



TRAVELZEST

Travelzest plc  
(formerly VFB Group plc)

Report and accounts  
for the year ended  
31 October 2005



## Financial statements for the year ended 31 October 2005

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## Chairman's Statement

I am pleased to report on an encouraging year in which the company has made good progress, on a number of fronts, towards its strategic objectives of building a substantial travel group focused on high quality brands offering specialist holiday services.

### Key Events

The most notable event during the year was the appointment, in April, of Chris Mottershead, former Managing Director of TUI UK, as Chief Executive.

At that time, the company's name was changed from VFB Group plc to Travelzest plc.

On 3 October, the company's shares commenced trading on AIM following the move from OFEX and the company announced the acquisition of Holiday Express Ltd, a major online holiday retailer. The move onto AIM was made to facilitate the company's strategy of rapidly becoming a consolidator of niche businesses within the travel industry. £5.15 million (before expenses) was raised through a placing of 4,087,477 Ordinary Shares at a price of 126p per share, to fund acquisitions. In addition to the placing, the company issued 624,217 ordinary shares arising as part of the consideration for Holiday Express, 450,000 ordinary shares arising as a result of the conversion of deferred shares on a one for one basis (there are no more deferred shares in issue) and further warrants to warrant holders as a result of the conversion of the deferred shares, the issue of the initial consideration shares and the issue of the placing shares.

Immediately following the year end, the company also acquired Best of Morocco Limited. Both acquisitions are expected to enhance earnings during the current year to 31 October 2006.

### Financials

Following my April statement, various initiatives taken at VFB Holidays have resulted in a significant turnaround of the business in the last six months since Chris Mottershead's appointment. This improvement in the group's fortunes returns it to levels of profitability in line with the group's expectations. This significant achievement is masked by the inevitable increase in costs incurred by the group through its recruitment of key personnel to manage future growth as well, of course, as the move to AIM. However, it accounts for the turnaround in the group's performance from a £14,326 loss a year ago to a pre-tax profit of £58,787 in 2005 against the background of an increase in costs.

### People

I am pleased to report that David Powell of Holiday Express Limited, having taken shares in Travelzest at the time of acquisition, is to stay on, while Best of Morocco Limited has a new Managing Director, Steve Diederich, formerly MD of Laskarina Holidays Limited and previously with Kuoni Travel Limited, who replaces the former, retiring owner. The Managing Director of VFB Holidays, John Kirk, has also retired, after 25 years with that company, and I welcome this opportunity to acknowledge his inestimable contribution to the outstanding reputation achieved by the French specialist over so many years. My fellow directors join me in wishing him every success with his future plans.

I am also pleased that financial management of the group will be placed in the hands of a new, very experienced, Group Finance Director. As announced last month, Colin McKinlay, currently Chief Financial Officer of Thomas Cook UK, will join the group on 1 April 2006 and is expected to play a key role in implementing the aggressive growth strategy designed to build the group into one of the pre-eminent players in the British travel industry. The group will be further strengthened this year with the

**Financial statements for the year ended 31 October 2005**

appointment of Nishma Patel who joins Travelzest from Teletext Holidays, a subsidiary of Associated Newspapers of which she was a Board director.

**Current Trading and Outlook**

The directors confidently expect to make further acquisitions during the year. They have identified a number of potential targets that fit the group's strict acquisition criteria and which would significantly enhance group earnings. Current trading is in line with expectations and the directors very much look forward to the coming year.

M. J. Bruce-Mitford  
Chairman

26 January 2006

## Financial statements for the year ended 31 October 2005

## Report of the directors

The directors present their report and the financial statements of the group for the year ended 31 October 2005.

### Principal activities and business review

The principal activity of the company during the year was that of a parent and holding company.

The principal activity of the group during the year was that of the provision of a wide range of holidays mainly in France but also in Belgium, Portugal, Spain and Morocco, together with ancillary travel and insurance services.

On 3 October 2005, the company's shares were admitted to AIM. On the same date, the company acquired the entire share capital of Holiday Express Group Limited. The Holiday Express Group operates as an on-line travel agent.

During the year the company changed its name from VFB Group PLC to Travelzest PLC.

A review of the activities of, and prospects for, the group is given in the Chairman's statement.

### Results and dividends

The profit for the year after taxation amounts to £26,967 (2004 - loss of £12,938). The directors do not propose the payment of a dividend.

### The directors and their interests

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

		At 31 October 2005	At 1 November 2004 (or date of appointment)
M J Bruce-Mitford	Ordinary 2p	2,746,300	2,506,300
	Deferred 2p	–	270,000
R G Hall	Ordinary 2p	21,100	–
	Deferred 2p	–	–
C A L Mottershead (appointed 1 April 2005)	Ordinary 2p	82,539	–
	Deferred 2p	–	–
P Thomson	Ordinary 2p	180,000	–
	Deferred 2p	–	180,000

During the year, C A L Mottershead was granted share options in respect of 40,000 ordinary shares of 2p each and 1,031,141 warrants of 2p each. Further details are shown in note 20 to these financial statements.

