

1165001

Monarch Holdings plc

Report and Financial Statements

Year Ended
30 April 1997



BDO

BDO Stoy Hayward
Chartered Accountants

MONARCH HOLDINGS PLC

Annual report and financial statements for the year ended 30 April 1997

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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.

Registered 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 1997

The directors submit their report together with the audited financial statements of the group for the year ended 30 April 1997.

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 engineering and tour operators specialising in the sale of airline seats.

The board is pleased to have achieved a pre tax profit in excess of £16m for the year ended 30 April 1997 and is anticipating a satisfactory level of profit for the year ended 30 April 1998.

The introduction of further Airbus aircraft is planned for 1999.

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

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 year the group made charitable donations of £1,851 (1996 - £2,060).

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.

Statement of creditor payment practice

The company's policy for the year to 30 April 1998 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 1997 was nil.

MONARCH HOLDINGS PLC

Report of the directors for the year ended 30 April 1997 (*Continued*)

Directors

The directors of the company during the year were:

Executive

D L Bernstein

Non executive

F J Donagh

None of the directors had an interest in the shares of the company or any of its parent undertakings.

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 the group 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, subject to any material departures disclosed and explained in the financial statements;
- 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 the group 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 group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

MONARCH HOLDINGS PLC

Report of the directors for the year ended 30 April 1997 (*Continued*)

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.

On behalf of the Board

A handwritten signature in dark ink, appearing to read 'David L Bernstein', written in a cursive style.

D L Bernstein
Director

12 September 1997

MONARCH HOLDINGS PLC

Report of the auditors

To the shareholders of Monarch Holdings plc

We have audited the financial statements on pages 5 to 29 which have been prepared under the accounting policies set out on pages 10 to 12.

Respective responsibilities of directors and auditors

As described on page 2 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 group's circumstances, consistently applied and adequately disclosed.

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

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 1997, 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

12 September 1997

MONARCH HOLDINGS PLC

Consolidated profit and loss account for the year ended 30 April 1997

	Note	1997 £'000	1996 £'000
Turnover	1 & 2	387,219	347,676
Cost of sales		336,406	305,185
Gross profit		50,813	42,491
Administrative expenses		35,274	29,924
		15,539	12,567
Other operating income		1,303	1,503
Operating profit	4	16,842	14,070
Profit on sale of aircraft		-	1,202
Profit on ordinary activities before interest		16,842	15,272
Interest receivable		3,613	3,907
Interest payable	7	(3,499)	(4,401)
Profit on ordinary activities before tax	2	16,956	14,778
Tax on profit on ordinary activities	8	4,109	5,236
Profit for the financial year		12,847	9,542
Dividends	9	6,000	6,000
Retained profit for the year	20	6,847	3,542

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 29 form part of these financial statements.

MONARCH HOLDINGS PLC

Statement of total recognised gains and losses for the year ended 30 April 1997

		Group		Company	
	Note	1997 £'000	1996 £'000	1997 £'000	1996 £'000
Profit for the financial year		12,847	9,542	6,011	6,504
Exchange adjustment	20	(1,192)	972	-	-
Transfer from deferred tax	18	-	750	-	-
		<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total recognised gains and losses for the year		11,655	11,264	6,011	6,504
		<u> </u>	<u> </u>	<u> </u>	<u> </u>

The notes on pages 10 to 29 form part of these financial statements.

MONARCH HOLDINGS PLC

Consolidated balance sheet at 30 April 1997

	Note	1997		1996	
		£'000	£'000	£'000	£'000
Fixed assets					
Intangible assets	10		11,532		11,549
Tangible assets	11		151,934		157,248
Investments	12		20		20
			<u>163,486</u>		<u>168,817</u>
Current assets					
Stocks	13	7,524		6,531	
Debtors - due within one year	14	42,934		37,435	
- due after more than one year	14	10,990		7,333	
Cash at bank and in hand	15	39,139		42,181	
		<u>100,587</u>		<u>93,480</u>	
Creditors: amounts falling due within one year	16	123,782		116,435	
		<u>123,782</u>		<u>116,435</u>	
Net current liabilities			(23,195)		(22,955)
Total assets less current liabilities			<u>140,291</u>		<u>145,862</u>
Creditors: amounts falling due after more than one year	17		50,363		60,018
Provisions for liabilities and charges	18		23,557		25,128
			<u>66,371</u>		<u>60,716</u>
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		61,358		55,703
			<u>66,371</u>		<u>60,716</u>
Shareholders' funds	21		<u>66,371</u>		<u>60,716</u>

The financial statements were approved by the Board on 12 September 1997.

