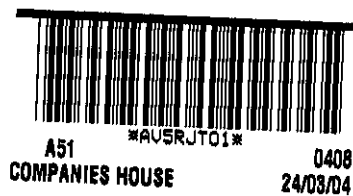


MONARCH HOLDINGS PLC

Report and Financial Statements

31 October 2003

38



Deloitte & Touche LLP
Crawley

REPORT AND FINANCIAL STATEMENTS 2003

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REPORT AND FINANCIAL STATEMENTS 2003

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

D L Bernstein
P R Brown
F J Donagh

SECRETARY

G Atkinson

REGISTERED OFFICE

Prospect House
Prospect Way
London Luton Airport
Luton
Bedfordshire
LU2 9NU

INDEPENDENT AUDITORS

Deloitte & Touche LLP
Chartered Accountants
Crawley

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the eighteen month period ended 31 October 2003.

PRINCIPAL ACTIVITIES

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

CHANGE IN ACCOUNTING REFERENCE DATE

During the year the company changed its accounting reference date from 30 April to 31 October in order to align itself with all of its subsidiary undertakings. Accordingly, the attached financial statements have been prepared for an eighteen month period ended 31 October 2003. The comparative period is for the year ended 30 April 2002.

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

On 15 May 2002 the group purchased 100% of the ordinary share capital of Cosmosair plc. Details of this acquisition are dealt with in note 13 to the accounts.

Trading performance during the period remained adversely affected following the tragic events of 11 September 2001 and the war in Iraq. In these testing circumstances, the board is pleased to report that the group remained both profitable and cash positive. The results, however, have benefited from the positive activity of having two summer periods in the extended accounting period covered by the attached financial statements.

In respect of the airline business, new scheduled routes were introduced from Gatwick and Manchester and are operating successfully. During the period two new Airbus A321 aircraft were delivered and entered service. Two further such aircraft are due for delivery in 2004.

With regard to the engineering side of the business, in addition to the difficulties caused by world events, the company experienced the loss of a major customer and a continued softening of rates. The board is pleased with performance although the outlook remains difficult.

The tour operating side of the business also suffered from the effects of the events of 11 September and the war in Iraq, but produced an acceptable trading result. Current trading conditions are, however, not easy and there is continued excess capacity in the market depressing prices.

The board of Monarch Holdings plc wishes to thank all group staff for their efforts throughout a difficult period.

RESULTS AND DIVIDENDS

The results of the group for the period are set out in the consolidated profit and loss account on page 6 and the notes to the accounts relating to it.

The directors recommend a final dividend of £240 per share (year ended 30 April 2002 - £42 per share).

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.

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 period the group made charitable donations of £2,765 (year ended 30 April 2002 - £400).

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 they are shown in the financial statements.

DIRECTORS' REPORT (continued)**DIRECTORS AND THEIR INTERESTS**

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

	Ordinary shares of £1 each	
	At 31 October 2003	At 1 May 2002
Executive		
D L Bernstein	375	375
P R Brown	-	-
Non-Executive		
F J Donagh	-	-

All directors served throughout the period.

POLICY ON PAYMENT OF CREDITORS

The company's policy for the period to 31 October 2003 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.

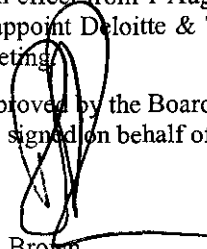
As the company has no trade creditors, the number of days' purchases represented by the trade creditors at 31 October 2003 was nil (year ended 30 April 2002 - nil).

AUDITORS

Deloitte & Touche were appointed by the directors during the period as auditors of the company, to replace BDO Stoy Hayward.

On 1 August 2003, Deloitte & Touche, the company's auditors transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of section 26(5) of the Companies Act 1989. A resolution to re-appoint Deloitte & Touche LLP as the company's auditor will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board


P R Brown
Director

5 March 2004

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom 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 the group as at the end of the financial year and of the profit or loss 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;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MONARCH HOLDINGS PLC

We have audited the financial statements of Monarch Holdings plc for the eighteen month period ended 31 October 2003 which comprise the consolidated profit and loss account, the statement of total recognised gains and losses, the balance sheets, the consolidated cash flow statement and the related notes 1 to 31. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work had been undertaken so that we might state to the company's members 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 members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions with the company and other members of the group is not disclosed.

We read the directors' report for the above period and consider the implications for our report if we become aware of any apparent misstatements.


Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 circumstances of the company and the group, 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 the affairs of the company and the group as at 31 October 2003 and of the profit of the group for the period from 1 May 2002 to 31 October 2003 and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Crawley

17 March 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT
For the eighteen month period ended 31 October 2003

	Note	Period from 1 May 2002 to 31 October 2003 £'000	Year ended 30 April 2002 £'000
TURNOVER	1, 2		
Continuing operations		648,142	457,321
Acquisitions	3	<u>261,973</u>	<u>-</u>
Total turnover – continuing operations		910,115	457,321
Cost of sales	4	<u>(790,371)</u>	<u>(405,224)</u>
GROSS PROFIT		119,744	52,097
Administrative expenses		(100,987)	(50,461)
Other operating income		<u>8,538</u>	<u>1,872</u>
OPERATING PROFIT	6		
Continuing operations		26,425	3,508
Acquisitions	3	<u>870</u>	<u>-</u>
Group operating profit		27,295	3,508
Interest receivable		4,167	4,060
Interest payable	7	<u>(4,439)</u>	<u>(3,909)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2	27,023	3,659
Tax on profit on ordinary activities	8	<u>(8,997)</u>	<u>(1,629)</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		18,026	2,030
Minority interest		<u>-</u>	<u>245</u>
PROFIT FOR THE FINANCIAL PERIOD/YEAR		18,026	2,275
Equity dividends proposed	9	<u>(12,000)</u>	<u>(2,100)</u>
Retained profit for the period/year		<u>6,026</u>	<u>175</u>

All amounts relate to continuing activities.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the eighteen month period ended 31 October 2003

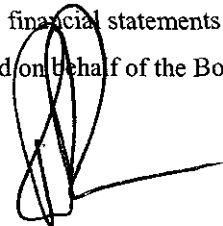
	Note	Period from 1 May 2002 to 31 October 2003 £'000	Year ended 30 April 2002 £'000
Profit for the financial period/year		18,026	2,275
Foreign exchange adjustment on fixed assets	21	(4,090)	(329)
Total recognised gains and losses relating to the period/year		13,936	1,946

CONSOLIDATED BALANCE SHEET
31 October 2003

		31 October 2003	30 April 2002 (restated - see note 1)
	Note	£'000	£'000
FIXED ASSETS			
Intangible assets	10	11,019	6,281
Tangible assets	11	272,740	248,262
Investments	12	11,020	8,097
		<u>294,779</u>	<u>262,640</u>
CURRENT ASSETS			
Stocks	14	9,880	10,481
Debtors - due after more than one year	15	1,435	3,114
- due within one year	15	84,024	58,543
Total debtors		85,459	61,657
Cash at bank and in hand	16	54,696	24,530
		<u>150,035</u>	<u>96,668</u>
CREDITORS: amounts falling due within one year	17	(219,358)	(148,438)
NET CURRENT LIABILITIES		<u>(69,323)</u>	<u>(51,770)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		225,456	210,870
CREDITORS: amounts falling due after more than one year	18	(119,609)	(107,094)
PROVISIONS FOR LIABILITIES AND CHARGES	19	(33,552)	(33,417)
NET ASSETS	2	<u>72,295</u>	<u>70,359</u>
CAPITAL AND RESERVES			
Called up share capital	20	50	50
Merger reserve	21	4,963	4,963
Profit and loss account	21	67,282	65,346
TOTAL EQUITY SHAREHOLDERS' FUNDS	22	<u>72,295</u>	<u>70,359</u>

These financial statements were approved by the Board of Directors on 5 March 2004.

