



AIR PARTNER PLC

Annual report 2003

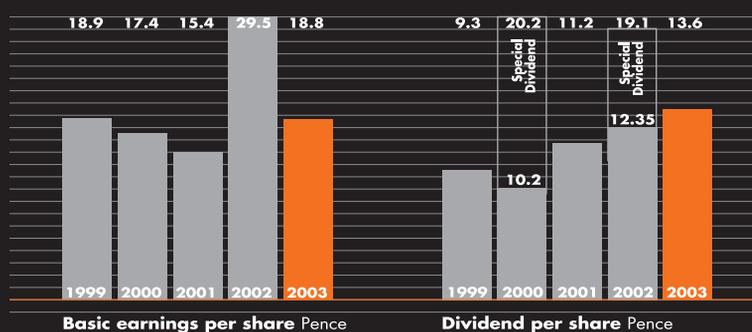
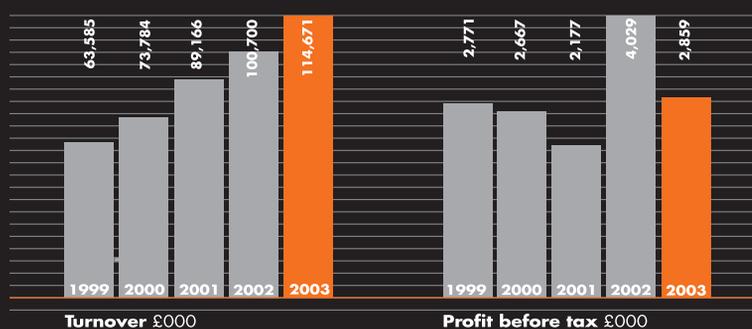


1	Corporate statement
1	Financial highlights
2	Air Partner – the business by activity
4	Air Partner – the business by geography
6	Chairman’s statement
8	Chief Executive’s review
11	Directors and senior management
12	Directors’ report
14	Directors’ remuneration report
17	Corporate governance
18	Statement of directors’ responsibilities
19	Independent auditors’ report
20	Consolidated profit and loss account
20	Consolidated statement of total recognised gains and losses
21	Consolidated balance sheet
22	Company balance sheet
23	Consolidated cash flow statement
23	Reconciliation of net cash flow to movement in net funds
24	Notes to the financial statements
34	Notice of meeting
35	Form of proxy
	IBC Advisors

Cover: photograph shows two Boeing 737’s taxiing out on another Air Partner charter programme.

We are entirely focused on establishing Air Partner as the only truly global air charter provider. Charter that comes with quality, dependability, financial security and a consistency echoed the whole world over. One world, one standard.

Air Partner is best described as a global trading floor for aircraft charter. The team of over 100 aviation professionals and support staff is by far the largest dedicated to chartering corporate aircraft anywhere. We specialise in providing quality advice, personal recommendation and the smart procurement of all types of aircraft, worldwide – a team equally at home organising a Lear Jet to fly the CEO around Europe or North America, as co-ordinating 70 large passenger jets together moving 10,000 guests to a major product launch at some Riviera destination. The size, scale, experience and quality of the team and the service are unique. Last year our team contracted over 30,000 flight hours, despatching flights to the four corners of the earth on a daily basis.



Air Partner – the business by activity



Business Flights

Providing modern and highly sophisticated business jets to allow executives to maximise their working hours. Charter remains less than half the cost per hour flown compared with ownership, be it outright or fractional ownership.



Conference/Incentive

With scheduled carriers gearing their product at individuals or small groups to provide the airline with the best yield, group organisers find that chartering their own airliner is a highly practical and economic solution, and puts them back in control.



Product Launches

Moving more than a thousand clients, press, or other guests to a launch involves an increasing risk of problems as the numbers rise. To avoid a PR nightmare, the logistics of such an operation require detailed scrutiny and years of hands-on relevant experience.



First Class Cabins

Quality matters; we are totally focused on making sure our passengers expectations are either met or exceeded. Safety, quality, dependability, accuracy on every mission. Standards matter; details matter.



Head of State

Flying for a reigning king or queen requires the highest belief in your team, and your corporate systems, so that no slip in professionalism can ever happen. In simple terms, 99 times out of 100 is just not acceptable. Once you have such systems, why not apply it to all clients?



Relief Aid

Our team just love to rise to the occasion to make that difference; surely this is one of the most satisfying parts of our day's work.



Air Ambulances

Life-saving flights, arranged at a moment's notice, carry the injured home to specialist hospitals; over recent years we have repatriated patients from some of the most obscure places on the earth. On-board care facilities now match the best that is available on the ground.



Air Evacuations

We remain the only company to offer a pre-planned air evacuation service to bolster corporate evacuation plans from the numerous hotspots around the world today. Our 24 hour ops centre provides instant solutions even in the most demanding of circumstances.



Organ Transplants

Our nightly transplant flights specialise in moving body organs between participating hospitals as operating theatres use the nocturnal hours to perform life-saving surgery. As with all our flights, timely performance is critical.



Vital Freight

Sometimes that 'bit' just has to 'go now!' Traditional air freight waits for the next available flight. When lost time is lost profits or lost reputation, chartering means the solution has started and you are back in control of your destiny.



Government Flights

Owning aircraft for occasional use doesn't make sense, especially when the requirement is different every time. Governments use us to solve a diverse range of needs from Ministerial to prisoner travel.



IPO Road-Shows

Many missions are only viable by charter; taking a dozen financiers around 10 cities in 4 days in a flexible way can only be achieved travelling by business jet, and saves both time and money in large quantities.



Point-to-Point

Despite airports being the scourge of some local communities, sometimes there never seems to be one around when you want one. Our Helicopter division solves that problem!



Trade Delegations & Team Travel

Whether it is a trade mission, a Pop or Premier Division sports tour, or a world air cruise, you need a great aircraft to 'live' on, and a highly dedicated crew to be your 'family' host. Our team specialises in putting such acts together in a way no one else knows how.



Corporate Branding

Inviting thousands of guests to travel on your dedicated charter aircraft gives further marketing opportunities. Many clients take advantage of well-travelled aircraft carrying their brand image through some of the busiest airports in their marketplace.



Cruise Connections

The Cruise Ship industry is experiencing a boom, and discerning passengers expect efficient air links to the ships. We provide regular transfers to thousands of passengers every month.



Corporate Shuttles

Many manufacturers today site their production facilities away from major urban areas, but need efficient air links from local airports to move employees on a daily basis. Dedicated charter aircraft provide major time savings for key executives.