The notes on pages 10 to 29 form part of these financial statements.

MONARCH HOLDINGS PLC

Balance sheet at 30 April 1997

	Note	1997		1996	
		£'000	£'000	£'000	£'000
Fixed assets					
Investments	12		12,162		12,162
Current assets					
Debtors - due within one year	14	4,077		4,434	
- due after more than one year	14	2,250		4,000	
Cash at bank and in hand		475		1,170	
		<u>6,802</u>		<u>9,604</u>	
Creditors: amounts falling due within one year	16	4,659		4,972	
		<u></u>		<u></u>	
Net current assets			2,143		4,632
			<u></u>		<u></u>
Total assets less current liabilities			14,305		16,794
Creditors: amounts falling due after more than one year	17		13,650		16,150
			<u>655</u>		<u>644</u>
			<u></u>		<u></u>
Capital and reserves					
Called up share capital - equity	19		50		50
Profit and loss account - equity	20		605		594
			<u>655</u>		<u>644</u>
Shareholders' funds	21		<u>655</u>		<u>644</u>

The financial statements were approved by the Board on 12 September 1997.

David L Bernstein

D L Bernstein

F J Donagh

F J Donagh
Directors

The notes on pages 10 to 29 form part of these financial statements.

MONARCH HOLDINGS PLC

Consolidated cash flow statement for the year ended 30 April 1997

	Note	1997		1996	
		£'000	£'000	£'000	£'000
Net cash inflow from operating activities	25		48,990		43,377
Returns on investments and servicing of finance					
Interest received		3,317		4,106	
Interest paid		(989)		(1,020)	
Finance lease and hire purchase interest		(2,474)		(3,200)	
Net cash outflow from returns on investment and servicing of finance			(146)		(114)
Taxation					
UK Corporation tax paid		(2,244)		(1,063)	
Tax paid			(2,244)		(1,063)
Capital expenditure and financial investment					
Engine overhaul		(6,869)		(4,436)	
Payments to acquire intangible fixed assets		(1,540)		(1,589)	
Payments to acquire tangible fixed assets		(24,561)		(18,501)	
Receipts from sales of tangible fixed assets		435		13,828	
Purchase of subsidiary undertaking		-		1,087	
Net cash outflow for capital expenditure and financial investments			(32,535)		(9,611)
Equity dividends paid			(6,000)		(9,000)
Net cash inflow before use of liquid resources and financing			8,065		23,589
Management of liquid resources					
Realisation of short term deposits			4,030		159
Cash drawn from deposits pledged to providers of hire purchase finance			240		381
Financing					
Capital element of finance lease and hire purchase payments	27	(9,992)		(10,103)	
New bank loans	27	3,000		-	
Bank loan repayments	27	(2,475)		(12,111)	
Net cash outflow from financing			(9,467)		(22,214)
Increase in cash	26		2,868		1,915

The notes on pages 10 to 29 form part of these financial statements.

MONARCH HOLDINGS PLC

Notes forming part of the financial statements for the year ended 30 April 1997

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 1997 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.
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.

MONARCH HOLDINGS PLC

Notes forming part of the financial statements for the year ended 30 April 1997 (*Continued*)

1 Accounting policies (*continued*)

Fixed assets - depreciation (continued)

- | | |
|---------------------|---|
| 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.

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.

1 Accounting policies (*continued*)

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 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.

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 flight revenue receivable in advance from customers in respect of contractual flying 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 1997 (Continued)

2 Turnover, profit before tax and net assets

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

Description of class of business:	Turnover		Profit/(loss) before tax		Net assets	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000	1997 £'000	1996 £'000
Airline operations	309,345	306,332	10,162	11,673	50,002	46,937
Engineering services	35,074	29,765	4,876	6,334	14,005	13,718
Sale of airline seats	42,800	11,579	1,918	(3,229)	2,364	61
	<u>387,219</u>	<u>347,676</u>	<u>16,956</u>	<u>14,778</u>	<u>66,371</u>	<u>60,716</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 £6,011,193 (1996 - £6,503,733) which has been dealt with in the financial statements of the company.

