	<u>387,219</u>	<u>18,792</u>	<u>16,956</u>	<u>70,370</u>	<u>66,371</u>

Substantially all of the group's turnover arose within the United Kingdom.

3 Profit for the financial year

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the company has not been presented in these financial statements. The consolidated profit for the financial year includes £8,948,287 (1997 - £6,011,193) which has been dealt with in the financial statements of the company.

4 Operating profit

	1998 £'000	1997 £'000
This is arrived at after crediting:		
Operating lease rentals - aircraft and engines	7,962	7,904
Profit on sale of fixed assets	-	258
and after charging:	<u></u>	<u></u>
Depreciation - tangible assets	15,062	14,552
Amortisation - intangible assets	1,586	1,557
Amortisation of engine overhaul	6,729	4,712
Operating lease rentals - aircraft and engines	50,527	47,586
- land and buildings	905	935
- other	344	277
Auditors' remuneration - audit services	149	142
- non-audit services	147	143
Loss on sale of fixed assets	21	-
	<u></u>	<u></u>

MONARCH HOLDINGS PLC

Notes forming part of the financial statements for the year ended 30 April 1998 (*Continued*)

5 Directors

	1998 £'000	1997 £'000
Emoluments and pension contributions of the highest paid director are:		
Remuneration for management services	230	257
Pension contributions to defined contribution scheme	75	-
	<u>305</u>	<u>257</u>

The accrued pension of the highest paid director from the defined benefit pension scheme at 30 April 1998 was £21,413 (1997 - £16,000) per annum

	Number	Number
The number of directors in the defined benefit pension scheme outlined in note 24 is as follows:	1	1

The other director does not receive any remuneration (1997 - £Nil).

6 Employees

The average monthly number of employees of the group during the year, including executive directors, was as follows:

	1998 Number	1997 Number
Airline operations	1,391	1,288
Aircraft engineers	608	540
Administrative	653	568
	<u>2,652</u>	<u>2,396</u>

	£'000	£'000
Staff costs for all employees, including executive directors, consists of:		
Wages and salaries	55,757	50,156
Social security costs	4,973	4,546
Other pension costs	3,981	3,193
	<u>64,711</u>	<u>57,895</u>

7 Interest payable

On bank loans	891	1,033
On finance lease and hire purchase contracts	2,131	2,451
On other loans	1	15
	<u>3,023</u>	<u>3,499</u>

MONARCH HOLDINGS PLC

Notes forming part of the financial statements for the year ended 30 April 1998 (*Continued*)

8 Tax on profit from ordinary activities

	1998 £'000	1997 £'000
The charge is based on the profit for the year and consists of:		
UK corporation tax	5,163	3,007
Transfer (from)/to deferred tax account	(147)	747
	<hr/> 5,016	<hr/> 3,754
Adjustments relating to prior years:		
UK corporation tax	174	(383)
Transfer from deferred tax account	-	(400)
	<hr/> 5,190	<hr/> 2,971
	<hr/> <hr/>	<hr/> <hr/>

If full provision for deferred tax had been made the tax charge for the year would have been decreased by £96,000 (1997 - decreased £1,480,000).

9 Dividends

	1998 £'000	1997 £'000
Ordinary dividends:		
Interim paid of £60 per share (1997 - £60)	3,000	3,000
Final proposed of £118 per share (1997 - £60)	5,900	3,000
	<hr/> 8,900	<hr/> 6,000
	<hr/> <hr/>	<hr/> <hr/>

MONARCH HOLDINGS PLC

Notes forming part of the financial statements for the year ended 30 April 1998 (*Continued*)