Signed on behalf of the Board of Directors

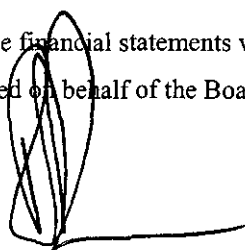

P R Brown
Director

COMPANY BALANCE SHEET
31 October 2003

		31 October 2003	30 April 2002
	Note	£'000	£'000
FIXED ASSETS			
Investments	12	2,011	13,012
CURRENT ASSETS			
Debtors - due within one year	15	23,001	1
- due after more than one year	15	3,500	3,500
Total debtors		26,501	3,501
CREDITORS: amounts falling due within one year	17	(18,059)	(4,992)
NET CURRENT ASSETS/(LIABILITIES)		8,442	(1,491)
TOTAL ASSETS LESS CURRENT LIABILITIES		10,453	11,521
CREDITORS: amounts falling due after more than one year	18	(9,708)	(10,999)
NET ASSETS		745	522
CAPITAL AND RESERVES			
Called up share capital	20	50	50
Profit and loss account	21	695	472
TOTAL EQUITY SHAREHOLDERS' FUNDS	22	745	522

These financial statements were approved by the Board of Directors on 5 March 2004.

Signed on behalf of the Board of Directors



P R Brown
 Director

CONSOLIDATED CASH FLOW STATEMENT
For the eighteen month period ended 31 October 2003

			Period from 1 May 2002 to 31 October 2003		Year ended 30 April 2002
	Note	£'000	£'000	£'000	£'000
Net cash inflow from operating activities	27		54,607		11,466
Returns on investments and servicing of finance					
Interest received		4,167		3,330	
Interest paid		(3,347)		(3,630)	
Finance lease and hire purchase interest		(1,092)		(1,282)	
Net cash outflow from returns on investments and servicing of finance			(272)		(1,582)
Taxation					
UK corporation tax paid			(6,831)		(1,707)
Capital expenditure and financial investments					
Payments to acquire tangible fixed assets		(92,068)		(59,911)	
Receipts from sales of tangible fixed assets		4,829		2,575	
Purchase of fixed asset investments		(2,945)		(855)	
Receipts from sale of investments		-		508	
Net cash outflow from capital expenditure and financial investments			(90,184)		(57,683)
Acquisition					
Purchase of subsidiary undertaking	13	(2,000)		-	
Cash acquired with subsidiaries acquired	13	32,290		-	
Net cash inflow from acquisitions			30,290		-
Equity dividends paid			(2,100)		(4,500)
Net cash outflow before financing			(14,490)		(54,006)
Financing					
Capital element of finance lease and hire purchase payments	27	(10,758)		(4,377)	
New bank loans	27	61,114		37,011	
Bank loan repayments	27	(6,169)		(5,706)	
Net cash inflow from financing			44,187		26,928
INCREASE/(DECREASE) IN CASH IN THE PERIOD/YEAR	28, 29		29,697		(27,078)

NOTES TO THE ACCOUNTS**For the eighteen month period ended 31 October 2003****1. ACCOUNTING POLICIES**

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted are described below.

Change of accounting reference date

During the year the company changed its accounting reference date from 30 April to 31 October. Accordingly the accounts have been prepared for the eighteen month period ended 31 October 2003. The comparative period is for the year ended 30 April 2002.

Accounting convention

The financial statements are prepared under the historical cost convention.

Basis of consolidation

The group financial statements consolidate the financial statements of the company and all of its subsidiary undertakings as at 31 October 2003. Acquisitions are accounted for under the acquisition method.

Turnover

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

Deferred revenue and related expenditure

Services invoiced prior to the year end, in respect of customer departures in future accounting periods, are carried forward as deferred income in the balance sheet.

Costs incurred prior to the year end in respect of those services are also deferred until the date of customer departure.

Change in accounting policy

The group has changed its accounting policy in respect to the capitalisation of aircraft consumables to bring the policy into line with industry standards.

Under the group's previous accounting policy, aircraft consumables were capitalised in tangible fixed assets and depreciated over periods of up to 22 years to a residual value of 20% of cost.

The revised policy is to include these items as stock and value them at the lower of cost and net realisable value.

Following this revision, the following balance sheet reclassifications have arisen:

	At 30 April 2002 (as previously reported) £'000	Reclassification £'000	At 30 April 2002 (as restated) £'000
Group			
Tangible assets	254,485	(6,223)	248,262
Stocks	4,258	6,223	10,481

The profit and tax effects of this adjustment are not material.

Intangible assets - goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which is 20 years. Provision is made for any impairment.

NOTES TO THE ACCOUNTS**For the eighteen month period ended 31 October 2003****1. ACCOUNTING POLICIES (continued)****Intangible assets – intellectual property rights**

Intellectual property assets are stated at cost, and are amortised over a period of 10 years. Provision is made for any impairment.

Fixed assets – capitalisation

Fixed assets are stated at cost, less accumulated depreciation.

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 17 and 18.

Fixed assets – depreciation**Tangible assets**

Fixed assets are depreciated from the date when available for 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:

Long leasehold property	Straight line over 50 years
Short leasehold property	Over term of lease
Aircraft and engines	Straight line over 22 years to a residual value of 20% of cost
Rotables	Net expenditure is written off over a period of up to 22 years to a residual value of 20% of cost
Aircraft modifications and special work	Straight line over periods of up to 22 years. A residual value of 20% of cost is applied in respect of owned aircraft
Plant and equipment	Straight line over 3 to 4 years
Engine overhaul and maintenance costs	Amortised on the basis of thousand cycles flown

Investments

Investments held as fixed assets are stated at cost less provision for impairment. Current asset investments are shown at the lower of cost and net realisable value.

Stock

Stock, including aircraft consumables, 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 currency

Foreign currency transactions are translated at the rates ruling when they occurred or, if hedged, at the forward contract rate. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date or, if appropriate, the forward contract rate. Any differences are taken to the profit and loss account.