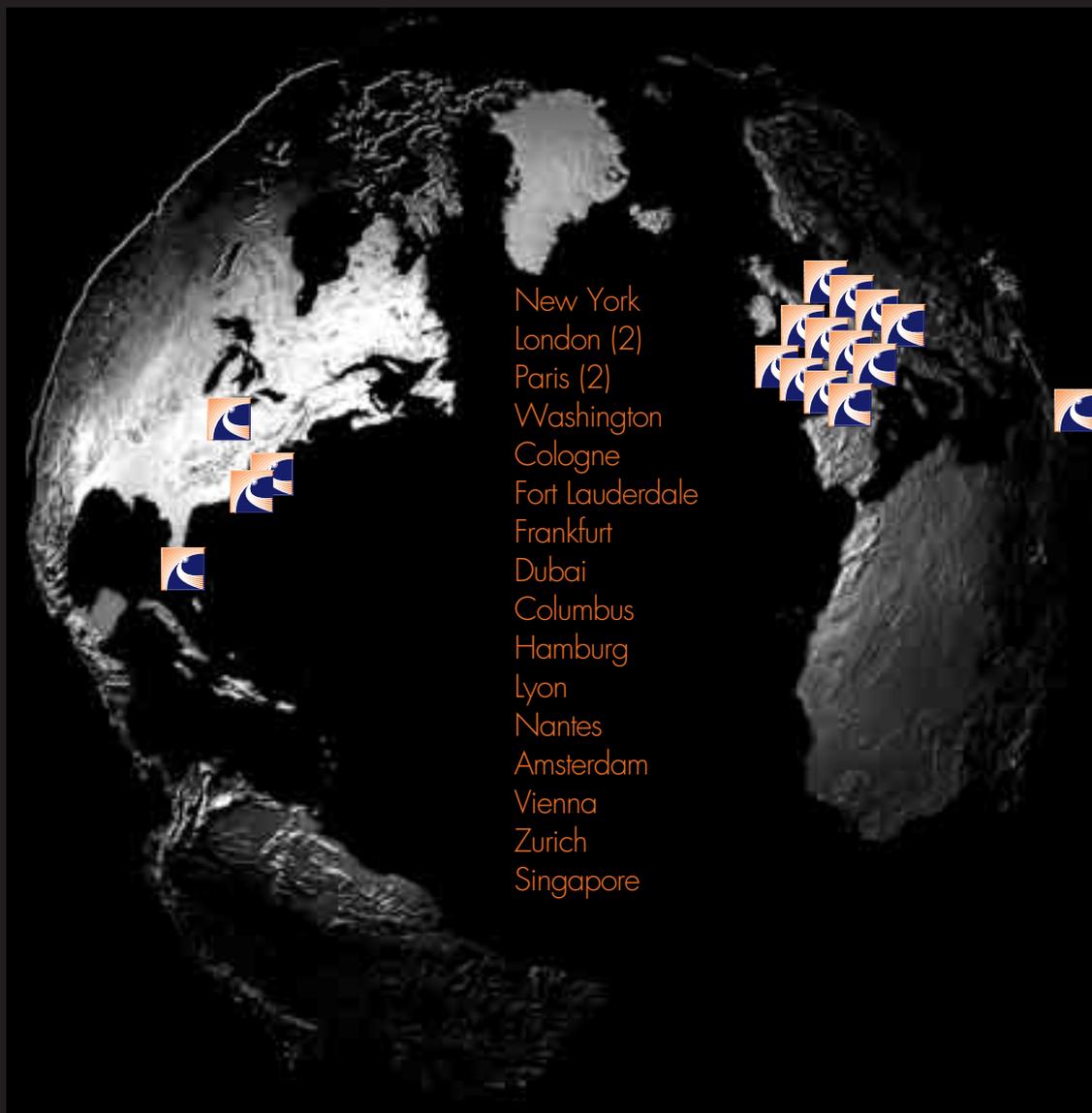


Immediate Response

People charter their own aircraft often because there is no other way of going 'now'; our service is tailored to being able to launch aircraft often quicker than passengers can get themselves to the airport.

Air Partner – the business by geography

A global network of 18 offices across 9 countries spanning Europe, North America, the Middle East and the Far East that provides local knowledge, worldwide.





Above One of many examples of the Group's projects in 2003. Here we provided a liveried Boeing 737 to Jaguar Cars for the launch of their new XJ which took place in Gibraltar.

Chairman's statement



"I AM PLEASED TO REPORT THAT GROUP SALES FOR THE YEAR ENDED 31 JULY 2003 INCREASED BY 14% TO £114.7 MILLION (2002: £100.7 MILLION). THIS HAS BEEN ACHIEVED IN SPITE OF DIFFICULT TRADING CONDITIONS IN THE AIR TRANSPORT INDUSTRY. PROFIT BEFORE TAX WAS £2.9 MILLION (2002: £4 MILLION) AND EARNINGS PER SHARE WAS 18.8P (2002: 29.5P)."

I am pleased to report that Group sales for the year ended 31 July 2003 increased by 14% to £114.7 million (2002: £100.7 million). This has been achieved in spite of difficult trading conditions in the air transport industry. Profit before tax was £2.9 million (2002: £4 million) and earnings per share was 18.8p (2002: 29.5p). The directors recommend increasing the final dividend by 10% to 9.1p making a total of 13.6p (2002: 12.35p), and thereby increasing the total dividend for the full year by 10%. Once again, Group cash increased, from £8.3 million in 2002 to £8.9 million.

During this year our aviation industry has been adversely affected by military conflict, the SARS virus, and economic slow down in some countries; due to these factors lead time and visibility for new business has become shorter than ever, but despite this Air Partner has fought hard to produce good results in turbulent times.

The decrease in the Group profits this year has largely been due to the increased overhead of opening new offices and absorbing increased staff costs in the US. This expansion is in line with our strategy for growing the Group organically and whilst this can affect the short-term profits of the business, we feel it offers the best shareholder value in the long-term.

At the end of this financial year we now have new offices operating and contributing in Washington DC, Dubai, Hamburg and Singapore. The Group is delivering on its strategy to pursue high-end business and Air Partner's track record and skill at providing Governments around the world with high quality aircraft charter is extremely encouraging.

Current trading is on par with this time last year, which in the light of reducing lead times is encouraging.

I feel that, in this light, your Company's performance is particularly robust and credit must be given to everyone at Air Partner who has worked so hard to secure these results. Air Partner is better positioned than ever to take advantage of any improvement in trading conditions.

Tony Mack
Chairman
9 October 2003



Chief Executive's review



"AIR PARTNER ENTERS THE NEW FINANCIAL YEAR FACING AN UNCERTAIN AIR TRANSPORT MARKET; BUT THE BUSINESS IS WELL PLACED AND PRACTICED AT REACTING TO THESE CONDITIONS, WHILST POSITIONING ITSELF TO BENEFIT FROM MARKET IMPROVEMENT, SHOULD BETTER TIMES RETURN. THE INCREASING LEVELS OF BUSINESS DERIVED FROM THE GOVERNMENT SECTOR, ACROSS EVERY COUNTRY WHERE WE HAVE A SALES PRESENCE, PROVIDES TANGIBLE EVIDENCE OF THE PROGRESS WE HAVE MADE IN MOVING UP THE VALUE CHAIN."

Providers of aircraft charter to industry, commerce and governments worldwide

In last year's report, I stated that the directors were encouraged by the resilience of the Group during a difficult 12 months and that we would focus on growth in both our core and our opportunistic markets; additionally we would strengthen the young businesses and bring our cost base under control. Today I can report that this strategy remains on track and significant progress has been made; the Group has become stronger and more robust, despite global markets being as difficult as ever. Moreover, after the substantial investment in new ventures at the end of full year 2002, the costs going into 2004 are much reduced.

Whilst air transport companies the world over have been badly affected this year, we have leveraged our small size and strong liquidity to remain quick and nimble, seizing the opportunities that arose in this depressed market. Yet again, we have demonstrated our corporate resilience to these challenging times.

During the first half of the year under review, the threat of impending hostilities and world crisis hung heavy over the air transport

industry, causing intense unease and placing the business world on hold. Compounding this, the lack of certainty about impending hostilities meant that our non-commercial markets were also hampered.

The second half of the year saw a strong recovery, as the start of the Coalition action removed those uncertainties, and our clients were again able to plan their future business needs. Since then, Air Partner continues to show a level of robustness that is out of character with the rest of this industry and our financial figures are testimony to this.

A difficulty in predicting the future performance of the Company has been a constant theme in our corporate planning since 11 September 2001. This is not so much from a lack of business, but from changes in the flow rate of business that make the visibility less clear. Given this ongoing trait, it is important for shareholders to appreciate that the directors continue to feel that the business is strong and able to withstand the buffets of the industry.

At a more detailed level, a review of our main trading units shows how the business has moved over the past year.

UK

As the centre of the Group, the UK operation handles not only domestic business but also business derived from international markets where we have no local office. 60% of the record Group sales of 2002 was handled from the UK; consequently the market depression had the biggest impact here, with the UK down 30% (year on year) by the end of the first half; however, it recovered strongly by the year-end. The average margin was slightly weaker due to the amount of new business and the business mix.

France

The French office network (Paris, Lyon, and Nantes) repeated another excellent year with sales up 30% and margins also rising locally. This is a strong and stable business unit, built by a very professional and dedicated team that are the essence of Air Partner's composition throughout the Group.

Germany

The office in Cologne manages satellite operations in Frankfurt, Vienna and Hamburg. The division has seen over 60% growth in sales despite a highly fragmented



market; this success makes us the No.1 player in Germany for the first time. However, the industry downturn has negatively affected margins and Germany has not contributed to Group profit this year. Despite this, the division is expected to produce a positive contribution next year.

The US

Because of the difficult market conditions, the additional investment made in 2002 did not make the returns we had expected; with the market static we took steps to reduce costs, consolidate offices and change management. The new operation has successfully grown sales by 25% during this difficult period, and as a result of the changes we start 2004 with a smaller but stronger team, and a £0.5 million reduction in annual overhead.

Switzerland

Another commendable year, slightly ahead of target.

Other operations

The Middle East and Singapore are very young businesses, operating at, or slightly above planned levels, whilst at the same

time they make a significant contribution to Air Partner achieving its global strategy.

Additionally, both our Australian Aircraft Leasing business and our Emergency Planning Division are profitable and operating to plan.

In each of the 18 offices the Group has three main trading divisions covering business aircraft, commercial aircraft and urgent freight. Over the past two years the growth has come from the commercial and freight sectors, whilst demand for business aircraft remains static as City markets remain in turmoil. The Group is well positioned to benefit from any rising confidence in these areas. Pleasingly the freight division has performed extremely well; just three years after its creation the division now produces over 20% of Group sales and we anticipate continued growth from this section of the Group.