10 Intangible assets

	Goodwill on consolidation £'000	Crew training and Aircraft Introductory costs £'000	Total £'000
<i>Cost</i>			
At 1 May 1997	8,324	10,462	18,786
Additions	-	954	954
Disposals	-	(2,041)	(738)
At 30 April 1998	8,324	9,375	19,002
<i>Amortisation</i>			
At 1 May 1997	624	6,630	7,254
Provided for the year	416	1,170	1,586
Disposals	-	(1,997)	(694)
At 30 April 1998	1,040	5,803	8,146
<i>Net book value</i>			
At 30 April 1998	7,284	3,572	10,856
At 30 April 1997	7,700	3,832	11,532

MONARCH HOLDINGS PLC

Notes forming part of the financial statements for the year ended 30 April 1998 (Continued)

11 Tangible assets	Freehold land and buildings £'000	Long leasehold property £'000	Short leasehold property £'000	Aircraft and engines £'000	Rotables and consumables £'000	Aircraft modifications and special work £'000	Aircraft simulator £'000	Plant and equipment £'000	Total £'000
<i>Cost or valuation</i>									
At 1 May 1997	215	12,144	4,932	169,049	58,944	8,211	7,027	19,192	279,714
Additions	-	35	1,939	10	15,722	1,114	37	3,277	22,134
Disposals	-	(30)	(19)	(9)	-	-	-	(1,680)	(1,738)
Reclassification	-	-	-	-	(11,068)	-	-	-	(11,068)
Exchange movement	-	-	-	(1,830)	-	-	-	-	(1,830)
At 30 April 1998	215	12,149	6,852	167,220	63,598	9,325	7,064	20,789	287,212
<i>Depreciation</i>									
At 1 May 1997	129	1,903	1,242	72,515	33,727	2,731	4,328	11,205	127,780
Reclassification	-	60	-	-	-	200	-	(260)	-
Provision for the year	-	276	280	6,968	3,619	1,051	566	2,302	15,062
Disposals	-	(31)	(14)	-	(244)	-	-	(1,217)	(1,506)
Exchange movement	-	-	-	(456)	-	-	-	-	(456)
At 30 April 1998	129	2,208	1,508	79,027	37,102	3,982	4,894	12,030	140,880
<i>Net book value</i>									
At 30 April 1998	86	9,941	5,344	88,193	26,496	5,343	2,170	8,759	146,332
At 30 April 1997	86	10,241	3,690	96,534	25,217	5,480	2,699	7,987	151,934

The aircraft and engines cost includes £134,899,000 (1997 - £136,064,000) in respect of assets which are subject to hire purchase and finance lease contracts. The accumulated depreciation of these assets is £62,612,000 (1997 - £57,348,000). The related depreciation charge for the year was £5,409,000 (1997 - £5,661,000). The simulator cost includes £685,000 (1997 - £685,000) of capitalised interest.

The plant and equipment cost includes £402,788 (1997 - £466,101) in respect of assets which are subject to hire purchase and finance lease contracts. The accumulated depreciation of these assets is £183,494 (1997 - £200,192). The related depreciation charge for the year was £54,942 (1997 - £78,015).

The cost of the long leasehold property includes £68,058 (1997 - £68,058) of capitalised interest.

Freehold land and buildings were revalued in accordance with a directors' valuation at 31 October 1992. If the freehold land and buildings had not been revalued, they would have been included at £351,967 (1997 - £351,967).

MONARCH HOLDINGS PLC

Notes forming part of the financial statements for the year ended 30 April 1998 (*Continued*)

11 Tangible assets (*Continued*)

	Group		Company	
Commitments for capital expenditure	1998 £'000	1997 £'000	1998 £'000	1997 £'000
Contracted for but not provided in the financial statements	6,455	4,218	-	-

12 Fixed asset investments

Group	Other investment £'000	Total £'000
Cost at 1 May 1997	20	20
Provision during year	(20)	-
At 30 April 1998	-	20

The other investment relates to the group's 20% share in the issued share capital of Servitour Travel Agency SA, a company incorporated in Spain.