Aircraft which are financed in US dollars, either by loans or hire purchase arrangements are regarded together with the related assets and liabilities as a separate group of assets and liabilities and accounted for in US dollars. The amounts in US dollars are translated into sterling at rates ruling at the balance sheet date and net differences arising are taken directly to reserves (see note 21 for details).

Deferred taxation

Deferred taxation is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

NOTES TO THE ACCOUNTS**For the eighteen month period ended 31 October 2003****1. ACCOUNTING POLICIES (continued)****Leases**

Assets held under finance leases and hire purchase contracts are capitalised and are depreciated over their estimated 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.

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

Crew training and aircraft introductory costs in respect of aircraft under operating leases are written off 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 for by defined benefit schemes which are funded by contributions from the group and employees and paid in 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 employees' 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.

Contributions to defined contribution pension schemes are charged to the profit and loss account as they are incurred.

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.

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.

In accordance with the provisions of certain contracts the group reviews the actual cost incurred in the period against the expected costs and where appropriate further provision is made to take account of repair costs which are deemed to have accrued.

Onerous leases

Where the unavoidable costs of a lease exceed the economic benefit expected to be received, a provision is made for the present obligations under the lease.

NOTES TO THE ACCOUNTS

For the eighteen month period ended 31 October 2003

1. ACCOUNTING POLICIES (continued)

Comparatives

Certain group balance sheet comparatives have been reclassified to ensure comparability with amounts reported as at 31 October 2003 as follows:

	At 30 April 2002 (as previously reported) £'000	Reclassification £'000	At 30 April 2002 (as restated) £'000
Group			
Trade debtors	43,298	(18,279)	25,019
Other debtors	4,147	(2,461)	1,686
Prepayments	11,076	20,740	31,816
Other debtors: amounts falling due after more than one year	5,937	(2,823)	3,114
Cash at bank and in hand	21,707	2,823	24,530
Payments received on account	(53,990)	53,990	-
Trade creditors	(50,519)	21,931	(28,588)
Component repair costs	(3,308)	3,308	-
Other taxation and social security costs	(2,214)	1,122	(1,092)
Accruals and deferred income	(17,200)	(80,351)	(97,551)
	<u>(41,066)</u>		<u>(41,066)</u>

2. TURNOVER, PROFIT BEFORE TAX AND NET ASSETS

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

Description of class of business:	Turnover		Profit/(loss) before tax		Net assets	
	Period from 1 May 2002 to 31 October 2003 £'000	Year ended 30 April 2002 £'000	Period from 1 May 2002 to 31 October 2003 £'000	Year ended 30 April 2002 £'000	Period from 1 May 2002 to 31 October 2003 £'000	Year ended 30 April 2002 £'000
Airline operations	399,760	369,381	22,896	1,975	50,027	48,261
Engineering services	54,999	32,924	3,390	1,993	18,583	18,032
Sale of airline seats	195,555	55,016	(1,693)	590	2,851	4,066
Tour operations	259,801	-	2,430	-	834	-
Development of computer software	-	-	-	(899)	-	-
	<u>910,115</u>	<u>457,321</u>	<u>27,023</u>	<u>3,659</u>	<u>72,295</u>	<u>70,359</u>

NOTES TO THE ACCOUNTS

For the eighteen month period ended 31 October 2003

2. TURNOVER, PROFIT BEFORE TAX AND NET ASSETS (continued)

	Period from 1 May 2002 to 31 October 2003 £'000	Year ended 30 April 2002 £'000
Turnover, which is derived from the UK, is analysed by geographical market below:		
United Kingdom	876,986	437,040
Europe	17,905	13,497
North America	12,559	4,327
Australia	520	1,808
Asia	2,145	649
	<u>910,115</u>	<u>457,321</u>

3. ANALYSIS OF CONTINUING OPERATIONS

The total figure for continuing operations in 2003 include the following amounts relating to acquisitions:

	Period from 1 May 2002 to 31 October 2003 £'000
Turnover	261,973
Cost of sales	(244,551)
Gross profit	17,422
Administrative expenses	(16,552)
Operating profit	<u>870</u>

Further details on acquisitions during the period are provided in note 13.

4. COST OF SALES

Cost of sales for the period ended 31 October 2003 includes a charge of £nil (year ended 30 April 2002 - £3,571,000) arising from the impairment of engine overhauls tangible fixed assets.

NOTES TO THE ACCOUNTS

For the eighteen month period ended 31 October 2003

5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	Period from 1 May 2002 to 31 October 2003 £'000	Year ended 30 April 2002 £'000
Directors' remuneration:		
Remuneration for management services	517	153
Pension contributions to defined contribution scheme	-	86
Pension contributions to defined benefit scheme	41	-
	<u>558</u>	<u>239</u>

The emoluments of the highest paid director were:

	<u>343</u>	<u>153</u>
--	------------	------------

The accrued pension of the highest paid director from the defined benefit scheme at 31 October 2003 was £4,675 (year ended 30 April 2002 - £36,720) per annum.

	Period from 1 May 2002 to 31 October 2003 No.	Year ended 30 April 2002 No.
The number of directors in a defined contribution pension scheme	1	1
The number of directors in a defined benefit pension scheme	<u>2</u>	<u>1</u>

Average number of employees of the group during the period, including executive directors, was as follows:

Airline operations	1,378	1,486
Aircraft engineers	534	553
Tour operations	262	-
Administrative	743	745
	<u>2,917</u>	<u>2,784</u>

	Period from 1 May 2002 to 31 October 2003 £'000	Year ended 30 April 2002 £'000
Staff costs during the period (including executive directors):		
Wages and salaries	111,846	71,645
Social security costs	10,181	6,420
Pension costs	11,422	6,528
	<u>133,449</u>	<u>84,593</u>

NOTES TO THE ACCOUNTS

For the eighteen month period ended 31 October 2003

6. OPERATING PROFIT

	Period from 1 May 2002 to 31 October 2003 £'000	Year ended 30 April 2002 £'000
Operating profit is after (crediting)/charging:		
Operating lease rentals - aircraft and engines	-	(1,887)
Loss/profit on sale of tangible fixed assets	2,198	(111)
Profit on sale of investment	-	(508)
Depreciation - tangible assets	42,558	24,141
Impairment of tangible assets	-	3,571
Amortisation of intangible assets	1,120	546
Impairment of intangible assets	-	1,243
Operating lease rentals - plant and machinery	79,471	63,319
- other	3,932	1,222
Auditors' remuneration:		
- audit services - group	268	190
- company	40	19
- other services - group	85	178
- company	10	-
	<u> </u>	<u> </u>

7. INTEREST PAYABLE

	Period from 1 May 2002 to 31 October 2003 £'000	Year ended 30 April 2002 £'000
On bank loans	3,347	2,783
On finance lease and hire purchase contracts	1,092	1,126
	<u> </u>	<u> </u>
	4,439	3,909
	<u> </u>	<u> </u>