**Financial statements for the year ended 31 October 2005****Retirement of directors**

In accordance with the company's Articles of Association, M J Bruce-Mitford and P Thomson will retire by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

**Employment policy**

The group is committed to a policy of recruitment and promotion on the basis of aptitude and ability without discrimination of any kind. The group gives full consideration to disabled applicants for employment, having regard to their particular aptitudes and abilities and they share in opportunities for training, career development and promotion. It is management policy to keep its employees informed on matters affecting them through regular briefings and consultations.

**Policy on the payment of creditors**

The group seeks to maintain good relations with all of its trading partners. In particular it is the group's policy to abide by the terms of payment agreed with each of its suppliers. As the company does not trade no information has been provided about the company's creditor payment policy or its creditor days.

**Directors' responsibilities**

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the group at the end of the year and of the group's profit or loss for the year then ended. 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 group will continue in business

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The maintenance and integrity of the Travelzest PLC website is the responsibility of the directors: the work carried out by the auditors does not involve consideration of these matters and accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially posted on the website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

**Auditors**

Grant Thornton UK LLP offer themselves for reappointment as auditors in accordance with section 385 of the Companies Act 1985.

ON BEHALF OF THE BOARD

Director  
R G Hall  
26 January 2006

# Report of the independent auditors to the members of Travelzest PLC

We have audited the financial statements of Travelzest PLC and its subsidiary companies for the year ended 31 October 2005 which comprise the principal accounting policies, consolidated profit and loss account, consolidated balance sheet and company balance sheet, consolidated cash flow statement and notes 1 to 25. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the Annual Report of the directors and the financial statements in accordance with United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report 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 read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's statement and the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## **Basis of opinion**

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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.

# Report of the independent auditors to the members of Travelzest PLC

## **Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 31 October 2005 and of the profit of the group for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.

GRANT THORNTON UK LLP  
CHARTERED ACCOUNTANTS  
REGISTERED AUDITORS  
CHELTENHAM  
26 January 2006

## Principal accounting policies

### Basis of accounting

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

### Basis of consolidation

The group financial statements consolidate those of the company and of its subsidiary companies drawn up to 31 October 2005. Intra-group transactions are eliminated on consolidation and all figures relate to external transactions only. Acquisitions of subsidiaries are dealt with by the acquisition method of accounting except for those qualifying as group reconstructions where merger accounting is used. The results of newly acquired companies are consolidated from the date that control passed.

As a consolidated profit and loss account is published, a separate profit and loss account for the parent company is omitted from the group financial statements by virtue of section 230 of the Companies Act 1985.

### Merger relief

The company was entitled to the merger relief offered by section 131 of the Companies Act 1985 in respect of the consideration received in excess of the nominal value of the equity shares issued in connection with the acquisition of VFB Holidays Limited and Holiday Express Group Limited.

On acquisition, the investment in the company's immediate subsidiary companies was recorded in the company's balance sheet at the fair value of the assets acquired, with the difference between this and the nominal value of the shares issued being credited to a merger reserve.

### Acquisitions

In accordance with Financial Reporting Standard No.3, the turnover and contribution to operating loss relating to acquisitions is shown separately for the year in which the acquisition occurred.

### Turnover and total transaction value (TTV)

Turnover is the total amount receivable by the group for services provided, excluding Value Added Tax. Turnover in respect of tour operations is recognised on the date of holiday departure. Turnover for the travel agency business is recognised based on the commission receivable and on receipt of the final balance from the customer. Total transaction value represents the price at which services have been sold where the group acts either as principle or agent.

### Brochure costs

The costs of brochure publication are charged to the profit and loss account in the season to which they relate.

### Intangible fixed assets – goodwill

Purchased goodwill, representing the excess of the fair value of the consideration (including deferred consideration) given over the fair value of the separable net assets acquired, arising on consolidation in respect of acquisitions is capitalised. Goodwill is fully amortised by equal annual instalments over its estimated useful life, and is calculated separately for each acquisition. For the acquisition during the year, goodwill's useful economic life has been estimated by the directors at twenty years, being the period over which economic benefit is expected to accrue.

### Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

Fixtures & fittings	-	15% straight line
Computer equipment	-	25% straight line
Improvements to property	-	20% straight line

**Financial statements for the year ended 31 October 2005****Investments**

Investments held as fixed assets are stated at cost less provision for any permanent diminution in value.

**Operating lease agreements**

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

**Pension costs**

The pension costs charged against operating profits are the contributions payable to defined contribution pension schemes in respect of the accounting period.

**Government grants**

Regional Selective Assistance grants which are project related are released to the profit and loss account over a period to match the grant received rateably with the constituent parts of the project expenditure towards which the grant is assisting. Revenue grants are credited to the profit and loss account to match the expenditure to which they relate.