Company	1998 £'000	1997 £'000
Shares in subsidiary undertakings		
Cost at 1 May 1997 and 30 April 1998	12,162	12,162

The company owns 100% of the called up share capital of the following principal subsidiary companies incorporated in Great Britain:

Company	Principal activities
Avro plc	Sale of airline seats
Monarch Airlines Limited	Airline Operator
Monarch Aircraft Engineering Limited	Aircraft engineering and maintenance
Monarch Airlines Leasing Limited	Acquisition and leasing of assets and equipment
Monarch Technical Support Limited	Engineering and technical services

All of the above investments are unlisted.

MONARCH HOLDINGS PLC

Notes forming part of the financial statements for the year ended 30 April 1998 *(Continued)*

13 Stocks

	Group	
	1998 £'000	1997 £'000
Cabin consumables	1,369	628
Engineering stock	903	1,265
Work in progress	4,878	5,128
Goods held for resale	556	503
	<u>7,706</u>	<u>7,524</u>

14 Debtors

	Group		Company	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000
Amounts falling due within one year:				
Trade debtors	21,597	30,893	-	-
Amounts owing from subsidiary undertaking	-	-	813	310
VAT recoverable	651	583	-	-
Other debtors	4,031	1,794	-	363
Prepayments	10,142	8,629	-	1
Dividends receivable	-	-	6,350	3,400
Corporation tax	498	1,035	3	3
	<u>36,919</u>	<u>42,934</u>	<u>7,166</u>	<u>4,077</u>

Amounts falling due after more than one year:

Amounts owing from subsidiary undertaking	-	-	1,500	1,500
Other debtors	3,326	3,128	-	-
Prepayments	9,624	7,112	-	-
Advance corporation tax recoverable	1,475	750	1,475	750
	<u>14,425</u>	<u>10,990</u>	<u>2,975</u>	<u>2,250</u>

MONARCH HOLDINGS PLC

Notes forming part of the financial statements for the year ended 30 April 1998 *(Continued)*

15 Cash at bank and in hand

As part of the arrangements for financing the acquisition of aircraft cash deposits of £5,009,410 (1997 - £5,591,018) have been pledged in favour of the providers of the hire purchase finance. Details of other security given are shown in note 17.

16 Creditors: amounts falling due within one year

	Group		Company	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000
Bank loans (secured)	2,760	2,843	-	-
Obligations under finance leases	3,451	3,046	-	-
Obligations under hire purchase contracts	4,185	4,075	-	-
	<u>10,396</u>	<u>9,964</u>	<u>-</u>	<u>-</u>
Payments received on account	28,297	26,830	-	-
Trade creditors	44,393	52,115	-	-
Component repair costs	5,183	6,124	-	-
Amounts owed to subsidiary undertakings	-	-	663	791
Corporation tax	6,328	4,516	-	-
Advance corporation tax payable	2,225	1,500	2,225	805
Tax and social security	1,688	1,777	-	-
Proposed dividend	5,900	3,000	5,900	3,000
Other creditors	5,403	5,388	22	-
Accruals	13,077	12,568	42	63
	<u>122,890</u>	<u>123,782</u>	<u>8,852</u>	<u>4,659</u>

Further details regarding loans, finance leases and hire purchase contracts are shown in note 17.

MONARCH HOLDINGS PLC

Notes forming part of the financial statements for the year ended 30 April 1998 (*Continued*)

17 Creditors: amounts falling due after more than one year

	Group		Company	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000
Total amounts arising in respect of:				
Bank loans (secured)	10,813	13,817	-	-
Obligations under finance leases	3,616	6,376	-	-
Obligations under hire purchase contracts	30,982	38,984	-	-
Other loan	1,150	1,150	1,150	1,150
	<u>46,561</u>	<u>60,327</u>	<u>1,150</u>	<u>1,150</u>
Less: amounts included in current liabilities	(7,432)	(9,964)	-	-
	<u>39,129</u>	<u>50,363</u>	<u>1,150</u>	<u>1,150</u>
Amounts owed to subsidiary undertaking	-	-	12,500	12,500
	<u>39,129</u>	<u>50,363</u>	<u>13,650</u>	<u>13,650</u>
These amounts are payable by instalments in the following periods from the balance sheet date:				
In the second year	8,074	10,366	-	-
In the third to fifth year inclusive	15,935	20,350	-	-
After five years	15,120	19,647	13,650	13,650
	<u>39,129</u>	<u>50,363</u>	<u>13,650</u>	<u>13,650</u>