NOTES TO THE ACCOUNTS

For the eighteen month period ended 31 October 2003

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

(a) Tax charge on profit on ordinary activities

	Period from 1 May 2002 to 31 October 2003 £'000	Year ended 30 April 2002 £'000
Current tax		
United Kingdom corporation tax on profits for the year	3,888	(764)
Adjustments in respect of previous years	-	188
Total current tax	3,888	(576)
Deferred tax		
Origination and reversal of timing differences	4,126	2,205
Adjustment in respect of prior years	983	-
Tax on profit on ordinary activities	8,997	1,629

(b) Factors affecting current tax charge for the period/year

The tax assessed for the period is lower than the standard rate of corporation tax in the UK. The principal differences are explained below:

	Period from 1 May 2002 to 31 October 2003 %	Year ended 30 April 2002 %
Standard rate of corporation tax	30	30
Effects of:		
Expenses not deductible for tax purposes	1	3
Capital allowances for period in excess of depreciation	(17)	(59)
Other timing differences	1	5
Utilisation of tax losses	(1)	-
Adjustment to tax charge in respect of previous periods	-	5
Current tax (credit)/charge for the period	14	(16)

NOTES TO THE ACCOUNTS

For the eighteen month period ended 31 October 2003

9. EQUITY DIVIDENDS PROPOSED

	Period from 1 May 2002 to 31 October 2003 £'000	Year ended 30 April 2002 £'000
Ordinary dividends:		
Proposed final dividend of £240 (year ended 30 April 2002 - £42) per share	12,000	2,100

10. INTANGIBLE FIXED ASSETS

Group	Goodwill on consolidation £'000	Intellectual property rights £'000	Total £'000
Cost			
At 1 May 2002	9,996	500	10,496
Acquired with subsidiary (see note 13)	967	-	967
Additions (see note 13)	4,891	-	4,891
31 October 2003	15,854	500	16,354
Amortisation			
At 1 May 2002	3,715	500	4,215
Charge for the period	1,120	-	1,120
At 31 October 2003	4,835	500	5,335
Net book value			
At 31 October 2003	11,019	-	11,019
At 30 April 2002	6,281	-	6,281

NOTES TO THE ACCOUNTS

For the eighteen month period ended 31 October 2003

11. TANGIBLE FIXED ASSETS

Group (as restated – see note 1)	Long leasehold property £'000	Short leasehold property £'000	Aircraft and engines £'000	Rotables £'000	Aircraft modifications and special work £'000	Plant and equipment £'000	Engine overhaul and maintenance costs £'000	Total £'000
Cost or valuation								
At 1 May 2002	16,348	4,959	224,554 (31,436)	57,721 (277)	21,092	31,860	97,531	454,065 (31,713)
Foreign exchange movement	-	-	-	-	-	-	-	-
Acquired with subsidiary undertaking, see note 13	-	820	-	-	-	6,098	-	6,918
Additions	86	373	67,077	2,557	3,738	3,299	14,938	92,068
Disposals	-	(12)	(3,799)	(6,332)	(2,505)	(1,271)	(59,159)	(73,078)
At 31 October 2003	16,434	6,140	256,396	53,669	22,325	39,986	53,310	448,260
Accumulated depreciation								
At 1 May 2002	4,032	2,228	69,417 (5,930)	30,110 (56)	10,288	23,919	65,809	205,803 (5,986)
Foreign exchange movement	-	-	-	-	-	-	-	-
Acquired with subsidiary undertaking, see note 13	-	150	-	-	-	3,442	-	3,592
Charge for the period	434	314	11,718	3,362	3,009	7,003	16,718	42,558
Disposals	-	-	(3,275)	(4,634)	(2,505)	(915)	(59,118)	(70,447)
At 31 October 2003	4,466	2,692	71,930	28,782	10,792	33,449	23,409	175,520
Net book value								
At 31 October 2003	11,968	3,448	184,466	24,887	11,533	6,537	29,901	272,740
At 30 April 2002	12,316	2,731	155,137	27,611	10,804	7,941	31,722	248,262

NOTES TO THE ACCOUNTS**For the eighteen month period ended 31 October 2003****11. TANGIBLE FIXED ASSETS (continued)**

The aircraft and engines cost includes £40,814,000 (at 30 April 2002 - £80,487,000) in respect of assets which are subject to hire purchase lease contracts. The accumulated depreciation of these assets is £15,870,000 (at 30 April 2002 - £38,171,000). The related depreciation charge for the period was £2,083,000 (year ended 30 April 2002 - £2,198,000).

The plant and equipment cost includes £614,000 (at 30 April 2002 - £614,000) in respect of assets which are subject to hire purchase and finance lease contracts. The accumulated depreciation of these assets is £367,000 (at 30 April 2002 - £217,000). The related depreciation charge for the period was £150,000 (year ended 30 April 2002 - £104,000).

The cost of the long leasehold property includes £68,000 (at 30 April 2002 - £68,000) of capitalised interest.

	Group 2003 £'000	Group 2002 £'000	Company 2003 £'000	Company 2002 £'000
Commitments for capital expenditure				
Contracted for but not provided in the financial statements	86,749	153,826	-	-

12. FIXED ASSET INVESTMENTS

Group	Unlisted £'000
Cost	
At 1 May 2002	8,104
Acquired with subsidiary (see note 13)	60
Addition	2,885
At 31 October 2003	11,049
Provision	
At 1 May 2002	7
Provision in period	22
At 31 October 2003	29
Net book value	
At 31 October 2003	11,020
At 30 April 2002	8,097

NOTES TO THE ACCOUNTS

For the eighteen month period ended 31 October 2003

12. FIXED ASSET INVESTMENTS (continued)

Company	£'000
Shares in subsidiary undertakings	
Cost	
At 1 May 2002	14,186
Addition – note 13	2,000
Transfers to group undertakings	(14,175)
At 31 October 2003	2,011
Provisions for impairment	
At 1 May 2002	1,174
Transfers to group undertaking	(1,174)
At 31 October 2003	-
Net book value	
At 31 October 2003	2,011
At 30 April 2002	13,012

Principal group investments

The parent company and the group have investments in the following subsidiary undertakings and investments, which principally affected the profits or net assets of the group. The principal investments include the following:

	Country of incorporation and operation	Principal activity	Holding	%
Subsidiary undertakings				
Avro plc	England and Wales	Sale of airline seats	100,000 ordinary £1 shares	100
			11,000,000 5% redeemable preference shares of £1 each	100
Cosmosair plc	England and Wales	Tour operator	4,300,000 ordinary £1 shares	100
			2,400,000 5% cumulative redeemable preference shares of £1 each	100
Monarch Aircraft Engineering Limited*	England and Wales	Aircraft engineering and maintenance	100,000 ordinary £1 shares	100
Monarch Airlines Limited*	England and Wales	Airline operator	100,000 ordinary £1 shares	100
Monarch Airlines Leasing Limited	England and Wales	Leasing of equipment	2 ordinary £1 shares	100
Monarch Technical Support Limited*	England and Wales	Engineering and technical services	1,000 ordinary £1 shares	100
Monarch Travel Group Limited *	England and Wales	Holding company	20,000 ordinary £1 shares	100

NOTES TO THE ACCOUNTS

For the eighteen month period ended 31 October 2003

12. FIXED ASSET INVESTMENTS (continued)

Principal group investments (continued)

	Country of incorporation and operation	Principal activity	Holding	%
Other investments and loans				
Airline Group Limited	England and Wales	Holding company for the investment in National Air Traffic Services Limited	10,053 ordinary £1 shares 8,845,487 unsecured loan notes of £1 each	13 -
Urbanweb Limited	England and Wales	Call centre	1,750,000 5% cumulative preference shares of £1 each	100

*Held directly by Monarch Holdings plc.