4 Operating profit

This is arrived at after crediting:	1997 £'000	1996 £'000
Operating lease rentals - aircraft and engines	7,904	9,950
Profit on sale of fixed assets	258	449
	<u> </u>	<u> </u>
and after charging:		
Depreciation - tangible assets	14,552	14,057
Amortisation - intangible assets	1,557	1,107
Amortisation of engine overhaul	4,712	5,234
Operating lease rentals - aircraft and engines	47,586	49,062
- land and buildings	935	852
- other	277	213
Auditors' remuneration - audit services	142	127
- non-audit services	143	163
	<u> </u>	<u> </u>

MONARCH HOLDINGS PLC

Notes forming part of the financial statements for the year ended 30 April 1997 (*Continued*)

5 Directors

Emoluments:	1997 £'000	1996 £'000
Remuneration for management services	267	260
The emoluments of the highest paid director were:	257	250
The accrued pension of the highest paid director at 30 April 1997 was £16,000 per annum		
	Number	Number
The number of directors in the defined benefit pension scheme outlined in note 25 is as follows:	1	1

6 Employees

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

Airline operations	1,288	1,225
Aircraft engineers	540	480
Administrative	568	492
	2,396	2,197
Staff costs for all employees, including executive directors, consists of:	£'000	£'000
Wages and salaries	50,156	44,949
Social security costs	4,546	4,059
Other pension costs	3,193	2,902
	57,895	51,910

7 Interest payable

On bank loans	1,033	1,217
On hire purchase and finance lease agreements	2,451	3,178
On other loans	15	6
	3,499	4,401

MONARCH HOLDINGS PLC

Notes forming part of the financial statements for the year ended 30 April 1997 (*Continued*)

8 Tax on profit on ordinary activities

	1997 £'000	1996 £'000
The charge is based on the profit for the year and consists of:		
UK corporation tax	4,145	1,538
Transfer to deferred tax account	747	3,072
	<u>4,892</u>	<u>4,610</u>
Adjustments relating to prior years:		
UK corporation tax	(383)	806
Transfer from deferred tax account	(400)	(180)
	<u>4,109</u>	<u>5,236</u>

The charge for the year includes relief for the net taxation effect of foreign exchange movements which have been accounted for through profit and loss account reserves.

If full provision for deferred tax had been made the tax charge for the year would have been decreased by £1,480,000 (1996 - increased £1,301,000).

9 Dividends

	1997 £'000	1996 £'000
Ordinary dividends:		
Interim paid of £60 per share (1996 - £60)	3,000	3,000
Final proposed of £60 per share (1996 - £60)	3,000	3,000
	<u>6,000</u>	<u>6,000</u>

MONARCH HOLDINGS PLC

Notes forming part of the financial statements for the year ended 30 April 1997 (*Continued*)

10 Intangible assets

Group	Goodwill on consolidation £'000	Crew Training and Aircraft Introductory Costs £'000	Total £'000
<i>Cost</i>			
At 1 May 1996	8,324	9,666	17,990
Additions	-	1,540	1,540
Disposals	-	(744)	(744)
	<hr/>	<hr/>	<hr/>
At 30 April 1997	8,324	10,462	18,786
	<hr/>	<hr/>	<hr/>
<i>Amortisation</i>			
At 1 May 1996	208	6,233	6,441
Provision for the year	416	1,141	1,557
Disposals	-	(744)	(744)
	<hr/>	<hr/>	<hr/>
At 30 April 1997	624	6,630	7,254
	<hr/>	<hr/>	<hr/>
<i>Net book value</i>			
At 30 April 1997	7,700	3,832	11,532
	<hr/>	<hr/>	<hr/>
At 30 April 1996	8,116	3,433	11,549
	<hr/>	<hr/>	<hr/>

MONARCH HOLDINGS PLC

Notes forming part of the financial statements for the year ended 30 April 1997 (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 & special work £'000	Aircraft simulator £'000	Plant and equipment £'000	Total £'000
Group										
<i>Cost or valuation</i>										
At 1 May 1996		215	13,839	2,474	173,911	53,098	6,666	7,278	16,723	274,204
Reclassified		-	(2,176)	2,244	-	(10,189)	-	-	(68)	(10,189)
Additions		-	481	214	1,240	16,778	1,740	-	3,977	24,430
Disposals		-	-	-	-	(743)	(195)	(251)	(1,440)	(2,629)
Exchange movement		-	-	-	(6,102)	-	-	-	-	(6,102)
At 30 April 1997		215	12,144	4,932	169,049	58,944	8,211	7,027	19,192	279,714
<i>Depreciation</i>										
At 1 May 1996		101	1,641	1,012	66,387	31,518	2,364	3,998	9,935	116,956
Reclassified		-	(68)	68	-	(38)	-	-	-	(38)
Provision for the year		28	330	162	7,366	2,949	562	580	2,575	14,552
Disposals		-	-	-	-	(702)	(195)	(250)	(1,305)	(2,452)
Exchange movement		-	-	-	(1,238)	-	-	-	-	(1,238)
At 30 April 1997		129	1,903	1,242	72,515	33,727	2,731	4,328	11,205	127,780
<i>Net book value</i>										
At 30 April 1997		86	10,241	3,690	96,534	25,217	5,480	2,699	7,987	151,934
At 30 April 1996		114	12,198	1,462	107,524	21,580	4,302	3,280	6,788	157,248