The bank loans are secured upon aircraft and leasehold property. These loans bear interest linked to US Dollar LIBOR and Sterling LIBOR and are repayable over 10 years.

The hire purchase contracts are repayable in instalments over 4 to 10 years together with interest at various rates linked to US Dollar LIBOR.

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

The other loan is interest free and there are no fixed terms for repayment.

The amount owed to a subsidiary undertaking of the company bears interest at 6.0% per annum. There are no terms for repayment.

MONARCH HOLDINGS PLC

Notes forming part of the financial statements for the year ended 30 April 1998 (*Continued*)

18 Provisions for liabilities and charges

Group	Deferred tax £'000	Pensions £'000	Total £'000
At 1 May 1997	22,747	810	23,557
Credit to profit and loss account	(147)	(555)	(702)
Advance corporation tax	448	-	448
	<u>23,048</u>	<u>255</u>	<u>23,303</u>
At 30 April 1998	<u>23,048</u>	<u>255</u>	<u>23,303</u>

Deferred tax

The total potential amount of deferred tax on timing differences and the amount for which provision at 31% (1997 - 31%) has been made is:

	Provided		Potential	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000
Accelerated capital allowances	12,931	13,065	18,782	18,900
Assets subject to finance leases	10,152	10,229	10,152	10,229
Pension provisions	(79)	(171)	(79)	(251)
Other timing differences	44	72	44	72
	<u>23,048</u>	<u>23,195</u>	<u>28,899</u>	<u>28,950</u>
Advance corporation tax recoverable	-	(448)		
	<u>23,048</u>	<u>22,747</u>		

Pensions

Provision has been made for the excess of the accumulated pension cost over the amount funded (see note 24).

19 Share capital

	1998 £'000	1997 £'000
Authorised, allotted, called up and fully paid 50,000 ordinary shares of £1 each	<u>50</u>	<u>50</u>

MONARCH HOLDINGS PLC

Notes forming part of the financial statements for the year ended 30 April 1998 (*Continued*)

20 Reserves

Group	Profit and loss account £'000	Merger reserve £'000	Total £'000
At 1 May 1997	61,358	4,963	66,321
Retained profit for the year	4,702	-	4,702
Exchange adjustment (see below)	(703)	-	(703)
	<hr/>	<hr/>	<hr/>
At 30 April 1998	65,357	4,963	70,320
	<hr/>	<hr/>	<hr/>
The exchange adjustment comprises the following:		£'000	£'000
Aircraft and engines - cost (Note 11)			(1,830)
Aircraft and engines - depreciation (Note 11)			456
Financing (Note 27)		972	
UK corporation tax thereon		(301)	
		<hr/>	671
			<hr/>
			703
			<hr/>

Company

	Profit and loss account £'000
At 1 May 1997	605
Retained profit for year	49
	<hr/>
At 30 April 1998	654
	<hr/>

21 Reconciliation of movements in shareholders' funds

	Group		Company	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000
Profit for the financial year	13,602	13,985	8,949	6,011
Exchange adjustment	(703)	(2,330)	-	-
Dividends	(8,900)	(6,000)	(8,900)	(6,000)
	<hr/>	<hr/>	<hr/>	<hr/>
	3,999	5,655	49	11
Opening shareholders' funds	66,371	60,716	655	644
	<hr/>	<hr/>	<hr/>	<hr/>
Closing shareholders' funds	70,370	66,371	704	655
	<hr/>	<hr/>	<hr/>	<hr/>

MONARCH HOLDINGS PLC

Notes forming part of the financial statements for the year ended 30 April 1998 (*Continued*)

22 Contingent liabilities

Charges have been registered over certain bank deposits held in a subsidiary's name as security for guarantee facilities provided by those banks. The total amount of such guarantees at 30 April 1998 was £8,677,581 (1997 - £5,625,991).