**Deferred taxation**

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

**Foreign currencies**

Monetary assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

**Financial instruments**

The group uses financial instruments to manage the group's exposure to fluctuations in foreign currency exchange rates. Gains and losses are taken to the profit and loss account when incurred.

## Consolidated profit and loss account

	Note	2005 £	2004 £
<b>Total transaction value</b>	1		
Continuing operations		11,140,658	11,492,649
- Acquisitions		1,074,822	-
		<u>12,215,480</u>	<u>11,492,649</u>
<b>Group turnover</b>	1		
Continuing operations		11,140,658	11,492,649
- Acquisitions		151,315	-
		<u>11,291,973</u>	<u>11,492,649</u>
Cost of sales		<u>(8,351,725)</u>	<u>(8,809,508)</u>
Gross profit		2,940,248	2,683,141
Administrative expenses		<u>(3,006,885)</u>	<u>(2,794,282)</u>
<b>Operating loss</b>	2		
Continuing operations		(37,269)	(111,141)
- Acquisitions		(29,368)	-
		<u>(66,637)</u>	<u>(111,141)</u>
Net interest receivable	5	125,424	96,815
<b>Profit/(loss) on ordinary activities before taxation</b>		<u>58,787</u>	<u>(14,326)</u>
Tax on profit/(loss) on ordinary activities	6	(31,820)	1,388
<b>Profit / (loss) retained for the financial year</b>	21	<u>26,967</u>	<u>(12,938)</u>
<b>Earnings per share</b>	8		
Basic		0.81p	(0.45p)
Diluted		<u>0.70p</u>	<u>(0.45p)</u>

The group has no recognised gains or losses other than the results for the year as set out above.

## Consolidated balance sheet

	Note	2005 £	2004 £
<b>Fixed assets</b>			
Intangible fixed assets	9	3,915,764	-
Tangible assets	10	<u>698,807</u>	<u>130,018</u>
		4,614,571	130,018
<b>Current assets</b>			
Debtors	12	549,159	296,065
Cash at bank and in hand		5,753,193	1,692,472
		<u>6,302,352</u>	<u>1,988,537</u>
<b>Creditors: amounts falling due within one year</b>	13	<u>(2,979,527)</u>	<u>(751,545)</u>
<b>Net current assets</b>		<u>3,322,825</u>	<u>1,236,992</u>
<b>Total assets less current liabilities</b>		<u>7,937,396</u>	<u>1,367,010</u>
<b>Creditors: amounts falling due after more than one year</b>	14	<u>(1,213,798)</u>	-
<b>Provisions for liabilities and charges</b>			
Deferred taxation	15	(18,000)	-
		<u>6,705,598</u>	<u>1,367,010</u>
<b>Capital and reserves</b>			
Called-up equity share capital	20	162,445	66,140
Share premium account	21	4,441,287	-
Merger reserve	21	798,511	24,482
Profit and loss account	21	1,303,355	1,276,388
<b>Shareholders' funds</b>	22	<u>6,705,598</u>	<u>1,367,010</u>

These financial statements were approved by the directors on 26 January 2006 and are signed on their behalf by:

Director  
R G Hall

## Company balance sheet

	Note	2005 £	2004 £
<b>Fixed assets</b>			
Investments	11	<u>6,020,427</u>	<u>1,119,354</u>
<b>Current assets</b>			
Debtors	12	117,345	63,783
Cash at bank		2,560,612	55,339
		<u>2,677,957</u>	<u>119,122</u>
<b>Creditors: amounts falling due within one year</b>	13	<u>(1,173,132)</u>	<u>(4,708)</u>
<b>Net current assets</b>		<u>1,504,825</u>	<u>114,414</u>
<b>Total assets less current liabilities</b>		<u>7,525,252</u>	<u>1,233,768</u>
<b>Creditors: amounts falling due after more than one year</b>	14	<u>(1,194,798)</u>	<u>-</u>
		<u>6,330,454</u>	<u>1,233,768</u>
<b>Capital and reserves</b>			
Called-up equity share capital	20	162,445	66,140
Share premium account	21	4,441,287	-
Merger reserve	21	1,836,243	1,062,214
Profit and loss account	21	(109,521)	105,414
<b>Shareholders' funds</b>	22	<u>6,330,454</u>	<u>1,233,768</u>

These financial statements were approved by the directors on 26 January 2006 and are signed on their behalf by:

Director  
R G Hall

## Consolidated cash flow statement

	Note	2005 £	2004 £
Net cash (outflow) /inflow from operating activities	23	(132,417)	84,922
<b>Returns on investments and servicing of finance</b>			
Interest received		125,972	97,745
Interest paid		(548)	(930)
Net cash inflow from returns on investments and servicing of finance		125,424	96,815
<b>Taxation</b>		(3,100)	(88,280)
<b>Capital expenditure</b>			
Purchases of tangible fixed assets		(35,853)	(50,919)
Receipts from sale of fixed assets		5,105	–
Net cash outflow from capital expenditure		(30,748)	(50,919)
<b>Acquisitions</b>			
Purchase of subsidiary undertakings		(1,814,560)	–
Net cash acquired with subsidiary		1,360,520	–
Net cash outflow for acquisition		(454,040)	–
Equity dividends paid		–	(107,138)
Cash outflow before financing		(494,881)	(64,600)
<b>Financing</b>			
Issue of equity share capital		4,525,108	–
Net cash inflow from financing		4,525,108	–
Increase/(decrease) in cash	23	4,030,227	(64,600)