The aircraft and engines cost includes £136,064,000 (1996 - £139,952,000) in respect of assets which are subject to hire purchase and finance lease contracts. The accumulated depreciation of these assets is £57,348,000 (1996 - £52,010,000). The related depreciation charge for the year was £5,661,000 (1996 - £6,212,000). The simulator cost includes £685,000 (1996 - £685,000) of capitalised interest.

The plant and equipment cost includes £466,101 (1996 - £606,078) in respect of assets which are subject to hire purchase and finance lease contracts. The accumulated depreciation of these assets is £200,192 (1996 - £268,451). The related depreciation charge for the year was £78,015 (1996 - £102,604).

The cost of the long leasehold property includes £68,058 (1996 - £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 (1996 - £351,967).

MONARCH HOLDINGS PLC

Notes forming part of the financial statements for the year ended 30 April 1997 (*Continued*)

11	Tangible assets (<i>continued</i>)	Group		Company	
		1997	1996	1997	1996
		£'000	£'000	£'000	£'000
	Commitments for capital expenditure				
	Contracted for but not provided in the financial statements	4,218	3,270	Nil	Nil

12 Fixed asset investments

Group	1997	1996
	£'000	£'000
Other investment	20	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	1997	1996
	£'000	£'000
Shares in subsidiary undertakings		
Cost at 1 May 1996	12,162	1,162
Subscribed for 100% of new preference share capital of Avro plc at par value	-	11,000
Cost at 30 April 1997	12,162	12,162

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

	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
Monarch Aircraft Leasing Limited	Dormant

All of the above investments are unlisted.

MONARCH HOLDINGS PLC

Notes forming part of the financial statements for the year ended 30 April 1997 (*Continued*)

13 Stocks

Group

	1997 £'000	1996 £'000
Cabin consumables	628	451
Engineering stock	1,265	931
Work in progress	5,128	4,288
Goods held for resale	503	861
	<u>7,524</u>	<u>6,531</u>

14 Debtors

Group

Company

	1997 £'000	1996 £'000	1997 £'000	1996 £'000
Amounts falling due within one year:				
Trade debtors	30,893	26,002	-	-
Amounts owing from subsidiary undertaking	-	-	310	908
VAT recoverable	583	979	-	-
Other debtors	1,794	1,613	363	-
Prepayments	8,629	7,940	1	-
Dividends receivable	-	-	3,400	3,500
Advance corporation tax recoverable	-	901	-	26
Corporation tax	1,035	-	3	-
	<u>42,934</u>	<u>37,435</u>	<u>4,077</u>	<u>4,434</u>

Amounts falling due after more than one year:

Amounts owing from subsidiary undertaking	-	-	1,500	4,000
Other debtors	3,128	3,005	-	-
Prepayments	7,112	4,328	-	-
Advance corporation tax recoverable	750	-	750	-
	<u>10,990</u>	<u>7,333</u>	<u>2,250</u>	<u>4,000</u>

MONARCH HOLDINGS PLC

Notes forming part of the financial statements for the year ended 30 April 1997 (Continued)

15 Cash at bank and in hand

As part of the arrangements for financing the acquisition of aircraft cash deposits of £5,591,018 (1996 - £7,471,310) 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	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
Bank loans (secured)	2,843	2,653	-	-
Obligations under finance leases	3,046	6,130	-	-
Obligations under hire purchase contracts	4,075	3,423	-	-
	<u>9,964</u>	<u>12,206</u>	<u>-</u>	<u>-</u>
Payments received on account	11,729	10,119	-	-
Trade creditors	58,239	58,850	-	-
Amounts owed to subsidiary undertakings	-	-	791	126
Corporation tax	4,516	3,166	-	-
Advance corporation tax payable	1,500	750	805	750
Tax and social security	1,777	1,537	-	-
Proposed dividend	3,000	3,000	3,000	3,000
Other creditors	5,388	6,195	-	1,055
Accruals	12,568	12,579	63	41
Advance deposits held	15,101	8,033	-	-
	<u>123,782</u>	<u>116,435</u>	<u>4,659</u>	<u>4,972</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 1997 (*Continued*)