As a further pillar to the structure of the Group, a new IT system (called AXIS) has been rolled out. The system will allow Air Partner, for the first time, to automatically integrate trading with accounting, both in the UK and throughout the global operation, securely over the corporate





intranet. A number of key benefits in the areas of marketing, client care, overall efficiency and overheads will accrue from this upgrade during 2004.

Air Partner enters the new financial year facing an uncertain air transport market; but the business is well placed and practiced at reacting to these conditions, whilst positioning itself to benefit from market improvement, should better times return. The increasing levels of business derived from the Government sector, across every country where we have a sales presence, provides tangible evidence of the progress we have made in moving up the value chain.

The Group's core strategy is serving us well and will remain unchanged; your directors have real confidence in the professional team that comprises Air Partner worldwide. The Board's thanks go to everyone at Air Partner for producing such a powerful performance against the odds.

David Savile
Chief Executive
9 October 2003



Directors and senior management

Main Board



Anthony Mack
Executive Chairman, Aged 54

Joining his father's business in 1970, he became Managing Director in 1979. Appointed as Executive Chairman in 1985, he was responsible for floating the business on the USM in 1989, and achieving a full listing on the Stock Market in 1995.*



David Savile
Chief Executive, Aged 44

Has over 24 years' experience in aircraft charter, 20 of which are with the Company. He joined in 1983, was appointed to the Board in 1987 in charge of day-to-day operations, and assumed his current role with full responsibility for the whole Group in 1997.



Stephanie White MBA
Finance Director, Aged 40

Joined the Company in 1983 with previous experience at National Westminster Bank. Stephanie became Finance Controller in 1994, and Finance Director in 1997. Steph has an MBA gained from Brighton University in 2001.



The Hon Rowland Cobbold
Non-executive director, Aged 59

Joined the Board as a non-executive in 1996. Rowland has over 31 years' experience in the aviation and tourism industry. He is currently Chairman of Ecco Tours Ltd and a Director of Groundstar Ltd and was formerly Marketing Director of Cathay Pacific Airways Ltd.*



Sri Srikanthan MBA, ACMA
Non-executive director, Aged 52

Sri is a Senior Lecturer in Finance and Accounting at Cranfield University. He is currently acting as a consultant to a wide range of companies and is also a non-executive director of an engineering services company.*

*Denotes membership of both the Remuneration and Audit Committee

Senior Group Management



Mark Briffa
Commercial Aircraft, London



Justin Barber
Executive Aircraft, London



David Macdonald
Sales, London



Simon King
Finance, London



Alan Marler
Emergency Planning



Gilles Meynard
France



Birte Kipke
Germany



Brigitte Schaub
Switzerland



Verena Hitz
Switzerland



Philip Mathews
USA

Directors' report

The directors present their report and the audited financial statements for the year ended 31 July 2003.

Principal activity and business review

The principal activity of the Group during the year continued to be that of air charter brokers hiring aircraft for charter to its customers. The Chairman's statement on page 6 and the Chief Executive's review of the business set out on pages 8 to 10 give further information.

A detailed review of business for the year and future developments is given in the Chief Executive's review.

Results and dividends

The results for the year are set out in the profit and loss account and show a profit, after taxation and minority interests, of £1,739,000 (2002: £2,665,000).

An interim dividend of 4.5 pence (2002: 4.1 pence) per share was paid on 6 June 2003. Subject to shareholders' approval, the directors recommend the payment of a final ordinary dividend of 9.1 pence (2002: ordinary 8.25 pence) per share which will be paid on 1 December 2003 to shareholders on the register at 31 October 2003, making a total dividend for the year of 13.6 pence (2002: 19.1 pence). A Special dividend of 6.75 pence was paid in 2002.

Directors and their interests

The directors who held office during the year had the following beneficial interests in the shares of the Company at the beginning (or date of appointment if later) and the end of the financial year:

- a) Ordinary shares of 5.0 pence each fully paid up.

	31 July 2003	31 July 2002
A G Mack*† (includes 1,500 held by S F Mack, his spouse)	3,756,567	3,756,567
D C W Savile (held by his spouse, A Savile)	108,703	93,333
R J F Cobbold*†	5,000	—
S J White (held by her spouse, T S White)	81,405	68,125
S Srikanthan*†	—	—

M E Guina resigned as a director on 24 January 2003.

* Member of the Remuneration Committee.

† Member of the Audit Committee.

- b) No director has a non-beneficial interest in the shares of the Company.
- c) Details of share options granted to the directors are disclosed on page 16.
- d) None of the directors has any direct or indirect interest in any contract or arrangement subsisting at the date of these financial statements which is significant in relation to the business of the Group and which has not otherwise been disclosed.
- e) A G Mack and S J White retire by rotation in accordance with the Company's Articles of Association and, both being eligible, will offer themselves for re-election at the Annual General Meeting.

Substantial shareholdings

Apart from the interest of A G Mack, the directors are aware of the following interests of 3% or more as at 31 July 2003.

Shareholder	Number of shares	% held
Clydesdale Bank (Head Office) Nominees Limited	773,041	8.31%
HSBC Global Custody Nominee (UK) Limited	1,067,500	11.48%
Chase Nominees Limited	443,102	4.78%
Possfund Nominees Limited	302,695	3.25%
Britel Fund Nominees Limited	454,455	4.89%

Charitable and political contributions

The Group made charitable contributions totalling £6,012 (2002: £6,148) during the year. No political donations were made in the current or prior periods.

Policy on payment of creditors

The Group has not adopted any formal code of payment practice with regard to the settlement of amounts due to its suppliers. It is the Group's policy to negotiate the terms of payments with suppliers when agreeing the terms of each contract or transaction, to ensure that the suppliers are aware of the agreed terms of payment, and to adhere to the agreed terms.

At the year-end, the Company had an average of 12 days (2002: 24 days) and the Group 17 days (2002: 22 days), purchases outstanding in Trade Creditors.

Annual General Meeting

Notice of the Annual General Meeting, together with explanatory notes, is set out on page 34 of the Annual Report.

Equal opportunities

The Group has a policy of offering equal opportunities to employees at all levels in respect of job applicants and conditions of work.

The Group adopts a policy of non-discrimination in the employment of disabled persons, and in the event of individuals becoming disabled whilst in the employment of the Group it would arrange appropriate training in order to facilitate their continued employment.

Employee involvement

The directors appreciate the importance of promoting and maintaining good communication with the Group's employees and its policy to keep employees regularly informed on matters relating to their employment and business strategy. This is managed by quarterly newsletters, special technical advisor visits, circulars and team briefings.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the reappointment of KPMG Audit Plc as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

S J White

Secretary
9 October 2003

Directors' remuneration report

Information not subject to audit

Membership of the Remuneration Committee is set out on page 17. It is responsible for determining, on behalf of the Board, the salary and benefits packages of the Chairman and executive directors. The Board as a whole determines the salary and benefits paid to executive directors of the subsidiary undertakings.

The Remuneration Committee appointed Independent Remuneration Solutions Ltd, a leading firm of executive remuneration consultants, to provide independent advice particularly in reference to external comparisons. TSB the Company's solicitors provide advice in relation to any legal matters and share options rules.

Remuneration policy

Air Partner is a service business whose success in any given market conditions is ultimately dependent on the quality and performance of its people. The remuneration policy is consequently geared towards attracting and retaining the best people. The Committee aims to ensure that overall remuneration is above average when compared with companies of a similar size and complexity. As well as external comparison each executive director's remuneration is determined by reference to individual competence and both individual and corporate performance in any given year.

The package consists of basic salary, share options, performance related bonuses and pensions. Other benefits include private health for themselves and families, life cover and reimbursement of home telephone expenses. A G Mack also receives a fully expensed car.

Individual components of remuneration:

Basic salary and benefits

This is intended to reflect the individual responsibility, performance and experience of each director. Significant increases were granted at the end of last financial year following a review by Independent Remuneration Solutions Ltd. The Committee has determined that salaries will rise by 4% in 2003/04, which is in line with other employees of the Group.

Personal performance bonus

Each director (excluding the Chairman) is entitled to performance related pay up to a maximum of 10% of salary for achieving specific non-financial targets based on the medium term strategy of the business. These targets were fully achieved in the current year.

Profit related bonus

These are based on a target which is set at the beginning of the year and which is intended to reflect a level of profitability that is equivalent to a reasonable return on shareholder funds. Bonuses paid to each director reflect individual areas of responsibility and the overall achievement of Group profit targets. No director can be paid more than 100% of their salary in bonuses in any one year. Any bonus amount over 100% is accumulated and paid in the following year.