## Notes to the Financial Statements

### 1 Total transaction value and turnover

Total transaction value represents the gross value of business carried out by the group during the year and is derived as follows:

Total transaction value	2005	2004
	£	£
Tour operations	11,140,658	11,492,649
Travel agency:		
Direct sales	12,438	-
Agency sales	1,062,384	-
	<u>12,215,480</u>	<u>11,492,649</u>

The commission receivable on agency sales during the year was £138,877 (2004: £Nil). The turnover and profit/(loss) before tax are attributable to the principal activities of the group, all of which originate in the United Kingdom.

### 2 Operating loss

Operating loss is stated after charging/(crediting):

	2005	2004
	£	£
Amortisation of goodwill	16,384	-
Depreciation of owned fixed assets	74,390	80,589
Auditors' remuneration - group:		
Audit fees	40,500	18,050
Taxation	7,200	7,000
Auditors' remuneration - company:		
Audit fees	6,750	3,300
Taxation	525	1,550
Net profit on foreign currency translation	(7,822)	(104)
Operating lease costs:		
Vehicles	24,094	25,102
Property	70,993	70,000

### 3 Employees

The average number of staff employed by the group during year were:

	2005	2004
	No	No
Administrative staff	29	27
Sales staff	32	31
	<u>61</u>	<u>58</u>

The aggregate payroll costs were:

	2005	2004
	£	£
Salaries	1,615,971	1,087,193
Social security costs	174,076	95,452
Other pension costs	52,317	29,123
	<u>1,842,364</u>	<u>1,211,768</u>

## Financial statements for the year ended 31 October 2005

**4 Directors**

Remuneration of the directors was:

	2005	2004
	£	£
Emoluments receivable	233,415	44,503
Value of company pension contributions to money purchase schemes	15,715	5,000
	<u>249,130</u>	<u>49,503</u>

Two directors (2004 - one) are accruing benefits under company money purchase pension schemes.

Included in the above are emoluments, excluding pension contributions paid to:

	2005	2004
	£	£
Highest paid director	<u>194,500</u>	<u>22,503</u>

The value of the company's contributions paid to a money purchase pension scheme in respect of the highest paid director amounted to:

	2005	2004
	£	£
Highest paid director	<u>9,375</u>	<u>5,000</u>

**5 Net interest receivable**

	2005	2004
	£	£
Bank interest receivable	125,972	97,745
Interest payable on bank borrowing	(548)	(930)
	<u>125,424</u>	<u>96,815</u>

**6 Taxation on ordinary activities**

(a) Analysis of charge in the year

	2005	2004
	£	£
Current tax:		
UK corporation tax based on the results for the year at 30% (2004 - 30%)	35,320	3,100
Over provision in prior year	–	(2,088)
Total current tax	<u>35,320</u>	<u>1,012</u>
Deferred tax:		
Origination and reversal of timing differences	(3,500)	(2,400)
Tax on profit/(loss) on ordinary activities	<u>31,820</u>	<u>(1,388)</u>

## Financial statements for the year ended 31 October 2005

**6 Taxation on ordinary activities (continued)**

(b) Factors affecting current tax charge

	2005	2004
	£	£
Profit/(loss) on ordinary activities before taxation	<u>58,787</u>	<u>(14,326)</u>
Profit/(loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2004 - 30%)	17,636	(4,298)
Expenses not deductible for tax purposes	4,148	1,447
Depreciation for the year in excess of capital allowances	8,707	5,756
Short term timing differences	(2,401)	2,401
Other adjustments	7,605	(2,206)
Adjustments to tax charge in respect of previous periods	–	(2,088)
Differences between standard and actual rate	<u>(375)</u>	<u>–</u>
Total current tax (note 6(a))	<u>35,320</u>	<u>1,012</u>

**7 Loss attributable to shareholders of the parent company**

The loss dealt with in the accounts of the parent company was £214,935 (2004 – loss of £18,249).

**8 Earnings per share**

Basic earnings per share is based on an equity gain of £26,967 (2004 – Loss of £12,938) and 3,328,993 (2004 - 2,857,000) ordinary shares of 2p each, being the average number of shares in issue during the year.

The diluted earnings per share is based on a fully diluted share capital of 3,843,019 shares.

In 2004, as the group had incurred a loss there was no difference between the basic loss per share and the diluted loss per share.