13. ACQUISITION OF SUBSIDIARY UNDERTAKING

On 15 May 2002, the company acquired from Cosmosguide Holdings NV (a related party) the entire allotted share capital of Cosmosair plc and its subsidiary undertakings for a consideration of £2,000,000. The fair value of the net assets acquired, which equated to their book values was as follows:

	£'000
Fixed assets	
Intangible	967
Tangible	3,326
Investments	60
Current assets	
Debtors	38,253
Cash	32,290
Total assets	<u>74,896</u>
Creditors	<u>(77,787)</u>
Net liabilities acquired	<u>(2,891)</u>
Goodwill (note 10)	<u>4,891</u>
	<u>2,000</u>
Satisfied by:	
Cash	<u>2,000</u>

NOTES TO THE ACCOUNTS**For the eighteen month period ended 31 October 2003****13. ACQUISITION OF SUBSIDIARY UNDERTAKING (continued)**

Cosmosair plc incurred a loss after taxation of £1,286,000 in the year ended 31 October 2002 (2001 - £1,905,000 loss), of which a loss of £2,703,000 arose in the period from 1 November 2001 to 15 May 2002. The summarised profit and loss account for the period from 1 November 2001 to 15 May 2002, shown on the basis of the accounting policies of Cosmosair plc, prior to the acquisition, are as follows:

	£'000
Turnover	43,289
Cost of sales	(40,773)
Gross profit	2,516
Administrative expenses	(6,235)
Operating loss	(3,719)
Interest receivable	138
Loss on ordinary activities before taxation	(3,581)
Tax credit on loss on ordinary activities	878
Loss for the financial period	(2,703)

There were no recognised gains and losses in the period from 1 November 2001 to 15 May 2002 other than those disclosed above. Accordingly, no statement of total recognised gains and losses is provided here for Cosmosair plc.

14. STOCKS

	Group 31 October 2003 £'000	Group 30 April 2002 (as restated - see note 1) £'000
Cabin consumables	1,148	900
Engineering stock	7,817	7,138
Work in progress	611	2,090
Goods held for resale	304	353
	9,880	10,481

In the opinion of the directors the replacement cost of stocks is not materially different to the above amounts for both accounting period ends.

NOTES TO THE ACCOUNTS

For the eighteen month period ended 31 October 2003

15. DEBTORS

	Group 31 October 2003 £'000	Group 30 April 2002 £'000	Company 31 October 2003 £'000	Company 30 April 2002 £'000
Amounts falling due within one year:				
Trade debtors	48,277	25,019	-	-
Amounts owed by group undertakings	-	-	23,000	-
Other debtors	3,979	1,708	1	1
Prepayments and accrued income	31,768	31,816	-	-
	<u>84,024</u>	<u>58,543</u>	<u>23,001</u>	<u>1</u>
Amounts falling due after more than one year:				
Amounts owed by group undertaking	-	-	3,500	1,500
Other debtors	1,435	3,114	-	2,000
	<u>1,435</u>	<u>3,114</u>	<u>3,500</u>	<u>3,500</u>
Total debtors	<u>85,459</u>	<u>61,657</u>	<u>26,501</u>	<u>3,501</u>

16. CASH AT BANK AND IN HAND

As part of the arrangements for financing the acquisition of aircraft group cash deposits of £8,669,000 (at 30 April 2002 - £5,682,000) have been pledged in favour of the providers of the hire purchase finance. Details of other security given by the group are shown in note 18.

17. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 31 October 2003 £'000	Group 30 April 2002 £'000	Company 31 October 2003 £'000	Company 30 April 2002 £'000
Bank loans and overdraft (secured)	8,795	6,260	-	-
Obligations under hire purchase contracts	14,600	4,246	-	-
Trade creditors	29,813	28,588	-	-
Amounts owed to group undertakings	-	-	5,962	721
Corporation tax	5,243	4,548	55	50
Other taxation and social security costs	1,192	1,092	-	-
Other creditors	4,015	4,053	42	2,000
Accruals and deferred income	143,700	97,551	-	121
Proposed dividend	12,000	2,100	12,000	2,100
	<u>219,358</u>	<u>148,438</u>	<u>18,059</u>	<u>4,992</u>

Further details regarding loans, finance leases and hire purchase contracts are shown in note 18.

NOTES TO THE ACCOUNTS

For the eighteen month period ended 31 October 2003

18. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group 31 October 2003 £'000	Group 30 April 2002 £'000	Company 31 October 2003 £'000	Company 30 April 2002 £'000
Bank loans (secured)	118,459	87,872	-	-
Obligations under hire purchase contracts	-	18,072	-	-
Amounts owed to group undertakings	-	-	8,558	9,849
Other loan	1,150	1,150	1,150	1,150
	<u>119,609</u>	<u>107,094</u>	<u>9,708</u>	<u>10,999</u>
Borrowings are repayable as follows:				
Bank loans				
Between one and two years	8,785	6,031	-	-
Between two and five years	27,688	20,412	-	-
After five years	81,986	61,429	-	-
	<u>118,459</u>	<u>87,872</u>	<u>-</u>	<u>-</u>
On demand or within one year (note 17)	8,280	6,260	-	-
	<u>126,739</u>	<u>94,132</u>	<u>-</u>	<u>-</u>
Obligations under hire purchase contracts				
Between one and two years	-	11,000	-	-
Between two and five years	-	7,072	-	-
	<u>-</u>	<u>18,072</u>	<u>-</u>	<u>-</u>
On demand or within one year (note 17)	14,600	4,246	-	-
	<u>14,600</u>	<u>22,318</u>	<u>-</u>	<u>-</u>
Amounts owing to group undertakings				
After five years	-	-	8,558	9,844
	<u>-</u>	<u>-</u>	<u>8,558</u>	<u>9,844</u>
Other loan				
After five years (see note 30)	1,150	1,150	1,150	1,150
	<u>1,150</u>	<u>1,150</u>	<u>1,150</u>	<u>1,150</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 periods of 12-15 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 and hire purchase contracts are effectively secured on the assets held under those leases.