At 30 April 1998, there were other contingent liabilities and commitments of the group arising in the ordinary course of business. The directors are of the opinion that no material loss will arise under these arrangements.

23 Commitments

Operating leases

At 30 April 1998 the group had annual commitments under operating leases as set out below:

	Aircraft and engines £'000	Land and buildings £'000	Other £'000
Operating leases which expire:			
Within one year	14,783	133	99
In the second to fifth year inclusive	38,220	26	1,770
After five years	7,118	785	-
	<u>60,121</u>	<u>944</u>	<u>1,869</u>

As at 30 April 1997 the group had annual commitments under operating leases as set out below:

	Aircraft and engines £'000	Land and buildings £'000	Other £'000
Operating leases which expire:			
Within one year	3,873	133	12
In the second to fifth year inclusive	27,808	26	1,649
After five years	15,205	807	-
	<u>46,886</u>	<u>966</u>	<u>1,661</u>

Other

At 30 April 1998, the group had commitments under forward exchange contracts entered into in the ordinary course of business amounting to £111.8m (1997 - £105.2m).

MONARCH HOLDINGS PLC

Notes forming part of the financial statements for the year ended 30 April 1998 *(Continued)*

24 Pensions

Certain subsidiaries operate a jointly funded defined benefit pension scheme for UK employees. The assets of the scheme are administered by Trustees and are held in separate funds. The scheme is split into two sections, Groundstaff and Aircrew.

The pension costs and funding arrangements are assessed in accordance with the advice of a qualified actuary using the Projected Unit Method. The latest valuation was as at 1 July 1995. It was assumed that investment returns would be 9% per annum, that salary increases would average 7.5% per annum and that present and future pensions would increase at 3% per annum. Assets were considered by valuing the discounted income, assuming a notional reinvestment in an equity index with dividend growth of 4.5% per annum. At that date the value of assets was sufficient to cover 111% (Groundstaff Section) and 100% (Aircrew Section) of the benefits that had accrued to members after allowing for expected future increases in earnings. The market value of the assets was £27,408,358 (Groundstaff Section) and £36,672,036 (Aircrew Section).

At 30 April 1998 a review of the pension cost and provision was carried out by the actuary. The method and principal assumptions of this review were the same as those used for the formal actuarial valuation at 1 July 1995, with the exception that it was assumed that salary increases would average 7% per annum. As a result of this review the total pension cost charged for the period in these financial statements amounted to £3,957,000 (1997 - £3,193,000).

During the year, in accordance with the actuary's recommendations, the following contributions were made to each section of the scheme:-

	% of pensionable salaries	
	Employer	Employee
Groundstaff	12	2
Aircrew	16	8

At 30 April 1998, in accordance with SSAP24, the group has made provisions of £176,000 (1997 - £673,000) in respect of the Groundstaff section and £79,000 (1997 - £137,000) in respect of the Aircrew section, this being the excess of the accumulated pension costs over the amounts funded.