## Financial statements for the year ended 31 October 2005

**9 Intangible fixed assets**

Group	Goodwill £
Cost	
At 1 November 2004	–
Additions	3,932,148
At 31 October 2005	<u>3,932,148</u>
Amortisation	
At 1 November 2004	–
Charge for the year	<u>16,384</u>
At 31 October 2005	<u>16,384</u>
Net book value	
At 31 October 2005	<u><u>3,915,764</u></u>
At 31 October 2004	<u><u>–</u></u>

Additions to goodwill relate to the acquisition of Holiday Express Group Limited and its subsidiaries. See note 24 for further details.

**10 Tangible fixed assets**

Group	Improvements to property £	Fixtures & fittings £	Computer equipment £	Total £
Cost				
At 1 November 2004	–	274,229	448,033	722,262
Additions	5,837	159,399	483,048	648,284
Disposals	–	(3,507)	(23,691)	(27,198)
At 31 October 2005	<u>5,837</u>	<u>430,121</u>	<u>907,390</u>	<u>1,343,348</u>
Depreciation				
At 1 November 2004	–	224,075	368,169	592,244
Charge for the year	436	18,499	55,455	74,390
On disposals	–	(3,507)	(18,586)	(22,093)
At 31 October 2005	<u>436</u>	<u>239,067</u>	<u>405,038</u>	<u>644,541</u>
Net book value				
At 31 October 2005	<u><u>5,401</u></u>	<u><u>191,054</u></u>	<u><u>502,352</u></u>	<u><u>698,807</u></u>
At 31 October 2004	<u><u>–</u></u>	<u><u>50,154</u></u>	<u><u>79,864</u></u>	<u><u>130,018</u></u>

The group acquired assets with a net book value of £612,431 during the year as part of the purchase of a subsidiary company. Further details are shown in note 24 to these financial statements.

## Financial statements for the year ended 31 October 2005

**11 Fixed Asset Investments**

Company	Shares in group companies
	£
Cost	
At 1 November 2004	1,119,354
Additions	<u>4,901,073</u>
At 31 October 2005	<u><b>6,020,427</b></u>
Net book value	
At 31 October 2005	<u><b>6,020,427</b></u>
At 31 October 2004	<u>1,119,354</u>

At 31 October 2005, the group held more than 20% of the allotted share capital of the following trading companies:

	Country of registration	Class of share capital held	Proportion held by Group	Proportion held by Company	Nature of business
VFB Holidays Limited	England & Wales	Ordinary	-	100%	Tour operator
Vacances Franco-Britanniques Limited	England & Wales	Ordinary	100%	-	Travel services
Holiday Express Group Limited	England & Wales	Ordinary	-	100%	Holding company
Holiday Express (UK) Limited	England & Wales	Ordinary	100%	-	Travel services
Digital Travel Services Limited	England & Wales	Ordinary	100%	-	Technology support

The shareholdings above also represent the proportion of voting rights held. All subsidiaries have been included in the consolidated accounts.

**12 Debtors**

	2005	The group 2004	2005	The company 2004
	£	£	£	£
Trade debtors	<b>27,090</b>	-	-	-
Amounts owed by group companies	-	-	-	60,000
VAT recoverable	<b>157,661</b>	-	<b>96,472</b>	-
Other debtors	<b>31,839</b>	46,752	<b>2,696</b>	3,783
Prepayments and accrued income	<b>332,569</b>	249,313	<b>18,177</b>	-
	<u><b>549,159</b></u>	<u>296,065</u>	<u><b>117,345</b></u>	<u>63,783</u>

## Financial statements for the year ended 31 October 2005

**13 Creditors: amounts falling due within one year**

	The group		The company	
	2005	2004	2005	2004
	£	£	£	£
Bank overdraft	30,494	-	-	-
Trade creditors	634,432	124,480	-	-
Other creditors	11,049	-	-	-
Corporation tax	188,420	3,100	-	-
Social security and other taxes	237,362	71,384	60,655	908
Customer deposits	570,734	385,300	-	-
Pension accrual	-	8,004	-	-
Accruals and deferred income	239,834	159,277	45,275	3,800
Deferred consideration (see note 24)	1,067,202	-	1,067,202	-
	<u>2,979,527</u>	<u>751,545</u>	<u>1,173,132</u>	<u>4,708</u>

The bank overdraft is secured by a floating charge over the assets of the group.

**14 Creditors: amounts falling due after more than one year**

	The group		The company	
	2005	2004	2005	2004
	£	£	£	£
Deferred consideration (see note 24)	1,194,798	-	1,194,798	-
Accruals and deferred income	19,000	-	-	-
	<u>1,213,798</u>	<u>-</u>	<u>1,194,798</u>	<u>-</u>

**15 Deferred taxation**

The movement in the deferred taxation provision during the year was:

	The group		The company	
	2005	2004	2005	2004
	£	£	£	£
Provision brought forward	-	2,400	-	-
Acquired with subsidiaries	21,500	-	-	-
Decrease in provision	(3,500)	(2,400)	-	-
Provision carried forward	<u>18,000</u>	<u>-</u>	<u>-</u>	<u>-</u>

The provision for deferred taxation consists of the tax effect of timing differences in respect of:

	The group		The company	
	2005	2004	2005	2004
	£	£	£	£
Excess of taxation allowances over depreciation on fixed assets	<u>18,000</u>	<u>-</u>	<u>-</u>	<u>-</u>

**16 Derivatives and other financial instruments**

The group finances its operations through retained profits. The group uses financial instruments comprising cash, bank overdrafts and short-term deposits, including cash received in advance from customers. The main purpose of these financial instruments is to finance the group's operations. The group has various other financial instruments such as trade debtors and trade creditors that arise directly from its operations.