The amount owed by the company to a group undertaking was not interest-bearing during the period (year ended 30 April 2002 – interest payable at 5% per annum). This amount is repayable after more than five years, there are no other terms for repayment.

The other loan is interest free and is repayable after more than five years. There are no other terms for repayment.

NOTES TO THE ACCOUNTS**For the eighteen month period ended 31 October 2003****19. PROVISIONS FOR LIABILITIES AND CHARGES**

Group	Deferred tax £'000	Pensions £'000	Leasehold void space provision £'000	Total £'000
At 1 May 2002	32,993	255	169	33,417
Charged to profit and loss account	4,126	511	-	4,637
Rents and service charges provision utilised	-	-	(169)	(169)
Prior period adjustment	983	-	-	983
Transfer from reserves	(5,316)	-	-	(5,316)
At 31 October 2003	<u>32,786</u>	<u>766</u>	<u>-</u>	<u>33,552</u>

Deferred taxation

The total potential amount of deferred tax on timing differences and the amount for which provision at 30% (year ended 30 April 2002 – 30%) has been made is:

	Provided 31 October 2003 £	Provided 30 April 2002 £
Accelerated capital allowances	30,675	33,049
Pension provisions	(153)	(77)
Other timing differences	(138)	21
Foreign exchange	2,402	-
	<u>32,786</u>	<u>32,993</u>

Pensions

Provision has been made for the excess of the accumulated pension cost over the amount funded (see note 26).

20. CALLED UP SHARE CAPITAL

	31 October 2003 £'000	30 April 2002 £'000
Authorised, called up, allotted and fully paid 50,000 ordinary shares of £1 each	<u>50</u>	<u>50</u>

NOTES TO THE ACCOUNTS

For the eighteen month period ended 31 October 2003

21. RESERVES

Group	Merger reserve £'000	Profit and loss account £'000	2003 £'000
At 1 May 2002	4,963	65,346	70,309
Retained profit for the period	-	6,026	6,026
Foreign exchange adjustment (see below)	-	(4,090)	(4,090)
At 31 October 2003	4,963	67,282	72,245

	£'000
The exchange adjustment comprises:	
Aircraft and engines – cost (note 11)	(31,713)
Aircraft and engines – depreciation (note 11)	5,986
	(25,727)
Deferred taxation	7,718
	(18,009)
Financing (note 28)	20,017
UK corporation tax	(3,696)
Deferred taxation	(2,402)
	(4,090)

	Profit and loss account £'000
Company	
At 1 May 2002	472
Retained profit for period	223
At 31 October 2003	695

22. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	Group 2003 £'000	Group 2002 £'000	Company 2003 £'000	Company 2002 £'000
Profit for the financial period/year	18,026	2,275	12,223	1,752
Proposed equity dividends	(12,000)	(2,100)	(12,000)	(2,100)
Exchange adjustment	(4,090)	(329)	-	-
Opening shareholders' funds	1,936	(154)	223	(348)
	70,359	70,513	522	870
Closing shareholders' funds	72,295	70,359	745	522

NOTES TO THE ACCOUNTS**For the eighteen month period ended 31 October 2003****23. 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 bank deposits subject to these charges at 31 October 2003 was £5,218,848 (year ended 30 April 2002 - £75,601).

At 31 October 2003, 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.

24. COMMITMENTS**Operating leases**

At 31 October 2003, the group had annual commitments under non-cancellable operating leases as set out below:

	Aircraft and engines £'000	Land and buildings £'000	Other £'000	Total £'000
Operating leases which expire:				
Within one year	7,583	279	-	7,862
In the second to fifth year inclusive	14,471	79	1,008	15,558
After five years	7,690	2,177	-	9,867
	<u>29,744</u>	<u>2,535</u>	<u>1,008</u>	<u>33,287</u>

At 30 April 2002 the group had annual commitments under non-cancellable operating leases as set out below:

	Aircraft and engines £'000	Land and buildings £'000	Other £'000	Total £'000
Operating leases which expire:				
Within one year	4,471	293	1,184	5,948
In the second to fifth year inclusive	37,153	16	743	37,912
After five years	12,841	964	-	13,805
	<u>54,465</u>	<u>1,273</u>	<u>1,927</u>	<u>57,665</u>

Other

At 31 October 2003, the group had commitments under forward exchange contracts entered into in the ordinary course of business amounting to £178.27m (30 April 2002 - £171.2m).

25. 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 period includes a profit after tax and before dividends of £12,223,000 (year ended 30 April 2002 - £1,752,000) which has been dealt with in the financial statements of the company.

NOTES TO THE ACCOUNTS**For the eighteen month period ended 31 October 2003****26. PENSION ARRANGEMENTS**

Following the acquisition of Cosmosair plc, the group operates two defined benefit schemes.

Monarch Airlines Limited Retirement Benefits Plan

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 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 at 30 June 2001. It was assumed that investment returns would be 7.25% per annum before retirement and 6.75% after retirement, that salary increases would average 4.75% per annum and that present and future pensions would increase at 3.25% per annum on post-1997 and 3% per annum on pre-1997 service. Assets were taken at market value. At that date the value of assets was sufficient to cover 99.7% of the benefits that had accrued to members of both sections of the scheme after allowing for expected future increases in earnings. The market value of the assets as a whole was £144,568,000.

At 31 October 2003 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 30 June 2001. As a result of this review the total pension cost charged for the period in these financial statements amounted to £10,562,000 (year ended 30 April 2002 - £6,372,000).

From 30 June 2001 and in accordance with the actuary's recommendations, the company and the employees have made contributions to the Ground Staff Section of the Scheme of 12% and 2% of pensionable salaries respectively until March 2003 and of 18% and 4% of pensionable salaries respectively thereafter. The company and the employees made contributions to the Aircrew Section of the Scheme of 16% and 8% of pensionable salaries respectively until March 2003 and of 22% and 10% of pensionable salaries respectively thereafter. At 31 October 2003, the company has made a provision of £766,000 (at 30 April 2002 - a provision of £255,000 was made).

At 31 October 2003 the present value of the total scheme liabilities, calculated under the projected unit method exceeded the total market value of its assets. The market value of the Scheme's investments and therefore, the overall scheme deficit at any one point in time can be adversely affected by shorter-term fluctuations in stock market prices. However, the Scheme's investments are, by their nature, long term investments and therefore the group will continue to pay the contributions recommended by the Scheme's actuary in accordance with statutory requirements, in order to meet the future liabilities of the Scheme. Recoverability of the related deferred tax asset will be considered on the full implementation of FRS 17.

Cosmosair Pension and Life Assurance Scheme

Certain subsidiaries operate a funded defined benefit for qualifying employees. The assets of the scheme are held in separate funds.