17 Creditors: amounts falling due after more than one year

	Group		Company	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000
Total amounts arising in respect of:				
Bank loans (secured)	13,817	14,184	-	-
Obligations under finance leases	6,376	12,510	-	-
Obligations under hire purchase contracts	38,984	44,380	-	-
Other loan	1,150	1,150	1,150	1,150
	<u>60,327</u>	<u>72,224</u>	<u>1,150</u>	<u>1,150</u>
Less: amounts included in current liabilities	(9,964)	(12,206)	-	-
	<u>50,363</u>	<u>60,018</u>	<u>1,150</u>	<u>1,150</u>
Amounts owed to subsidiary undertaking	-	-	12,500	15,000
	<u>50,363</u>	<u>60,018</u>	<u>13,650</u>	<u>16,150</u>
These amounts are payable in the following periods from the balance sheet date:				
In the second year	10,366	9,277	-	-
In the third to fifth year inclusive	20,350	24,394	-	-
After five years	19,647	26,347	13,650	16,150
	<u>50,363</u>	<u>60,018</u>	<u>13,650</u>	<u>16,150</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 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 1997 (*Continued*)

18 Provisions for liabilities and charges

Group	Deferred tax £'000	Pensions £'000	Component repairs £'000	Total £'000
At 1 May 1996	22,098	1,501	1,529	25,128
Charge/(credit) to profit and loss account	347	(691)	(1,529)	(1,873)
Advance corporation tax	302	-	-	302
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 30 April 1997	22,747	810	-	23,557
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Deferred tax

The total potential amount of deferred tax on timing differences and the amount for which provision at 31% (1996 - 33%) has been made is:

	Provided		Potential	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000
Accelerated capital allowances	13,065	13,206	18,900	20,614
Assets subject to finance leases	10,229	10,063	10,229	10,063
Pension provisions	(171)	(322)	(251)	(495)
Other timing differences	72	(99)	72	(99)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	23,195	22,848	28,950	30,083
			<u> </u>	<u> </u>
Advance corporation tax recoverable	(448)	(750)		
	<u> </u>	<u> </u>		
	22,747	22,098		
	<u> </u>	<u> </u>		

Pensions

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

19 Share capital

	1997 £'000	1996 £'000
Authorised, allotted, called up and fully paid 50,000 ordinary shares of £1 each	50	50
	<u> </u>	<u> </u>

MONARCH HOLDINGS PLC

Notes forming part of the financial statements for the year ended 30 April 1997 (*Continued*)

20 Reserves

	Profit and loss account £'000	Merger reserve £'000	Total £'000
Group			
At 1 May 1996	55,703	4,963	60,666
Retained profit for the year	6,847	-	6,847
Exchange adjustment (see below)	(1,192)	-	(1,192)
	<hr/>	<hr/>	<hr/>
At 30 April 1997	61,358	4,963	66,321
	<hr/>	<hr/>	<hr/>

The transfer from deferred tax relates to exchange movements.

The exchange adjustment comprises the following:	£'000
Aircraft and engines - cost (Note 11)	(6,102)
Aircraft and engines - depreciation (Note 11)	1,238
Financing (Note 27)	3,672
	<hr/>
	(1,192)
	<hr/>

Company

	Profit and loss account £'000
At 1 May 1996	594
Retained profit for year	11
	<hr/>
At 30 April 1997	605
	<hr/>

21 Reconciliation of movements in shareholders' funds

	Group		Company	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000
Profit for the financial year	12,847	9,542	6,011	6,504
Exchange adjustment	(1,192)	972	-	-
Dividends	(6,000)	(6,000)	(6,000)	(6,000)
Transfer from deferred tax	-	750	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	5,655	5,264	11	504
Opening shareholders' funds	60,716	55,452	644	140
	<hr/>	<hr/>	<hr/>	<hr/>
Closing shareholders' funds	66,371	60,716	655	644
	<hr/>	<hr/>	<hr/>	<hr/>

MONARCH HOLDINGS PLC

Notes forming part of the financial statements for the year ended 30 April 1997 (*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 1997 was £5,055,251 (1996 - £5,616,424).