The main risk arising from the group's financial instruments and operations is considered to be foreign currency risk. The board reviews and agrees policies for managing this risk.

**Currency risk**

The group enters into foreign currency forward contracts and options. Their purpose is to manage the currency risks arising from the group's operations. It is, and has been throughout the period under review, the group's policy that no trading in financial instruments shall be undertaken.

As a result of significant operations in Europe, the group has transactional currency exposures. Such exposures arise from purchases made in foreign currencies. Approximately 72% (2004 - 72%) of the group's purchases are denominated in currencies other than Sterling. The group policy is to reduce currency exposures through the use of foreign currency forward contracts and options.

Group companies have monetary assets in currencies other than Sterling of £58,931 (2004 - £78,284) denominated in Euros. The group had no monetary liabilities denominated in currencies other than Sterling at 31 October 2005 or 2004. Foreign exchange differences on retranslation of these assets are taken to the profit and loss account.

During the year ended 31 October 2005, the group made net foreign currency gains of £7,822 (2004 - £104).

**Financial risk**

The group seeks to manage financial risk to ensure liquidity is available to meet the identifiable needs of the group and to invest cash assets safely and profitably.

**Liquidity risk**

Short term flexibility is achieved through the use of money market bank deposit facilities.

**Fair values**

The group has entered into forward contracts for the sum of £5,483,049 (2004 - £6,620,266) for the purchase of Euros. These contracts were revalued at the year end on the basis of the identical contracts being achievable. As a consequence the company has an unrecognised gain of £47,137 (2004 - £115,343).

Therefore, there was no material difference between the fair value and the book value of the group's forward currency options.

## Financial statements for the year ended 31 October 2005

**17 Commitments under operating leases**

At 31 October 2005 the group had annual commitments under non-cancellable operating leases as set out below.

The group	2005		2004	
	Land and buildings £	Other items £	Land and Buildings £	Other items £
Operating leases which expire:				
Within 1 year	-	4,590	-	2,437
Within 2 to 5 years	-	6,801	-	25,483
After more than 5 years	87,500	-	70,000	-
	<u>87,500</u>	<u>11,391</u>	<u>70,000</u>	<u>27,920</u>

**18 Contingent liabilities**

On 31 October 2005, the group provided bonds jointly in the names of VFB Holidays Limited and Vacances Franco-Britanniques Limited (subsidiaries of the company) in favour of the Civil Aviation Authority and the Association of Independent Tour Operators Trust Limited, amounting to £506,000 and £733,000 respectively. In the event of default, the group could be held liable to the extent of those subsidiaries' net trading liabilities at the time of default.

In addition, on 31 October 2005 Holiday Express (UK) Limited (a subsidiary company) provided bonds in favour of the Civil Aviation Authority and Association of British Travel Agents amounting to £234,907 and £303,600 respectively. In the event of default, Holiday Express (UK) Limited could be held liable to the extent of its net trading liabilities at the time of default. Holiday Express (UK) Limited has also provided a bond in favour of Thomson Holidays Limited in the form of a £200,000 cash deposit.

Lloyds TSB Bank PLC holds an unlimited debenture over the assets of the group companies in respect of overdraft, forward exchange and bonding facilities.

**19 Related party transactions**

The company has taken advantage of the exemption within Financial Reporting Standard 8 not to disclose any transactions with entities that are part of the group headed by the company on the grounds that it prepares consolidated group accounts.

During the year the group sold flights totalling £337,933 (2004 - £206,762) to Odyssey Experience Limited, a company controlled by M J Bruce-Mitford, a director of the company, and his wife M F Bruce-Mitford. At 31 October 2005, the group was owed £nil (2004 - £32,776) by Odyssey Experience Limited.

During the year, the group made purchases of £15,805 (2004 - £14,033) for rented holiday accommodation from M J Bruce-Mitford, a director of the company, and his wife M F Bruce-Mitford. At 31 October 2005, no amounts were owed for this accommodation (2004 - £nil).

During the year, the group rented office space, under a lease expiring in October 2012, from Normandy Holdings Limited for £70,000 (2004 - £70,000), a company under the control of M J Bruce-Mitford and his wife M F Bruce-Mitford.

Lloyds TSB Bank PLC hold fixed charges over a property owned by Normandy Holdings Limited in connection with the group's bonding requirements with the Association of Independent Tour Operators Trust Limited. During the year the group paid Normandy Holdings Limited £4,025 (2004 - £4,025) for this facility.

