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TRAVELZEST PLC
ANNUAL REPORT / 2006





TRAVELZEST PLC /2006

FINANCIAL HIGHLIGHTS

- Total transaction value increased 261% to £44.1 million (2005: £12.2 million)
- Turnover increased 70% to £19.2 million (2005: £11.3 million)
- Profit before tax and goodwill amortisation increased 1,066% to £863,000 (2005: £74,000)
- Profit before tax increased 597% to £404,000 (2005: £58,000)
- Normalised diluted earnings per share (adding back goodwill amortisation) increased 290% to 4.25 pence (2005: 1.09 pence)
- Gross profit percentage increased to 37.8% from 26% in 2005

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TRAVELZEST PLC /2006

ABOUT US

Travelzest is a British on-line travel group with high-quality brands offering specialist holiday programmes and services.

The Travelzest concept was established by Chief Executive Chris Mottershead in 2005 in response to the changes taking place in the travel industry, primarily driven by the internet. The internet has provided the consumer with easier access to information and greater choice. This has inspired many to become more adventurous in their choice of holiday and empowered them to choose what they buy, who they buy from and how they buy their holidays. The growing number of couples whose children have grown up means they now have the time and money to spend on more exotic holidays. This is also having a positive impact on demand for specialist holidays.

Travelzest is focused on these key growth opportunities in the travel industry – specialist tour operations and online distribution. It is building a group of companies that offer specialist travel and holiday experiences – each being an expert on a destination, activity or special interest – and providing access to an effective online distribution channel.

Travelzest operates online distribution platforms in the UK and Canada, which as well as enabling customers to create their own holiday with dynamic packaging, will promote each specialist tour operator's website. The exposure to the Canadian market, where the majority of business is winter-based, also provides a balance for the predominantly summer-based revenues of Travelzest's businesses in Europe.

Travelzest has been highly acquisitive since listing in October 2005. It has acquired businesses to establish its online distribution channels and introduce a range of specialist holiday and travel services. All acquired companies have made a positive contribution to the Group and will drive organic growth. Travelzest will continue to build the Group through the acquisition and start-up of companies that broaden the range of holidays and services it offers its customers.



1. **itravel2000.com**
Canadian online travel retailer



2. **Holiday Express**
UK online distribution portals



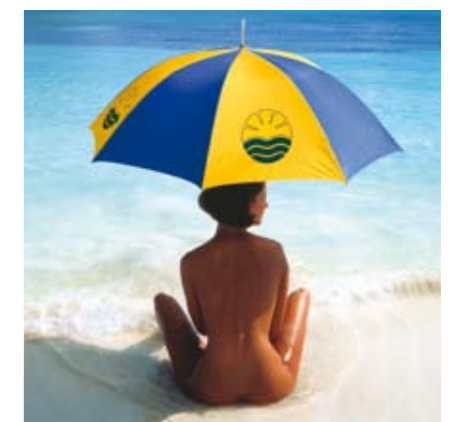
3. **Fair's Fare**
Business/First Class airfare analysts



4. **VFB Holidays**
French specialist tour operator



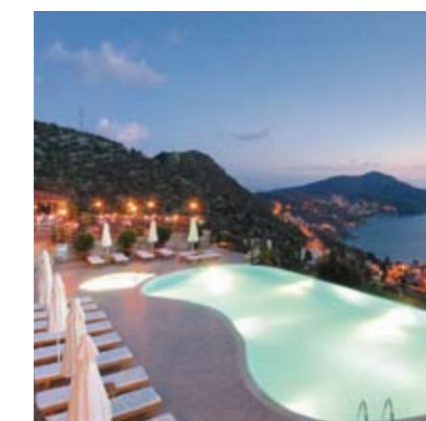
5. **Best of Morocco**
Specialist holidays to Morocco



6. **Peng Travel**
Naturist tour operator



7. **Faraway Holidays**
Online long-haul tour operator



8. **Tapestry Collection**
Turkey specialist tour operator



9. **WOW House**
UK leisure rental agency

TRAVELZEST PLC / 2006

CHAIRMAN'S STATEMENT

The year to 31 October 2006 is the first full year of trading following the Travelzest Group's admission to the Alternative Investment Market ("AIM") in October 2005. In this year, Travelzest has delivered a record profit and made a series of targeted acquisitions creating a strong platform for future growth.