The scheme is subject to a triennial valuation by independent actuaries, the last valuation being carried out as at 1 June 2000 using the projected unit credit method. The following actuarial assumptions were applied;

Investment returns	8%
Salary growth	6%
Pension increases	4%

At the last actuarial valuation date, the value of the assets of the scheme was £2,055,000 and this actuarial value was sufficient to cover 139% of benefits accruing to members. The employers' contribution rate over the average remaining service lives of the members of the scheme takes account of the surplus disclosed by the valuation.

NOTES TO THE ACCOUNTS**For the eighteen month period ended 31 October 2003****26. PENSION ARRANGEMENTS (continued)**

In order to comply with the disclosure requirements of FRS17, Retirements Benefits, the following additional information in respect of the final salary pension schemes is presented as at 31 October 2003. The amounts disclosed in this note have not been recognised in the primary statements of the Group during this transitional period but are presented below therefore on a pro-forma basis:

The financial assumptions under FRS 17 used by the actuaries were:

	2003		2002
	Cosmosair Pension and Life Assurance Scheme	Monarch Airlines Limited Retirement Benefit Plan	Monarch Airlines Limited Retirement Benefit Plan
Rate of increase in salaries	4.0%	4.5%	4.5%
Rate of increase for pensions in payment	2.0%	3.0%	3.0%
Discount rate	5.6%	5.5%	6.0%
Inflation assumption	2.3%	2.5%	2.5%
Increase in deferred pension	2.3%	2.5%	2.5%

The fair value of the assets and the present value of the liabilities in the schemes and the expected rate of return at each balance sheet date were:

	Monarch Airlines Limited Retirement Benefits Plan		Monarch Airlines Limited Retirement Benefits Plan	
	31 October 2003	31 October 2003	30 April 2002	30 April 2002
	%	£'000	%	£'000
Equities	7.5	121,335	8.0	124,751
Bonds	5.5	10,908	6.0	11,678
Other - Cash	5.5	799	6.0	962
Total market value of assets		133,042		137,391
Present value of scheme liabilities		(243,247)		(189,459)
Deficit in the scheme		(110,205)		(52,068)
Related deferred tax asset		33,062		15,620
Net pension liability on an FRS 17 basis		<u>(77,143)</u>		<u>(36,448)</u>

NOTES TO THE ACCOUNTS**For the eighteen month period ended 31 October 2003****26. PENSION ARRANGEMENTS (continued)**

	Cosmos Pension and Life Assurance Scheme	
	31 October 2003	31 October 2003
	%	£'000
Equities	7.0	975
Bonds	5.0	1,360
Other - Cash	7.0	340
		<hr/>
Total market value of assets		2,675
Present value of scheme liabilities		(2,519)
		<hr/>
Surplus in the scheme		156
Related deferred tax liability		(47)
		<hr/>
Net pension asset on an FRS 17 basis		109
		<hr/>

	31 October 2003	30 April 2002
	£'000	£'000
Net pension liability:		
Pension liability	(77,143)	(36,448)
Pension asset	109	-
	<hr/>	<hr/>
	(77,034)	(36,448)
	<hr/>	<hr/>

Analysis of the amount that would be charged to operating profit

	Period from 1 May 2002 to 31 October 2003
	£'000
Current service cost	9,526
	<hr/>

Analysis of the amount that would be charged to finance costs

	Period from 1 May 2002 to 31 October 2003
	£'000
Expected return on pension scheme assets	16,828
Interest on pension liabilities	(17,537)
	<hr/>
Net negative return	(709)
	<hr/>

NOTES TO THE ACCOUNTS**For the eighteen month period ended 31 October 2003****26. PENSION ARRANGEMENTS (continued)****Analysis of the amount that would be recognised in the statement of total recognised gains and losses**

	Period from 1 May 2002 to 31 October 2003 £'000
Actual return less expected return on pension schemes assets	(26,022)
Experience gains and losses arising on schemes liabilities	(6,650)
Changes in assumptions underlying the present value of schemes liabilities	(25,416)
	<u>(58,088)</u>

Movement in schemes deficits during the period

	Period from 1 May 2002 to 31 October 2003 £'000
Deficits in scheme at the beginning of the period	(52,068)
Pension surplus acquired	300
Current service cost	(9,526)
Contributions	10,016
Other financial costs	(709)
Actuarial losses	(58,088)
	<u>(110,049)</u>
Net deficit in schemes at the end of the period	<u>(110,049)</u>
	£'000
Represented by:	
Monarch Airlines Limited Retirement Benefit Plan	(110,205)
Cosmosair Pension and Life Assurance Scheme	156
	<u>(110,049)</u>

History of experience gains and losses

	31 October 2003
Difference between expected and actual return on scheme assets:	
Amount (£'000)	(26,022)
Percentage of schemes assets	-19.2%
Experience gains and losses on schemes liabilities:	
Amount (£'000)	(6,650)
Percentage of schemes liabilities	-2.7%
Total actuarial loss in the statement of total recognised gains and losses:	
Amount (£'000)	(58,088)
Percentage of schemes assets	23.6%

NOTES TO THE ACCOUNTS**For the eighteen month period ended 31 October 2003****26. PENSION ARRANGEMENTS (continued)****History of experience gains and losses (continued)**

The effect on the consolidated profit and loss reserve if the pension schemes liabilities were incorporated into the financial statements is as follows:

	31 October 2003 £'000	30 April 2002 £'000
Profit and loss reserve excluding net pension deficit	67,282	65,346
Net pension deficit	(77,034)	(36,448)
Profit and loss reserve -- (deficit)/surplus	<u>(9,752)</u>	<u>28,898</u>

27. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Period from 1 May 2002 to 31 October 2003 £'000	Year ended 30 April 2002 £'000
Operating profit	27,295	3,508
Amortisation – intangible fixed assets	1,120	1,789
Depreciation – tangible fixed assets	42,558	24,141
Impairment charges – tangible assets	-	3,571
Profit on sale of tangible fixed assets	(2,198)	(111)
Profit on sale of investments	-	(508)
Decrease in stocks	601	1,182
Decrease/(increase) in debtors	14,225	(15,863)
Increase in creditors	(28,994)	(6,243)
Net cash inflow from operating activities	<u>54,607</u>	<u>11,466</u>

NOTES TO THE ACCOUNTS

For the eighteen month period ended 31 October 2003

28. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2003 £'000	2002 £'000
Increase/(decrease) in cash in the period/year	29,697	(27,078)
Cash inflow from increase in debt and lease financing	(44,187)	(26,928)
Change in net debt resulting from cash flows	(14,490)	(54,006)
New hire purchase/finance lease arrangements	-	(31)
Other movements	-	20
Foreign exchange movements	19,252	2,174
Movement in net debt in the period/year	4,762	(51,843)
Opening net debt	(93,070)	(46,196)
Closing net debt	(88,308)	(93,070)

29. ANALYSIS OF NET DEBT

	At 1 May 2002 £'000	Cash flows £'000	Non-cash changes £'000	Foreign exchange movement £'000	At 31 October 2003 £
Cash at bank and in hand	24,530	30,166	-	-	54,696
Overdrafts	(46)	(469)	-	-	(515)
	10,333	29,697	-	-	54,181
Bank loans due after one year	(87,872)	(61,114)	13,981	16,546	(118,459)
Bank loans due within one year	(6,214)	10,758	(13,981)	1,157	(8,280)
Finance leases and hire purchase obligations	(22,318)	6,169	-	1,549	(14,600)
Other loan	(1,150)	-	-	-	(1,150)
	(117,554)	(44,187)	-	19,252	(142,489)
Total	(93,070)	(14,490)	-	19,252	(88,308)

NOTES TO THE ACCOUNTS**For the eighteen month period ended 31 October 2003****30. RELATED PARTY TRANSACTIONS**

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

- The company or subsidiary undertakings of the company, and
- Companies controlled by the ultimate controlling parties of the company;
- All such transactions have been executed on an arm's length basis.