At 30 April 1997, 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 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>

As at 30 April 1996 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	4,433	145	35
In the second to fifth year inclusive	18,617	-	1,736
After five years	29,887	683	-
	<u>52,937</u>	<u>828</u>	<u>1,771</u>

Other

At 30 April 1997, the group had commitments under forward exchange contracts entered into in the ordinary course of business amounting to £105.2m (1996 - £71.4m).

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 1997 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 £3,193,000 (1996 - £2,902,000).

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	15	7.5

At 30 April 1997, in accordance with SSAP24, the group has made provisions of £673,000 (1996 - £1,364,000) in respect of the Groundstaff section and £137,000 (1996 - £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 1997 (*Continued*)

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

	1997 £'000	1996 £'000
Operating profit	16,842	14,070
Amortisation - intangible fixed assets	1,557	1,107
Depreciation - tangible fixed assets	14,552	14,057
Profit on sale of fixed assets	(258)	(449)
Amortisation of engine overhaul	4,712	5,234
(Increase)/decrease in stocks	(993)	456
Increase in debtors	(5,822)	(12,269)
Increase/(decrease) in creditors	10,469	11,112
Tangible fixed assets reclassified	10,151	9,196
(Decrease)/increase in component repair provision	(1,529)	1,529
Decrease in pension provision	(691)	(666)
	<hr/>	<hr/>
Net cash inflow from operating activities	48,990	43,377
	<hr/>	<hr/>

26 Reconciliation of net cash flow to movement in net debt

	1997		1996	
	£'000	£'000	£'000	£'000
Increase in cash in the year	2,868		1,915	
Cash outflow from decrease in debt and lease financing	9,467		22,214	
Cash inflow from decrease in liquid resources	(4,270)		(540)	
	<hr/>		<hr/>	
Change in net debt resulting from cash flows		8,065		23,589
New hire purchase contracts		(2,882)		(30)
Exchange movements		3,671		(3,813)
		<hr/>		<hr/>
Movement in debt in the year		8,854		19,746
Net debt at 1 May 1996		(30,042)		(49,788)
		<hr/>		<hr/>
Net debt at 30 April 1997		(21,188)		(30,042)
		<hr/>		<hr/>

MONARCH HOLDINGS PLC

Notes forming part of the financial statements for the year ended 30 April 1997 (*Continued*)

27 Analysis of net debt

	At 1 May 1996 £'000	Cash flow £'000	Non-cash changes £'000	Exchange Movement £'000	At 30 April 1997 £'000
Cash at bank and in hand	9,988	2,868	-	(1)	12,855
Cash on short term deposit	24,723	(4,030)	-	-	20,693
Deposits pledged to providers of hire purchase finance	7,471	(240)	-	(1,640)	5,591
Bank loans due after one year	(11,531)	(3,000)	3,021	536	(10,974)
Bank loans due within one year	(2,653)	2,475	(3,021)	356	(2,843)
Finance leases and hire purchase obligations	(56,890)	9,992	(2,882)	4,420	(45,360)
Other loan	(1,150)	-	-	-	(1,150)
	<u>(30,042)</u>	<u>8,065</u>	<u>(2,882)</u>	<u>3,671</u>	<u>(21,188)</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 £20.8m and £0.6m respectively in the year. At 30 April 1997 £6.9m was due to and £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 £2.4m in the year. The amount due from the related party at 30 April 1997 was £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 1997 (*Continued*)

28 Related Party Transactions (*continued*)

- | | | |
|---|---|--|
| 4 | During the year Avro plc was charged for shared operational costs of £546,000. The amount due to the related party at 30 April 1997 was £75,000. | Cosmosair plc as tour operator |
| 5 | Sale and purchase of seats to and from the related party by Avro plc amounting to £270,000 and £238,000 respectively in the year. The amount due from the related party at 30 April 1997 was £22,000. | Cosmosair plc as tour operator |
| 6 | During the year Avro plc incurred charges for the provision of representatives in Spain amounting to £80,000. The amount due to the related party at 30 April 1997 was £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 £38.9m in the year. These leases are for periods of between 3 and 13 years at rentals ranging from £0.6m to £5.4m per annum. | 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. |
| 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 security 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. |

MONARCH HOLDINGS PLC

Notes forming part of the financial statements for the year ended 30 April 1997 (*Continued*)

28 Related Party Transactions (*continued*)

- | | | |
|----|---|--|
| 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 £135,500 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 a 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 20 May 1996 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 £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.

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.