MONARCH HOLDINGS PLC

Notes forming part of the financial statements for the year ended 30 April 1998 (*Continued*)

25 Reconciliation of operating profit to net cash inflow from operating activities

	1998 £'000	1997 £'000
Operating profit	18,449	16,842
Amortisation - intangible fixed assets	1,586	1,557
Depreciation - tangible fixed assets	15,062	14,552
Loss on write off of fixed assets	195	-
Loss/(profit) on sale of fixed assets	21	(258)
Amortisation of engine overhaul	6,729	4,712
Increase in stocks	(182)	(993)
Decrease/(increase) in debtors	7,312	(5,822)
(Decrease)/increase in creditors	(6,382)	10,469
Tangible fixed assets reclassified	10,629	10,151
Decrease in component repair provision	-	(1,529)
Decrease in pension provision	(555)	(691)
Provision against investment	20	-
	<hr/>	<hr/>
Net cash inflow from operating activities	52,884	48,990
	<hr/>	<hr/>

26 Reconciliation of net cash flow to movement in net debt

	1998 £'000	1997 £'000
Increase in cash in the year	4,674	2,868
Cash outflow from decrease in debt and lease financing	9,962	9,467
Cash inflow from decrease in liquid resources	(4,025)	(4,270)
	<hr/>	<hr/>
Change in net debt resulting from cash flows	10,611	8,065
New hire purchase contracts	(466)	(2,882)
Exchange movements	972	3,671
	<hr/>	<hr/>
Movement in debt in the year	11,117	8,854
Net debt at 1 May 1997	(21,188)	(30,042)
	<hr/>	<hr/>
Net debt at 30 April 1998	(10,071)	(21,188)
	<hr/>	<hr/>

MONARCH HOLDINGS PLC

Notes forming part of the financial statements for the year ended 30 April 1998 (*Continued*)

27 Analysis of net debt

	At 1 May 1997 £'000	Cash flow £'000	Non-cash changes £'000	Exchange movement £'000	At 30 April 1998 £'000
Cash at bank and in hand	12,855	4,674	-	-	17,529
Cash on short term deposit	20,693	(3,777)	-	-	16,916
Deposits pledged to providers of hire purchase finance	5,591	(248)	-	(334)	5,009
Bank loans due after one year	(10,974)	-	2,921	-	(8,053)
Bank loans due within one year	(2,843)	2,791	(2,921)	213	(2,760)
Finance leases and hire purchase obligations	(45,360)	7,171	(466)	1,093	(37,562)
Other loan	(1,150)	-	-	-	(1,150)
	<u>(21,188)</u>	<u>10,611</u>	<u>(466)</u>	<u>972</u>	<u>(10,071)</u>

28 Related Party Transactions

Set out below is a summary of related party transactions between:

- the company or subsidiary undertakings of the company, and
- companies controlled by the ultimate controlling parties of the company;

<i>Transaction</i>	<i>Related Party</i>
1 Loan to Monarch Holdings plc of £1.15m interest free and there are no fixed terms for repayment. (see note 17).	Cosmosguide Holding International NV as lender
2 Sale and purchase of seats to and from the related party by subsidiary undertakings of the company amounting to £25.6m (1997 - £20.8m) and £0.8m (1997 - £0.6m) respectively in the year. At 30 April 1998 £1.7m (1997 - £6.9m) was due to and £0.05m (1997 - £0.24m) was due from the related party, the latter being inclusive of amounts in respect of flying after that date.	First Aviation Limited as seat broker
3 Provision of insurance and insurance services to subsidiary undertakings of the company in respect of the aircraft fleet, property, motor vehicles, trade combined and public liability amounting to £2.3m (1997 - £2.4m) in the year. The amount due from the related party at 30 April 1998 was £nil (1997 - £3,000)	Voyager Insurance Company Limited and Osprey Insurance Company Limited as provider of insurance and insurance services

MONARCH HOLDINGS PLC

Notes forming part of the financial statements for the year ended 30 April 1998 (*Continued*)