Pensions

Under the terms of their service contracts, David Savile and Stephanie White are eligible for contributions to personal pension schemes of their choice (as was Michael Guina until his resignation). The Company does not have any final salary pension schemes in place.

Share options

Share options are awarded to executives and other senior individuals at the committee's discretion. The aggregate exercise price for all outstanding options awarded during a ten-year period may not exceed four times the individual's relevant emoluments. There are currently two schemes approved by shareholders, one in 1998 and the second in 2003. Options have been granted under the 1998 scheme and details are shown below. No grants had been made to directors under the 2003 scheme during the year, however grants of 40,000 shares were made to both D C W Savile and S J White in August 2003. The 2003 scheme does not have any performance criteria. Grants are awarded under both 'approved' and 'unapproved' parts of the Plan according to current Inland Revenue rules. All outstanding options will lapse upon cessation of employment.

Service contracts

The executive directors have service contracts which were revised during the year and contain a 12-month termination and notice clause (previously 6 months). In the event of early termination of the contracts, each director is entitled to compensation equal to their basic salary and contractual benefits for the notice period.

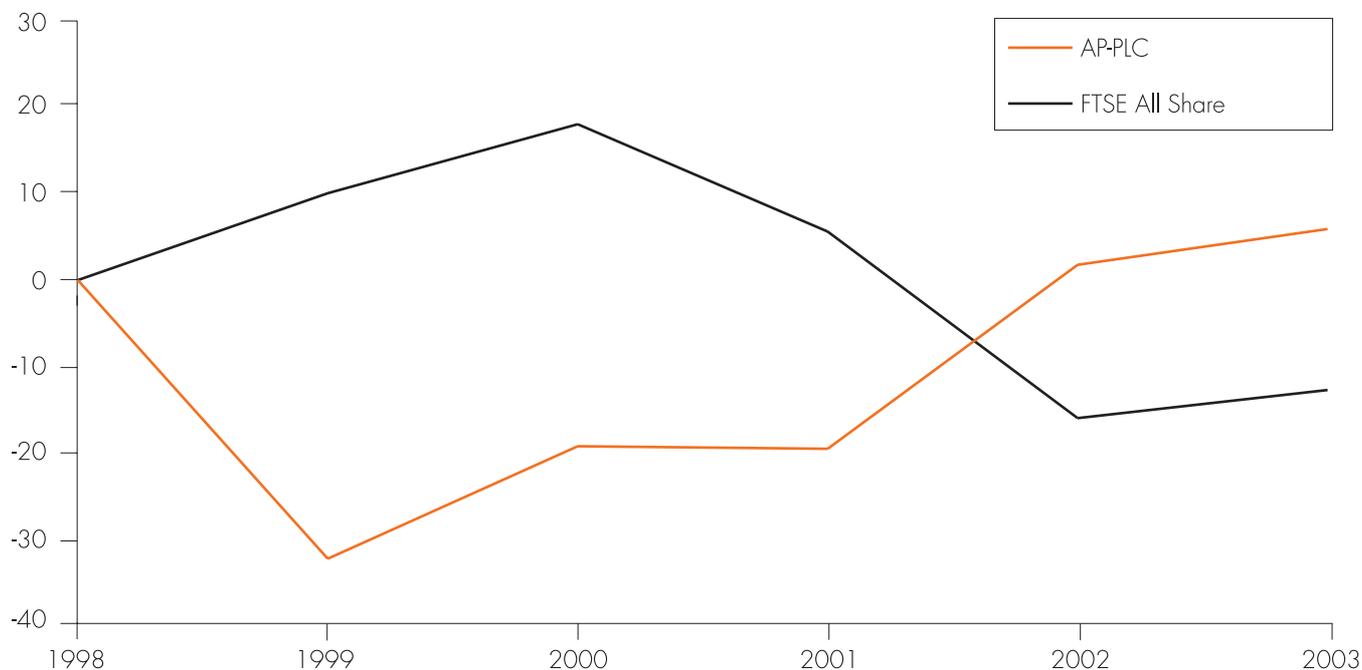
The policy on termination payments is that the Company does not normally make payments beyond its contractual obligations, however in exceptional circumstances, an additional ex-gratia payment may be considered based on factors including the director's past contribution and the circumstances of the director's departure.

Non-executive directors

The non-executive directors' appointments, fees and benefits are made and determined by the Chairman and the two executive directors. Each non-executive director holds a letter of appointment, for R J F Cobbold this is dated January 1996 and for S Srikanthan July 2000, which include a rolling 3-month notice clause.

Performance graph

The graph below shows the change in the total shareholder return for each of the last five financial years compared with the FTSE All Share index.



FTSE All Share was selected as it represents the broadest equity market index in which the Company is a constituent member.

Information subject to audit

Details of directors' emoluments and compensation received during the year are set out below:

	Salary/fees £	Performance related bonus £	Benefits £	2003 Total £	2002 Total £
Executive directors:					
A G Mack	71,030	—	28,062	99,092	140,847
D C W Savile	159,000	43,600	1,849	204,449	258,350
S J White	111,500	33,660	1,808	146,968	192,122
M E Guina (resigned 24 Jan 03)	80,751	—	8,261	89,012	194,340
Non-executive directors:					
R J F Cobbold	18,000	—	—	18,000	15,375
S Srikanthan	18,000	—	—	18,000	16,380
	458,281	77,260	39,980	575,521	817,414

In the year pension contributions to D C W Savile were £15,900 (2002: £8,567), S J White £11,150 (2002: £6,968) and M E Guina £8,075 (2002: £9,037).

M E Guina was paid a further £95,456 in the year after his resignation for consultancy services.

Directors' remuneration report

Share options

Aggregate emoluments disclosed above do not include any amounts for the value of options to subscribe for ordinary shares in the Company granted to or held by directors. Details of the options held at the beginning and the end of the year are as follows:

	Notes	31 July 2002	Exercised	Lapsed	31 July 2003	Exercise price	Earliest date of exercise	Expiry date
D C W Savile	a	10,000	(10,000)	—	—	60.00p	N/A	N/A
	c	10,370	(10,370)	—	—	173.50p	N/A	N/A
	d	50,000	(50,000)	—	—	215.00p	N/A	N/A
	e	100,000	—	—	100,000	403.00p	2 July 2002	2 July 2008
		170,370	(70,370)	—	100,000			
S J White	b	5,000	(5,000)	—	—	69.50p	N/A	N/A
	c	13,280	(13,280)	—	—	173.50p	N/A	N/A
	d	50,000	(50,000)	—	—	215.00p	N/A	N/A
	e	100,000	—	—	100,000	403.00p	2 July 2002	2 July 2008
		168,280	(68,280)	—	100,000			
M E Guina	c	17,290	(17,290)	—	—	173.50p	N/A	N/A
	d	50,000	(50,000)	—	—	215.00p	N/A	N/A
	e	100,000	—	(100,000)	—	403.00p	N/A	N/A
		167,290	(67,290)	(100,000)	—			

The options are exercisable as follows:

- a) b) c) d) Options under schemes (a), (b), (c) and (d) were all exercised by the eligible directors on 17 October 2002 when the market price for the shares stood at 300p.
- e) The options are exercisable on all the shares comprised in any option from 2 July 2002 provided that basic earnings per share during the period between the date of grant and the accounting date last preceding the date of exercise have increased by at least 100% if the option is exercised after the fifth but prior to the sixth anniversary of the date of grant; at least 130% if exercised after the sixth but prior to the seventh anniversary of the date of grant or at least 165% during the period between the date of grant and the accounting date preceding the eighth anniversary of the date of grant if exercised after the seventh but prior to the tenth anniversary of the date of grant. The Company's share price growth must also exceed that of the FTSE Fledgling (excluding companies within the information technology sector) Index between the date of grant and the date of exercise.

Aggregate gains made on the exercise of share options amounted to £48,825 (2002: £Nil) for both D C W Savile and S J White.

The market price of the shares at 31 July 2003 was 295.0 pence and ranged between 205.5 pence and 323.0 pence during the year. The average share price during the year was 275.0 pence.

By order of the Board

Rowland Cobbold

Chairman of the Remuneration Committee

9 October 2003

Corporate governance

The Board is responsible to the Company's shareholders for good corporate governance. This statement describes how the principles of corporate governance have been applied to the Company and the Company's compliance with the provisions set out in Section 1 of the Combined Code.