Transaction	Related Party
1 Loan to Monarch Holdings plc on interest free terms and with no fixed terms for repayment. The amount due to the related party at 30 October 2003 was £1.15m (year ended 30 April 2002 - £1.15m)	Cosmosguide Holding International NV as lender.
2 On 15 November 2000 Monarch Airlines Limited entered into a purchase agreement in respect of five Airbus A231-200 aircraft for a consideration of £193.9m. This amount is included within the commitments for capital expenditure shown in note 11. The value of deposits paid to the related party at 31 October 2003 was £1.9m (year ended 30 April 2002 - £2.7m).	Aviation Enterprises Limited as seller under the purchase agreement.
3 Operating leases to Monarch Airlines Limited of aircraft, engines and rotatable components at a cost of £54.55m (2002 - £48.92m) in the period. These leases are for periods of between 3 and 13 years at rentals ranging from £1.8m to £6.0m per annum (year ended 30 April 2002 - £1.8m to £6.4m).	Various lessors.
Included in 3 above is an operating lease in respect of an aircraft. The terms of that lease were amended by an agreement dated 15 March 2002 with effect from 15 March 2002. The lease will now run for a period of 24 months at a rental of £2.0m per annum.	Rossana Leasing Corporation as lessor.
Included in 3 above is an operating lease in respect of an aircraft. The terms of that lease were amended by an agreement dated 17 April 2002 with effect from 17 April 2002. The lease will now run for a period of 24 months at a rental of £2.0m per annum.	Project Investment Corporation as lessor.
4 Sale of seats to the related party by subsidiary undertakings of the company amounting to £3.93m (year ended 30 April 2002 - £4.67m).	Cosmos Transport Services Limited as seat broker

NOTES TO THE ACCOUNTS**For the eighteen month period ended 31 October 2003****30. RELATED PARTY TRANSACTIONS (continued)**

Transaction	Related Party
<p>5 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 £19.25m (2002 - £7.57m) in the period. The amount due from the related party at 31 October 2003 was £2.80m (year ended 30 April 2002 - 2.77m)</p>	<p>Voyager Insurance Company Limited as provider of insurance and insurance services.</p>
<p>6 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 was £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.</p>	<p>Andrair Limited as lessee of an aircraft and beneficiary of security agreements.</p>
<p>7 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 £135,500 per annum. Any liability of Monarch Airlines Limited is fully indemnified by Glossa Travel Services International NV (see transaction 8).</p>	<p>Tourwise of London Limited as beneficiary of guarantee.</p>
<p>8 Pursuant to an agreement dated 24 November 1989 any liability of Monarch Airlines Limited under the guarantee of the lease referred to in transaction 9 is fully indemnified.</p>	<p>Glossa Travel Services International NV as provider of an indemnity.</p>
<p>9 During the year Monarch Airlines Leasing Limited incurred costs of £44,000 (year ended 30 April 2002 - £56,000) 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.</p>	<p>Renfro Corporation as guarantor.</p>

NOTES TO THE ACCOUNTS

For the eighteen month period ended 31 October 2003

30. RELATED PARTY TRANSACTIONS (continued)

Transaction	Related Party
10 Sale of seats to customers of the related party by Avro plc amounted to £1,991,000 (2002 - £1,633,000) and the amount due from the related party was £17,000 (year ended 30 April 2002 - £188,000). Avro plc was charged for commission of £23,000 (year ended 30 April 2002 - £14,000). No amount was owed to the related party at the year end.	Urbanweb Limited as agent.
11 Fee for provision of bonds with regulatory bodies £661,000 (2002 - £761,000). The balance due to the related party at 31 October 2003 was £53,000 (2002 - £56,000)	Tourama Limited as provider.
12 Fee for provision of resort and administrative services and liability insurance £1,331,000 (2002 - £1,604,000).	Tourama Limited as provider.
13 The balance due from Tourama Limited at 31 October 2003 was £11,438,000 (2002 - £16,414,000). This covers transactions 11 and 12 above and payments made by Tourama Limited to unrelated third parties as paying agent of the company.	Tourama Limited as debtor.
14 Commission payable on sales of holidays £2,328,000 (2002 - £1,758,000). The balance due to the related party at 31 October 2003 was £375,000 (2002 - £679,000).	Urbanweb Limited as travel agent.
15 Fee for provision of management services to the company £50,000 (2002 - £50,000).	Cosmosguide Holding International NV as provider.
16 Licence fee for use of the 'Cosmos' name £180,000 (2002 - 180,000). The balance due at 31 October 2003 was £180,000 (2002 - £180,000).	Cosmos European Travels Aktiengesellschaft as proprietor.
17 Administration fees, contribution to central overheads, supply of UK airport departure point services charged to the related parties amounted to £1,304,000 (2002 - £3,444,000) in the year. The balance due from these related parties at 31 October 2003 was £nil (2002 - £8,422,000). The sum of £11,680,000 (2002 - £10,183,000) was due to the related parties at 31 October 2003 and includes holiday booking monies received on behalf of Cosmos Coach Tours Limited.	Cosmos Coach Tours Limited and Archers Tours Limited as users of services.

NOTES TO THE ACCOUNTS**For the eighteen month period ended 31 October 2003****30. RELATED PARTY TRANSACTIONS (continued)**

	Transaction	Related Party
18	Fee for provision of guarantee to the Civil Aviation Authority £761,000 (2002 - £782,000) of which £316,000 relates to future accounting periods (2002 - £316,000).	Cosmosguide Holding International NV as guarantor.
19	Loan balance due from related party £196,000 (2002 - £196,000).	Rojo Holdings Limited as debtor
20	Loan balance due from related party £490,000 (2002 - £490,000).	Urbanweb Limited as debtor

31. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

The directors consider that the company's ultimate and immediate parent company and its controlling party is Amerald Investments NV, a company incorporated in the Netherlands Antilles, the accounts of which are neither consolidated nor publicly available.

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