28 Related Party Transactions (*continued*)

- | | | |
|---|---|--|
| 4 | During the year Avro plc was charged for shared operational costs of £568,000 (1997 - £546,000). The amount due to the related party at 30 April 1998 was £19,000 (1997 - £75,000). | Cosmosair plc as tour operator |
| 5 | Sale and purchase of seats to and from the related party by Avro plc amounting to £103,000 (1997 - £270,000) and £155,000 (1997 - £238,000) respectively in the year. The amount due from the related party at 30 April 1998 was £1,000 (1997 - £22,000) and to the related party at 30 April 1998 was £3,000 (1997 - £Nil). | Cosmosair plc as tour operator |
| 6 | During the year Avro plc incurred charges for the provision of representatives in Spain amounting to £141,000 (1997 - £80,000). The amount due to the related party at 30 April 1998 was £18,000 (1997 - £14,000). | Viajes Delta SA as provider of representatives |
| 7 | Operating leases to Monarch Airlines Limited of aircraft, engines and rotatable components at a cost of £38.3m (1997 - £38.9m) in the year. These leases are for periods of between 3 and 13 years at rentals ranging from £0.6m to £5.2m per annum (1997 - 0.6m to £5.4m). | Various lessors |
| 8 | Under a Rebate Assignment dated 15 April 1988, and supplemental agreements dated 15 July 1991 and 29 June 1992, Monarch Airlines Limited is providing security for the obligations of Andrair Limited, to the head lessor (an unrelated third party) of an aircraft which is subleased by Andrair Limited to Monarch Airlines Limited. The annual lease rental is £3.1m. However a liability will only arise if Andrair Limited defaults in its lease payment obligations. The quantum of any such liability would be based on the net proceeds of sale of the aircraft which cannot be determined at the present time. | Andrair Limited as lessee of an aircraft and beneficiary of security agreements. |

MONARCH HOLDINGS PLC

Notes forming part of the financial statements for the year ended 30 April 1998 (*Continued*)

28 Related Party Transactions (*continued*)

- | | | |
|----|---|--|
| 9 | Pursuant to an agreement dated 31 March 1988 Andrair Limited has subleased an aircraft to Monarch Airlines Limited (see also transactions 7 and 8). As consideration for the provision of security by Monarch Airlines Limited as described in transaction 8 Andrair Limited is providing for the obligations of Monarch Airlines Limited to the unrelated third party pursuant to the lease of the aircraft. | Andrair Limited as sublessor of an aircraft and provider of security agreements. |
| 10 | On 26 April 1989 Monarch Airlines Limited gave a guarantee in respect of the obligations of Tourwise of London Limited to an unrelated third party, under a property lease. The lease, which is for a term of 25 years, commenced on 25 December 1985 at an initial rent of £135,000 per annum. Any liability of Monarch Airlines Limited is fully indemnified by Glossa Travel Services International NV (see transaction 11). | Tourwise of London Limited as beneficiary of guarantee. |
| 11 | Pursuant to an agreement dated 24 November 1989 any liability of Monarch Airlines Limited under the guarantee of the lease referred to in transaction 10 is fully indemnified. | Glossa Travel Services International NV as provider of an indemnity. |
| 12 | On 24 February 1998 Monarch Airlines Limited gave letters of comfort to National Westminster Bank plc in support of banking facilities provided to the related parties. The letters of comfort are not legally binding on Monarch Airlines Limited. | Cosmosair plc and Cosmos Coach Tours Limited as beneficiaries of letters of comfort. |
| 13 | During the year Monarch Airlines Leasing Limited incurred costs of £112,000 (1997 - £120,000) in respect of guarantee fees payable in connection with the acquisition of aircraft. The amount of future guarantee fees is calculated on a reducing scale and will expire by 13 June 2004. | Renfro Corporation as guarantor |

Transactions with Monarch Holdings plc and its subsidiary undertakings are not disclosed in these financial statements as the group accounts are publicly available.

MONARCH HOLDINGS PLC

Notes forming part of the financial statements for the year ended 30 April 1998 (*Continued*)

29 Control

The directors consider that the company's ultimate parent company and its controlling party is Amerald Investments NV, a company incorporated in the Netherlands Antilles.

The directors consider that Mr S Mantegazza, Mr G Mantegazza and Mr M Albek are together the ultimate controlling parties of the company.