In the opinion of the directors, the Group has complied throughout the period with Section 1 of the Code of Best Practice with the exception of the following items (references in brackets are to paragraphs in the Combined Code):

- a) An Audit Committee was constituted on 25 September 2002, and met for the first time on that date. However this committee does not consist exclusively of independent non-executive directors as envisaged by the Code as A G Mack is a member of the Committee (D3.1).
- b) The non-executive directors have rolling three-month contracts rather than contracts for a fixed term as envisaged by the Code. However, at least one third of all directors retire by rotation at each Annual General Meeting (A6.1).
- c) The Remuneration Committee which met three times during the year does not consist exclusively of independent non-executive directors as envisaged by the Code as A G Mack is a member of the the Committee (B2.2).
- d) Due to the size of the Board, the Group does not operate a Nominations Committee. New director appointments are a matter for the Board as a whole (A5.1).
- e) Although the Company has clear procedures and controls in place there is no formal framework laid down for the manner in which the Board reviews the effectiveness of these internal controls. A review is carried out at least on an annual basis. This covers all controls including financial, operational and compliance controls in addition to risk management. In addition, there is no minuted evidence of this annual assessment of the Group's system of controls, (D2.1).

The Board and its committees

The Board is comprised of Tony Mack, who owns 40.38% of the issued share capital of Air Partner PLC and carries out the role of Executive Chairman, David Savile who performs the role of Chief Executive Officer, Stephanie White who is Group Finance Director, and the independent non-executive directors; Rowland Cobbold, the senior non-executive director and Sri Srikanthan, whose biographies appear on page 11. These appointments represent a range of experience and calibre that brings independent judgement on all issues that are vital to the continued success of the Group. All directors are subject to re-election at the first opportunity after appointment and are required to submit themselves for re-election at least every three years thereafter. The Board is responsible to the shareholders for the proper management of the Group. A statement of the directors' responsibilities in respect of the financial statements is set out on page 18.

The Board has adopted a formal schedule of matters specifically reserved to it for decision. The directors have access to the Company Secretary, Stephanie White, who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The Company Secretary, whose appointment or removal is a matter for the Board as a whole, is responsible for ensuring that directors receive appropriate training on appointment and as necessary and, if requested to do so by individual directors, facilitate the provision of independent professional advice at the Company's expense. The Board meets regularly throughout the year, reviewing trading performance and setting and monitoring strategies. The Board receives appropriate and timely information in order to enable it to properly discharge its duties.

The Group has constituted a Remuneration Committee under the Chairmanship of Rowland Cobbold to provide recommendations to the Board on the framework for executive director remuneration. The other members of the committee are Sri Srikanthan and Tony Mack. The Committee's Report is given in full on pages 14 to 16.

An Audit Committee has been constituted with Sri Srikanthan as Chairman. Other members include Rowland Cobbold and Tony Mack, who represents the shareholders by virtue of his 40.38% shareholding.

Relations with shareholders

The Group considers its relationship with its shareholders to be of a high priority. The Chief Executive's review on pages 8 to 10 includes a detailed review of the Group's business and future developments. There is regular dialogue with institutional investors.

The Board uses the Annual General Meeting to communicate with both private and institutional investors and welcomes their participation. The Chairman aims to have the Chairman of the Remuneration Committee available at the Annual General Meeting to answer any questions that might arise.

Details of the resolutions to be proposed at the Annual General Meeting can be found within the Notice of Meeting on page 34. In accordance with the Code the votes cast by proxy will again be declared at the meeting after the votes have been cast.

Corporate governance

Going concern

The directors are satisfied that the Group has adequate resources to continue in business for the foreseeable future.

For this reason, the Board continues to adopt the going concern basis for the preparation of accounts.

Internal control

The full Board is responsible for the Group's system of internal control and for reviewing its effectiveness. In establishing this system, the directors have considered the nature of the Group's business, with regard to the risks to which that particular business is exposed, the likelihood of such risks occurring and the costs of protecting against them.

However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable, and not absolute, assurance.

Statement of directors' responsibilities

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

- select suitable accounting policies and 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 Group 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 have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and for the prevention and detection of fraud and other irregularities.

Independent auditor's report

We have audited the financial statements on pages 20 to 33. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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 has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's 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

The directors are responsible for preparing the Annual Report and the Directors' Remuneration Report. As described on page 18, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you 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 Group is not disclosed.

We review whether the statement on page 17 to 18 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's Corporate Governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the Corporate Governance Statement and the unaudited part of the Directors' Remuneration Report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit 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 and the part of the Directors' Remuneration Report to be audited. 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 and the part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited.

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 31 July 2003 and of the profit of the Group for the year then ended; and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

Chartered Accountants
Registered Auditor
Crawley
9 October 2003

Consolidated profit and loss account

for the year ended 31 July 2003

	Notes	2003 £'000	2002 £'000
Turnover	2	114,671	100,700
Cost of sales		(103,114)	(89,940)
Gross profit		11,557	10,760
Administrative expenses		(8,869)	(6,955)
Operating profit		2,688	3,805
Interest receivable	4	244	315
Interest payable	5	(73)	(91)
Profit on ordinary activities before taxation	6	2,859	4,029
Taxation	7	(909)	(1,218)
Profit on ordinary activities after taxation		1,950	2,811
Minority equity interests		(211)	(146)
Profit attributable to members of Air Partner PLC		1,739	2,665
Dividends	8	(1,303)	(1,728)
Retained profit for the financial year and transferred to reserves		436	937
Earnings per share			
– basic	9	18.8p	29.5p
– diluted	9	18.8p	28.7p

Turnover and profit on ordinary activities before taxation for the current and previous years relate wholly to continuing activities. There is no material difference in profit on ordinary activities before taxation and profit for the financial year stated above and the historical cost equivalents and therefore no separate note of historical cost profit and losses has been presented.

The accompanying notes are an integral part of these financial statements.

Consolidated statement of total recognised gains and losses

for the year ended 31 July 2003

	2003 £'000	2002 £'000
Profit for the financial year	1,739	2,665
Exchange adjustment on retranslation of net assets of subsidiary undertakings	292	(94)
Total recognised gains and losses relating to the year	2,031	2,571
Prior year adjustment (relating to pre 1 August 2000)	—	37
Prior year adjustment (relating to 2001)	—	89
Total recognised gains and losses recognised since the last annual report	2,031	2,697

Consolidated balance sheet

as at 31 July 2003

	Notes	2003 £'000	2002 £'000
Fixed assets			
Tangible fixed assets	10	3,120	3,009
		3,120	3,009
Current assets			
Debtors	13	12,875	12,621
Cash at bank and in hand		8,955	8,358
		21,830	20,979
Creditors: amounts falling due within one year	14	(15,679)	(15,554)
Net current assets		6,151	5,425
Total assets less current liabilities		9,271	8,434
Creditors: amounts falling due after more than one year	14	(849)	(1,358)
Provision for liabilities and charges	15	(128)	(37)
Net assets		8,294	7,039
Capital and reserves			
Called up share capital	17	465	452
Share premium account	18	1,254	765
Profit and loss account	18	6,419	5,691
Equity shareholders' funds	19	8,138	6,908
Minority interests - equity		156	131
		8,294	7,039

The financial statements on pages 20 to 33 were approved by the Board of directors at a meeting held on 9 October 2003 and were signed on its behalf by:

A G Mack **S J White**
Chairman Director

The accompanying notes are an integral part of these financial statements.

Company balance sheet

as at 31 July 2003

	Notes	2003 £'000	2002 £'000
Fixed assets			
Tangible fixed assets	10	340	330
Investments	12	933	928
		1,273	1,258
Current assets			
Debtors	13	9,009	8,029
Cash at bank and in hand		4,583	5,887
		13,592	13,916
Creditors: amounts falling due within one year	14	(6,838)	(7,475)
Net current assets		6,754	6,441
Total assets less current liabilities		8,027	7,699
Creditors: amounts falling due after more than one year	14	(739)	(1,249)
Net assets		7,288	6,450
Capital and reserves			
Called up share capital	17	465	452
Share premium account	18	1,254	765
Profit and loss account	18	5,569	5,233
Equity shareholders' funds	19	7,288	6,450

The financial statements on pages 20 to 33 were approved by the Board of directors at a meeting held on 9 October 2003 and were signed on its behalf by:

A G Mack
Chairman

S J White
Director

The accompanying notes are an integral part of these financial statements.