The group also purchased services of M J Bruce-Mitford and M F Bruce-Mitford from Normandy Holdings Limited for £15,000 (2004 - £15,000).

At 31 October 2005, no amounts were owed to or from Normandy Holdings Limited (2004 - £nil).

J F Beckett, a director of VFB Holidays Ltd (a subsidiary of the company), was until 13 October 2005 a director of the AITO Trust Limited, through whom the company obtains its non-licensable bonding. During the year the company paid the AITO Trust Limited £7,357 (2004 - £7,318) for these services.

All of the above transactions were on normal commercial terms and an arm's length basis.

## Financial statements for the year ended 31 October 2005

**20 Share capital**

Authorised share capital:

	2005	2004
	£	£
25,000,000 ordinary shares of £0.02 each	<b>500,000</b>	500,000
450,000 deferred shares of £0.02 each	–	9,000
	<u><b>500,000</b></u>	<u>509,000</u>

Allotted, called up and fully paid:

	2005		2004	
	No	£	No	£
Ordinary shares of £0.02 each	<b>8,122,233</b>	<b>162,445</b>	2,857,000	57,140
Deferred shares of £0.02 each	–	–	450,000	9,000
	<u><b>8,122,233</b></u>	<u><b>162,445</b></u>	<u>3,307,000</u>	<u>66,140</u>

The company issued shares during the year as follows:

On 27 April 2005, 39,682 ordinary 2p shares for cash at a premium of 124p per share.

On 30 September 2005, 4,087,477 ordinary 2p shares for cash at a premium of 124p per share.

On 3 October 2005, 624,217 ordinary 2p shares at a premium of 124p per share, as partial consideration for the acquisition of Holiday Express Group Limited (see note 24 for further details).

On 3 October 2005, 42,857 ordinary 2p shares for cash at a premium of 138p per share.

On 19 October 2005, 21,000 ordinary 2p shares for cash at a premium of 135.5p per share.

On 1 April 2005, the company granted share options over 40,000 ordinary 2p shares at an exercise price of 126p per share. The options must be exercised by 31 March 2008 and form part of an approved EMI scheme.

The total premium on issue of these shares (net of share issue expenses) of £5,215,316 has been credited to the share premium account, except for an amount of £774,029, being the shares issued as partial consideration for the acquisition of Holiday Express Group Limited which qualify for merger relief. This amount has therefore been charged to the merger reserve.

**Deferred Shares**

The deferred shares carried the right to be re-designated as ordinary shares. During the year, this right of conversion was exercised for all 450,000 deferred shares in existence and 450,000 ordinary 2p shares in the company were issued in exchange.

**Warrants**

On 27 April 2005, the company issued 734,170 warrants at an exercise price of 126p per warrant.

On 3 October 2005, the company issued a further 1,399,048 warrants at an exercise price of 126p per warrant, 10,714 warrants at an exercise price of 140p per warrant and on 19 October 2005, 5,250 warrants at an exercise price of 137.5p per warrant.

The subscription rights attached to each warrant in issue must be exercised within 10 years of the date of grant.

## Financial statements for the year ended 31 October 2005

**21 Reserves**

Group	Share Premium	Merger reserve	Profit and loss
	Account		account
	£	£	£
At 1 November 2004	–	24,482	1,276,388
Profit for the year	–	–	26,967
Premium on shares issued	4,441,287	–	–
Merger relief on issue of new shares	–	774,029	–
At 31 October 2005	<u>4,441,287</u>	<u>798,511</u>	<u>1,303,355</u>

  

Company	Share Premium	Merger reserve	Profit and loss
	Account		account
	£	£	£
At 1 November 2004	–	1,062,214	105,414
Profit/(loss) for the year	–	–	(214,935)
Premium on shares issued	4,441,287	–	–
Merger relief on issue of new shares	–	774,029	–
At 31 October 2005	<u>4,441,287</u>	<u>1,836,243</u>	<u>(109,521)</u>

**22 Reconciliation of movements in shareholders' funds**

Group	2005	2004
	£	£
Loss for the financial year	26,967	(12,938)
Issue of shares	5,311,621	–
Net addition/(reduction) to shareholders' equity funds	<u>5,338,588</u>	<u>(12,938)</u>
Opening shareholders' equity funds	<u>1,367,010</u>	<u>1,379,948</u>
Closing shareholders' equity funds	<u>6,705,598</u>	<u>1,367,010</u>

  

Company	2005	2004
	£	£
Loss for the financial year	(214,935)	(18,249)
Issue of shares	5,311,621	–
Net addition/(reduction) to shareholders' equity funds	<u>5,096,686</u>	<u>(18,249)</u>
Opening shareholders' equity funds	<u>1,233,768</u>	<u>1,252,017</u>
Closing shareholders' equity funds	<u>6,330,454</u>	<u>1,233,768</u>

**23 Notes to the statement of cash flows****Reconciliation of operating loss to net cash (outflow)/inflow from operating activities**