Consolidated cash flow statement

for the year ended 31 July 2003

	Notes	2003 £'000	2002 £'000
Net cash inflow from operating activities	20	3,703	2,177
Returns on investments and servicing of finance	21	30	70
Taxation		(960)	(878)
Capital expenditure	21	(285)	(299)
Equity dividends paid		(1,814)	(1,049)
Cash inflow before use of liquid resources and financing		674	21
Management of liquid resources	21	850	(163)
Financing	21	43	(514)
Increase/(decrease) in cash in the year		1,567	(656)

The accompanying notes are an integral part of these financial statements.

Reconciliation of net cash flow to movement in net funds

	Notes	2003 £'000	2002 £'000
Increase/(decrease) in cash in the year		1,567	(656)
Cash (inflow)/outflow from short-term deposits	22	(850)	163
Cash outflow from debt and financing	22	459	514
Exchange adjustments	22	(54)	—
Movement in net funds in the year		1,122	21
Net funds at 1 August 2002	22	6,725	6,704
Net funds at 31 July 2003	22	7,847	6,725

The accompanying notes are an integral part of these financial statements.

Notes to the financial statements

for the year ended 31 July 2003

1 Accounting policies

The following accounting policies, have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements, except as noted below.

Basis of preparation

The financial statements have been prepared under the historical cost basis of accounting, in accordance with applicable accounting standards.

Basis of consolidation

The consolidated financial statements include the results of the Company and its subsidiary undertakings all of which have been made up to 31 July 2003.

Where the acquisition method of accounting is required to be adopted the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Under Section 230(4) of the Companies Act 1985, Air Partner PLC has taken advantage of the exemption from the requirement to present its own profit and loss account.

Investments

In the Company's financial statements, investments in subsidiary undertakings are stated at cost less amounts written off for any impairment in value.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to third party customers. In respect of the Group's principal activities (being that of air charter brokers hiring aircraft for charter to its customers), the provision of travel agency services, and aircraft leasing, the full contract value is recognised as turnover. As regards the provision of aviation insurance services only the commission is recognised as turnover in equal amounts over the period of the contract. Revenue is recognised only after the contract has been fulfilled, or in the case of a series of flights, at the point where individual flights have been performed.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation.

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Short leasehold property	– over life of lease
Leasehold improvements	– over life of lease
Fixtures and equipment	– 17–33% per annum on a straight line basis
Motor vehicles	– 25% per annum on a reducing balance basis
Aircraft	– 10% per annum on a straight line basis

Taxation

The charge for taxation is based on the profit for the year, and takes into account deferred taxation.

Deferred taxation

Deferred taxation is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reserved by the balance sheet date, except as otherwise required by Financial Reporting Standard 19.

1 Accounting policies (continued)

Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration over the fair value of the separable net assets acquired) in respect of acquisitions is capitalised. In accordance with Company policy positive goodwill is amortised to nil by equal annual instalments over its estimated useful economic life of three years. Any impairment charge is included within operating profits.

On the subsequent disposal or termination of a business, the profit or loss on disposal or termination is calculated after charging the unamortised amount of any related goodwill.

Foreign currencies

Transactions in foreign currencies have been translated into sterling at the rates of exchange prevailing at their completion or if hedged forward, at the rate of exchange under the related foreign currency agreements. Any assets or liabilities in foreign currencies at the year-end have been translated into sterling at the rates of exchange prevailing at the year-end. All differences on exchange are reflected in the results for the year.

The balance sheet and results of the overseas subsidiaries have been translated at the rate of exchange prevailing at the year-end.

The exchange difference arising on the retranslation of the opening net assets of the overseas subsidiaries is taken directly to reserves.

Leases

All leases are accounted for as 'operating leases', whereby the rental charges are charged to the profit and loss account on a straight line basis, and provision is made over the minimum term of the lease for any charges payable on termination.

Pension costs

The Group contributes to the personal pension schemes of certain employees and this cost is charged to the profit and loss account in the year in which it is incurred.

Cash and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market.

Employee share schemes

The cost of awards to employees that take the form of shares or rights to shares are recognised over the period of the employee's related performance. Where there are no performance criteria, the cost is recognised when the employee becomes unconditionally entitled to the shares.

2 Segmental reporting

Classes of business	Profit before tax and interest		Net assets		Turnover	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Air Charter	2,638	3,802	8,181	6,964	113,642	99,383
Travel agency	30	(11)	52	31	1,005	1,284
Insurance	20	14	61	44	24	33
	2,688	3,805	8,294	7,039	114,671	100,700

Geographical location	Net assets		Turnover by destination (client residence)		Turnover by source	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000	2003 £'000	2002 £'000
UK	6,532	5,529	57,460	54,820	65,960	64,004
Rest of the World	1,762	1,510	57,211	45,880	48,711	36,696
	8,294	7,039	114,671	100,700	114,671	100,700

The analysis of profit before interest and tax between the different geographical segments of the Group is not given as in the opinion of the directors the disclosure would be seriously prejudicial to the commercial interests of the Group.

Notes to the financial statements

for the year ended 31 July 2003

3 Directors and employees

The average number of persons (including directors) employed by the Group during the year was:

	2003	2002
	Number	Number
Operations	88	78
Administration	24	26
	112	104

	2003	2002
	£'000	£'000
Staff costs for the above persons (including directors):		
Wages and salaries	4,507	4,186
Social Security costs	790	567
Pension costs	133	78
	5,430	4,831

The Company contributes to personal pension plans of certain employees and this cost is charged to the profit and loss account in the year in which it is incurred.

The Group's policy on performance related bonus enabled 9 (2002: 11) of the employees (other than directors) to achieve total emoluments of over £50,000 and in 2003 6 (2002: 6) of these to achieve emoluments in excess of £75,000.

Full disclosure of directors' emoluments, share options and directors' pension entitlements which form part of the remuneration package, as well as interests are disclosed in the Directors' Remuneration Report on pages 14 to 16.

4 Interest receivable

	2003	2002
	£'000	£'000
Bank interest receivable	244	315

5 Interest payable

	2003	2002
	£'000	£'000
On bank loans and overdrafts	73	91

6 Profit on ordinary activities before taxation

	2003	2002
	£'000	£'000
Profit on ordinary activities before taxation is stated after charging:		
Depreciation and amounts written off:		
Owned tangible fixed assets	605	562
Operating lease rentals:		
Land and buildings	241	265
Loss on sale of fixed assets	23	12
Auditors' remuneration:		
Audit fees – Group	88	56
Audit fees – Company	50	40
Other fees paid to the auditors and their associates	37	35

7 Tax on profit on ordinary activities

(a) Analysis of charge in the period.

	2003 £'000	2002 £'000
Current tax:		
UK corporation tax on profits of the period	641	960
Adjustments in respect of prior periods	(46)	3
Overseas taxation	268	166
Total current tax as below:	863	1,129
Deferred tax:		
Origination and reversal of timing differences	46	89
Tax on profit on ordinary activities	909	1,218

The taxation represents an effective tax rate of 31.8% (2002: 30.2%) compared to the standard rate of 30% (2002: 30%). The actual tax charge for the current and previous years differs from that under the standard rate for the reasons set out in the following reconciliation:

(b) Factors affecting tax charge for the period.

	2003 £'000	2002 £'000
Profit on ordinary activities before tax	2,859	4,029
Current tax at 30%	857	1,209
Effects of:		
Expenses not deductible for tax purposes	12	35
Capital allowances for period lower than depreciation	(38)	(64)
Other timing differences	31	(24)
Taxed at a lower rate	—	(2)
Double tax relief	(5)	—
Adjustments in respect of previous periods	(46)	3
Utilisation of tax losses	19	(17)
Different rate of tax payable by some foreign subsidiaries	33	(11)
Total current tax charge	863	1,129

8 Dividends

	2003 £'000	2002 £'000
Interim dividend of 4.5 pence (2002: 4.1 pence) per share – paid	456	371
Final dividend of 9.1 pence (2002: 8.25 pence) per share – proposed	847	746
Special dividend (2002: 6.75 pence)	—	611
	1,303	1,728

The directors have declared a final dividend of 9.1 pence per share payable on 1 December 2003 to shareholders on the register at the close of business on 31 October 2003.

9 Earnings per share

Basic earnings per share is calculated on the basis of profit for the year ended 31 July 2003 of £1,739,000 (2002: £2,665,000) and 9,247,124 shares (2002: 9,048,333) being the weighted average number of shares in issue for the year.

The diluted earnings per share is calculated on the basis of profit for the year ended 31 July 2003 of £1,739,000 (2002: £2,665,000) and 9,263,886 shares (2002: 9,297,355) calculated as follows:

	2003 Number	2002 Number
Basic weighted average number of shares	9,247,124	9,048,333
Dilutive potential shares:		
Employee share options	16,762	249,022
	9,263,886	9,297,355

Notes to the financial statements

for the year ended 31 July 2003

10 Tangible fixed assets

Group	Short leasehold property £'000	Aircraft £'000	Fixtures and equipment £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 August 2002	376	2,821	1,321	170	4,688
Exchange adjustment	—	477	43	8	528
Additions	—	—	297	15	312
Disposals	—	—	(42)	(47)	(89)
At 31 July 2003	376	3,298	1,619	146	5,439
Depreciation					
At 1 August 2002	376	350	910	43	1,679
Exchange adjustment	—	59	17	(2)	74
Charge for the year	—	297	275	33	605
Disposals	—	—	(22)	(17)	(39)
At 31 July 2003	376	706	1,180	57	2,319
Net book values					
At 31 July 2003	—	2,592	439	89	3,120
At 31 July 2002	—	2,471	411	127	3,009

Company	Short leasehold property £'000	Fixtures and equipment £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 August 2002	376	855	100	1,331
Additions	—	219	—	219
Disposals	—	(4)	(11)	(15)
At 31 July 2003	376	1,070	89	1,535
Depreciation				
At 1 August 2002	376	604	21	1,001
Charge for the year	—	184	19	203
Disposals	—	(1)	(8)	(9)
At 31 July 2003	376	787	32	1,195
Net book values				
At 31 July 2003	—	283	57	340
At 31 July 2002	—	251	79	330

11 Intangible fixed assets

Group	Goodwill £'000
Cost	
At 1 August 2002	57
Exchange adjustment	12
At 31 July 2003	69
Amortisation	
At 1 August 2002	57
Exchange adjustment	12
At 31 July 2003	69
Net book values	
At 31 July 2003	—
At 31 July 2002	—

12 Investments

Company	2003 £'000
Shares in subsidiary undertakings at cost at 1 August 2002	928
Additions	5
At 31 July 2003	933

The principal trading subsidiaries of Air Partner PLC as at 31 July 2003 are listed below:

Name	Principal activity	Country of incorporation	Holding %
Air Partner Insurance Consultants Limited	Aviation insurance services	England and Wales	100
Air Partner International SARL	Air charter broking	France	55
Air Partner International GmbH	Air charter broking	Germany	100
Air Partner Inc	Air charter broking	US	100
Air Partner (Switzerland) AG	Air charter broking	Switzerland	100
Air Partner Travel Consultants Limited	Travel agency	England and Wales	100
Air Partner Leasing (PTY) Limited	Aircraft Leasing	Australia	100

The issued share capital of each subsidiary consists entirely of ordinary shares and all trading companies operate in their respective countries of incorporation. All investments are held by the Company.

13 Debtors

	2003 Group £'000	2003 Company £'000	2002 Group £'000	2002 Company £'000
Due within one year:				
Trade debtors	10,247	3,812	10,930	5,421
Amount owed by Group undertakings	—	3,264	—	2,359
Other debtors	100	19	320	2
Deferred tax asset	114	95	74	61
VAT recoverable	71	35	63	45
Corporation tax recoverable	12	—	5	—
Other prepayments and accrued income	2,331	1,784	1,229	141
	12,875	9,009	12,621	8,029

14 Creditors

	2003 Group £'000	2003 Company £'000	2002 Group £'000	2002 Company £'000
Due within one year:				
Bank loans and overdrafts	369	369	384	384
Trade creditors	4,659	1,948	5,920	3,497
Other creditors	1,036	140	1,119	160
Corporation tax	556	481	651	578
Other taxes and social security costs	200	—	99	—
Proposed dividend	1,059	846	1,498	1,357
Accruals and deferred income	7,800	3,054	5,883	1,499
	15,679	6,838	15,554	7,475
Due after more than one year:				
Bank loans and overdrafts	739	739	1,249	1,249
Other creditors	110	—	109	—
	849	739	1,358	1,249

Notes to the financial statements

for the year ended 31 July 2003

1.5 Provisions for liabilities and charges

The elements of deferred taxation are as follows:

	2003 £'000	2002 £'000
Difference between accumulated depreciation and capital allowances	(76)	110
Other timing differences	62	(73)
	(14)	37

Group	Deferred tax £'000
Balance at 1 August 2002	37
Amounts provided in the year	91
Balance at 31 July 2003	128

	2003 £'000	2002 £'000
Deferred tax asset (note 13)	114	74
Deferred tax liability provision	(128)	(37)
	(14)	37

1.6 Financial instruments

The Group's principal financial instruments, other than derivatives, comprise cash and short-term deposits. The main purpose of these financial instruments is to provide finance for the Group's operations. The Group also has various other financial instruments, such as trade debtors and trade creditors that arise from its operational activities.

The Group does not have any outstanding derivative transactions, nor does the Group's treasury policy permit the use of such instruments.

The main risks arising from the Group's financial instruments are interest rate and foreign currency exchange risks. The Board agrees and reviews policy for managing each of these risks. These policies have been consistent throughout the year and are summarised below.

Interest rate risk

The Group's policy permits it to borrow in both fixed and floating rates of interest.

Foreign currency risk

It is the Group's policy to minimise its exposure to movements in foreign exchange rates against sterling.

The Group has transactional currency exposures that arise, primarily, as a result of sales and purchases in foreign currency in the ordinary course of business.

The Group's policy is to cover all material risks by matching currencies within its trading contracts where appropriate, and by the use of forward foreign exchange contracts.

The disclosures given below exclude short-term debtors and creditors except those relating to currency exposure.

Interest risk – financial assets	Fixed rate financial assets £'000	Financial assets on which no interest is payable £'000	Total £'000
Sterling	4,326	5	4,331
US Dollar	949	1,433	2,382
Euro	337	1,796	2,133
Swiss Francs	—	55	55
Other	—	54	54
	5,612	3,343	8,955

The fixed rate financial assets comprise cash on money market deposits for fixed lengths of time at various predetermined market rates and cash on call deposit.

16 Financial instruments (continued)

Interest risk – financial liabilities		£'000
Capital repayable amounts falling due:		
Within one year or less		369
More than one year but no more than two years		369
More than two years but no more than five years		370
		1,108

The financial liability is a USD bank loan, repayable over three years by quarterly instalments of both capital and interest. The interest rate is fixed at six month US LIBOR. Weighted average rate for the period was 4.248% (2002: 4.712%). The loan is due to be repaid in full by 14 May 2006.

Currency exposure

The table below shows the Group's currency exposures that give rise to net currency gains or losses recognised in the profit and loss account on the maturity of the underlying exposure. Such exposures comprise monetary assets and liabilities that are not denominated in the functional currency of the operating unit involved.

	£'000
US Dollar	658
Swiss Francs	(126)
Euro	13
Other	—

At 31 July 2003, the Group also held various forward exchange contracts taken out to hedge expected future foreign currency requirements.

Fair values

The fair value of all financial assets and financial liabilities is not materially different from the carrying value. Therefore, the fair value is not separately disclosed. At 31 July 2003, the Group had forward exchange contracts with a nil carrying value and a fair value, based on estimated market values, of £312,000 (2002: £1,204,000).

Hedges

Gains and losses on instruments used for hedging purposes are not recognised until the instrument matures. At 31 July 2003, unrecognised gains amounted to £17,000 (2002: (£24,000)) which are expected to be recognised within the next 12 months.

There were no losses or gains that arose in the previous year and which were recognised in the profit and loss account for the year ended 31 July 2003.

17 Called up share capital

	Number of shares	2003 £'000	2002 £'000
Equity shares:			
Authorised: ordinary shares of 5.0 pence each	11,500,000	575	575
Equity shares:			
Allotted, called up and fully paid	9,300,273	465	452

During the year 251,940 ordinary 5.0 pence shares were allotted following the exercise of share options. Total consideration received amounted to £501,906.

At the year-end, options in respect of 469,620 (2002: 727,060) ordinary 5.0 pence shares granted under Air Partner Share Option Schemes, were outstanding as follows:

Number of shares	Option price	Options exercisable
10,370	173.5 pence per share	On 25,655 shares from 25 November 2000 and all the shares from 25 November 2001. The options expire on 25 November 2006.
59,250	215.0 pence per share	The options are exercisable on all the shares comprised in any option from 10 July 2001 and expire on 10 July 2007.
400,000	403.5 pence per share	The options are exercisable on all the shares comprised in any option from 2 July 2003 and expire on 2 July 2008.