	2005	2004
	£	£
Operating loss	(66,637)	(111,141)
Amortisation	16,384	–
Depreciation	74,390	80,589
Increase in debtors	(50,946)	(84,848)
(Decrease)/increase in creditors	(105,608)	200,322
Net cash (outflow)/inflow from operating activities	<u>(132,417)</u>	<u>84,922</u>

**Reconciliation of net cash flow to movement in net funds**

	2005	2004
	£	£
Increase/(decrease) in cash in the period	<u>4,030,227</u>	<u>(64,600)</u>
Change in net funds	4,030,227	(64,600)
Net funds at 1 November 2004	<u>1,692,472</u>	<u>1,757,072</u>
Net funds at 31 October 2005	<u>5,722,699</u>	<u>1,692,472</u>

**Analysis of changes in net funds**

	At 1 Nov 2004	Cash flows	At 31 Oct 2005
	£	£	£
Net cash:			
Cash in hand and at bank	1,692,472	4,060,721	5,753,193
Bank overdraft	-	(30,494)	(30,494)
Net funds	<u>1,692,472</u>	<u>4,030,227</u>	<u>5,722,699</u>

## Financial statements for the year ended 31 October 2005

## 24 Acquisitions

Travelzest PLC made the following acquisition during the year:

	Date	Business segment
Holiday Express Group Limited and its subsidiaries	3 October 2005	Holiday and Travel Services

The acquisition has been dealt with using the acquisition method of accounting.

The post-acquisition results of the group are as follows:

	£
Total transaction value	1,074,822
Turnover	151,315
Cost of sales	(102,667)
Gross profit	48,648
Administrative expenses	(78,016)
Operating loss	(29,368)

The fair values in respect of this acquisition are summarised as follows:

	Book value £	Fair value adjustments £	Fair value (provisional) £
<b>Net assets acquired</b>			
Tangible fixed assets	362,431	250,000	612,431
Debtors	202,148	-	202,148
Cash at bank and in hand	1,394,120	-	1,394,120
Creditors	(1,165,674)	-	(1,165,674)
Bank overdrafts	(33,600)	-	(33,600)
Deferred taxation	(21,500)	-	(21,500)
Deferred government grants	(19,000)	-	(19,000)
	<u>718,925</u>	<u>250,000</u>	<u>968,925</u>
Goodwill			<u>3,932,148</u>
			<u><b>4,901,073</b></u>
<b>Satisfied by</b>			2005 £
Cash			1,454,362
Shares			786,513
Deferred consideration			2,262,000
Acquisition costs			398,198
			<u><b>4,901,073</b></u>

An adjustment to increase tangible fixed assets by £250,000 has been made to reflect their fair value and the value of goodwill acquired reduced accordingly.

**24 Acquisitions (continued)**

The deferred consideration is payable in two stages and dependent upon the results of the Holiday Express Group for each of the years ended 30 September 2005 and 30 September 2006. It is payable by a mixture of 60% cash and 40% by the issue of ordinary shares in the company, up to a maximum total consideration of £2,262,000.

The post-acquisition results of the group acquired during the year did not have a material effect on the amounts shown as operating cash flows in the consolidated cash flow statement.

The profit after taxation of the group acquired for the latest financial period to the date of the acquisition (1 October 2004 – 3 October 2005) was £360,370 (year ended 30 September 2004 - £342,089). The summarised profit and loss account for the period from 1 October 2004 to 3 October 2005 is as follows:

<b>Profit and Loss Account</b>	£
Total transaction value	20,943,503
Turnover	3,455,648
Cost of sales	(2,321,841)
Gross profit	1,133,807
Other operating expenses (net)	(707,980)
Operating profit	425,827
Finance charges (net)	93,575
Profit on ordinary activities before taxation	519,402
Tax on profit on ordinary activities	(159,032)
Profit on ordinary activities after taxation	360,370

**25 Post balance sheet events**

On 30 November 2005, the company acquired the entire share capital of Best of Morocco Limited for a total cash consideration of £2,667,522.

## Company Information

<b>Company registration number</b>	04520457
<b>Registered office</b>	Farm Cottage Heath House Wedmore Somerset BS28 4UG
<b>Principal place of business</b>	Redwood House 7 St Martin's Lane London WC2N 4HA Tel: 020 7747 7231
<b>Directors</b>	M J Bruce-Mitford R G Hall C A L Mottershead P Thomson
<b>Company Secretary</b>	R G Hall
<b>Bankers</b>	Lloyds TSB Bank PLC 130 High Street Cheltenham Gloucestershire GL50 1NW
<b>Solicitors</b>	Joelson Wilson & Co 70 New Cavendish Street London W1G 8AT
<b>Broker</b>	Daniel Stewart & Company Becket House 36 Old Jewry London EC2R 8DD
<b>Auditors</b>	Grant Thornton UK LLP Chartered Accountants Registered Auditors The Quadrangle Imperial Square Cheltenham GL50 1PZ

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