Notes to the financial statements

for the year ended 31 July 2003

18 Reserves

	Group share premium account £'000	Group profit and loss account £'000	Company share premium account £'000	Company profit and loss account £'000
At 1 August 2002	765	5,691	765	5,233
Issue of shares under share option scheme	489	—	489	—
Retained profit for the year	—	436	—	336
Exchange adjustment	—	292	—	—
At 31 July 2003	1,254	6,419	1,254	5,569

The Company has taken advantage of the provisions of Section 230 (4) of the Companies Act 1985 and has not published its own profit and loss account. Of the profit on ordinary activities after taxation for the year, £1,639,000 is dealt with in the accounts of the holding company (2002: £1,857,000) including dividends from a subsidiary company of £260,000 (2002: £172,000).

19 Reconciliation of movement in shareholders' funds

	2003 Group £'000	2003 Company £'000	2002 Group £'000	2002 Company £'000
Profit for the year	1,739	1,639	2,665	1,857
Dividends	(1,303)	(1,303)	(1,728)	(1,728)
	436	336	937	129
Issue of shares under share option scheme	502	502	—	—
Exchange adjustment	292	—	(94)	—
Net addition to shareholders' funds	1,230	838	843	129
Opening shareholders' funds	6,908	6,450	6,065	6,321
Closing shareholders' funds	8,138	7,288	6,908	6,450

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

	2003 £'000	2002 £'000
Operating profit	2,688	3,805
Depreciation	605	562
Exchange differences	—	(12)
Loss on sale of fixed assets	23	12
(Increase) in debtors	(247)	(7,140)
Increase in creditors	634	4,950
Net cash inflow from operating activities	3,703	2,177

21 Analysis of cash flows for headings netted in the cash flow statement

	2003	2002
	£'000	£'000
Returns on investment and servicing of finance		
Interest paid	(73)	(91)
Interest received	244	315
Dividends paid to minority interests	(141)	(154)
Net cash inflow from returns on investment and servicing of finance	30	70
Capital expenditure		
Purchase of tangible fixed assets	(312)	(351)
Sale of tangible fixed assets	27	52
Net cash outflow from capital expenditure	(285)	(299)
Management of liquid resources		
Decrease/(increase) in short-term deposits	850	(163)
Net cash inflow/(outflow) from management of liquid resources	850	(163)
Financing		
Share options exercised	502	—
Repayment of unsecured loan	(459)	(514)
Net cash inflow/(outflow) from financing	43	(514)

22 Analysis of net funds

	1 August 2002 £'000	Cash flow £'000	Exchange £'000	31 July 2003 £'000
Cash at bank and in hand	1,834	1,567	(102)	3,299
Short term deposits	6,524	(850)	(18)	5,656
	8,358	717	(120)	8,955
Debt due after more than one year	(1,249)	459	51	(739)
Debt due within one year	(384)	—	15	(369)
Net funds	6,725	1,176	(54)	7,847

23 Contingent liabilities

The Group has a terminable indemnity for £240,000 (2002: £240,000) in respect of a passenger sales agency agreement.

24 Commitments

	2003	2002
	£'000	£'000
Group		
Annual commitments under non-cancellable operating leases:		
Land and buildings:		
Within one year	103	117
Between two and five years	9	21
Over five years	129	128
	241	266

25 Related parties

The Company is controlled by the Executive Chairman, A G Mack, by virtue of his holding of ordinary shares in the Company as disclosed on page 12. There are no disclosable related party transactions under Financial Reporting Standard No.8.

Notice of meeting

Notice is hereby given that the Annual General Meeting of the Company will be held at 10 am on 1 December 2003 at Platinum House, Gatwick Road, Crawley, West Sussex RH10 9RP for the transaction of the following business:

Ordinary business

- 1) To receive and consider the directors' report and accounts for the year ended 31 July 2003.
- 2) To declare a final dividend for the year ended 31 July 2003 of 9.1p per ordinary share.
- 3) To re-elect S J White as a director.
- 4) To re-elect A G Mack as a director.
- 5) To re-appoint KPMG Audit Plc as auditor to the Company until the conclusion of the next Annual General Meeting of the Company and to authorise the directors to fix their remuneration.

- 6) To consider and, if thought fit, pass the following resolution which will be proposed as an ordinary resolution:

THAT with effect from the time of the passing of this resolution the directors be unconditionally authorised, pursuant to Section 80 of the Companies Act 1985, to allot relevant securities (as defined in the Act) up to a maximum nominal amount of £155,004.55 being one third of the share capital currently in issue, to such persons and at such times and on such terms as they think proper during the period of five years from the date of the passing of this resolution and at any time thereafter pursuant to any offer or agreement made by the Company before the expiry of this authority, so that all previous authorities of the directors pursuant to the said Section 80 be and are hereby revoked.

- 7) To consider and, if thought fit, pass the following resolution which will be proposed as a special resolution:

THAT subject to the passing of the resolution set out in paragraph 6 of the Notice convening the meeting, the directors be and are hereby empowered in accordance with Section 95 of the Companies Act 1985 (the 'Act') to allot equity securities (within the meaning of Section 94 of the Act) for cash pursuant to the authority conferred on them to allot relevant securities (as defined in Section 80 of the Act) as if sub-Section 89(1) of the Act did not apply to any such allotment; and references in this resolution to the allotment of equity securities shall include references to the grant of a right to subscribe for, or to convert any securities into, relevant shares (as defined in Section 94 of the Act), provided that this power shall be limited:

- i. to the allotment of equity securities in connection with an issue or offering by way of rights in favour of holders of equity securities and any other persons entitled to participate in such issue or offering where the equity securities respectively attributable to the interests of such holders and persons are proportionate (as nearly as may be) to the respective numbers of equity securities held by or deemed to be held by them on the record date of such allotment subject only to such exclusions or other arrangements as the directors may consider necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws or requirements of any recognised regulatory body in any territory; and
- ii. to the allotment (otherwise than pursuant to paragraph (i) above) of equity securities up to an aggregate nominal value not exceeding £22,620.83 and this power shall expire, unless renewed or earlier revoked, on the expiry of the period of five years from the date of the passing of this resolution, but shall extend to the making, before such expiry, of an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

S J White

Company Secretary
9 October 2003

Notes

Pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995, the time by which a person must be entered on the register of members in order to have the right to attend or vote at the meeting is 10 am on Saturday, 29 November 2003. Entries on the register of members after that time will be disregarded in determining the rights of any person to attend or to vote at the meeting.

Form of proxy

I/We
of
being (a) Member(s) of the above named Company, hereby appoint the Chairman of the Meeting or*

as my/our proxy to vote and act for me/us on my/our behalf, at the ANNUAL GENERAL MEETING of the Company to be held on 1 December 2003, and at any adjournment thereof.

*If any other proxy is desired, delete "Chairman of the Meeting or" and insert the name and address of the proxy desired and initial the alteration. Such other proxy need not be a Member of the Company but must attend the Meeting in person to represent the Member.

Please indicate with an 'X' in the space below how you wish your votes to be cast. In the absence of any specific directions, the proxy will abstain or vote at his discretion.

Resolution	For	Against
Number 1		
Number 2		
Number 3		
Number 4		
Number 5		
Number 6		
Number 7		

Dated this day of 2003

Signature

Initials and surnames of joint holders, if any

Notes

1. To be effective, this proxy and any power of attorney or other written authority under which it is signed or a notarially certified copy of such power or other written authority must be deposited with the Company's Registrar, Capita IRG Plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU not less than forty-eight hours before the time appointed for the Meeting or an adjournment of the said Meeting.
2. In the case of a corporation, this form of proxy must be executed either under its common seal or signed by its duly authorised attorney or by a duly authorised officer on behalf of the corporation.
3. In the case of joint holdings, the first named holder should sign, and the vote of the senior holder will be accepted to the exclusion of the votes of other joints holders. Seniority depends on the order in which the names stand in the Register of Members.



Second fold

BUSINESS REPLY SERVICE
Licence No. RCC556

2



Capita IRG Plc
Bourne House
34 Beckenham Road
Beckenham
Kent BR3 4TU

First fold

Third fold and tuck in

Advisors

Secretary and Registered Office

Stephanie White
Platinum House, Gatwick Road
Crawley, West Sussex RH10 9RP

Stockbrokers

Evolution Beeson Gregory Limited
100 Wood Street
London EC2V 7AN

Auditors

KPMG Audit Plc
Chartered Accountants
and Registered Auditor
1 Forest Gate, Brighton Road
Crawley, West Sussex RH11 9PT

Solicitors

Travers Smith Braithwaite
10 Snow Hill
London EC1A 2AL

Principal bankers

NatWest Bank PLC
16 The Boulevard
Crawley, West Sussex RH10 1XU

Registrars

Capita IRG Plc
Bourne House, 34 Beckenham Road
Beckenham, Kent BR3 4TU

Registered number

980675



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