Results

The Group has achieved a record profit before tax and goodwill amortisation of £863,000, 1,066% higher than the previous year, on a growth in total transaction value of 261% to £44.1 million. Profit before tax increased by 597% to £404,000 and the resulting earnings per share increased by 28% to 1.04 pence. Normalised diluted earnings per share (adding back goodwill amortisation) increased by 290% from 1.09 pence to 4.25 pence. The Group will continue to invest the cash generated from operations into its future development and consequently no dividend is proposed.

The results are particularly pleasing as they have been achieved in a year of transformation with significant acquisition activity.

A description of the performance of the Group's operating companies is given in the Chief Executive's Statement.

Strategy

The travel market has changed significantly in the last five years providing exciting new opportunities for growth.

The catalyst for this change is the internet.

Travellers are increasingly happy to buy flights and accommodation directly from suppliers via the internet, especially where they are familiar with the destination. As travellers become more adventurous, stimulated by the internet, they are seeking more specialist and niche holiday experiences. These experiences might be, for example, travelling further afield or engaging in a particular interest or hobby whilst on holiday or demanding a higher level of service support.

These specialist markets have traditionally been serviced by smaller, independent travel companies. To be successful in these markets, the companies need a genuine and deep understanding of the holiday experiences they sell and be able to promote themselves effectively via the internet.

These smaller companies are often under-capitalised and unable to take advantage of the burgeoning opportunities in their market place. In addition, smaller independents often lack the ambition and financial resources to grow beyond a certain size and profitability. They may also lack access to an effective online distribution channel. As a result, they cannot gain the efficiencies of scale which being a large business or a member of a bigger organisation can provide.

Travelzest has a simple strategy to capitalise on the changes taking place in the travel market.

We aim to build a group of companies offering specialist travel and holiday experiences where the internet provides an efficient means of communicating and transacting with customers. By providing management expertise, financial investment, cross-selling opportunities and group buying discounts, we will enable these businesses to be more successful and profitable than if they were independent.

We believe in a small head office which determines strategy, provides resource, sets objectives but leaves local management motivated to run their businesses.

We also believe in balancing our portfolio by having businesses which make profit at different times of the year. This avoids the problem which faces so many travel businesses of having all their profits and cash flow dependent upon just a few months' performance.

Acquisitions

The Group successfully acquired four businesses during the year – Best of Morocco (November 2005), Peng Travel (May 2006), Fair's Fare (June 2006) and iTravel2000.com (October 2006). I am very pleased with the way in which these businesses have performed since acquisition.

iTravel2000.com is Canada's largest pure online travel retailer. Like all our acquisitions, the business has significant potential for growth. The majority of iTravel2000.com's business is winter-based. This has the significant advantage of balancing the predominantly summer-based revenues of Travelzest's businesses in Europe. The acquisition also provides further opportunities to promote our specialist travel programmes to the Canadian market.

In August 2006, the Group launched a new long haul tour operator, Faraway Holidays. The business has considerable potential to establish itself in a growing and high value market.

Following the year end, the Group acquired Tapestry Travel Limited which specialises in programmes to Turkey and Crete. In December 2006 we announced the acquisition of Wow House Limited, which offers an exclusive portfolio of large, prestigious houses to rent for short breaks in the UK.

People

The Travelzest concept was created by Chief Executive Chris Mottershead early in 2005. He was formerly Managing Director of TUI UK, owner of Thomson Holidays and Lunn Poly, and is a leading travel industry expert with a proven record of delivery. Chris has worked tirelessly this year, leading and building your business.

In pursuit of our strategy, Travelzest has recruited some of the most professional and talented people in the travel industry.

Colin McKinlay joined the Board in April 2006 as Group Finance Director. Formally Chief Financial Officer for Thomas Cook UK & Ireland, Colin has considerable experience of growing and developing travel businesses.

Nishma Robb joined Travelzest in April 2006 as Group Distribution Director and joined the Board in December 2006. Previously Managing Director of Teletext Holidays she successfully led that business through the transition from analogue to digital technology. Nishma's appointment to the Board is a measure of Travelzest's commitment to its online distribution strategy.

I joined the Group as a Non-executive Director in October 2006, having previously been a Managing Partner of Ernst & Young in the UK.

In December 2006 Mike Bruce-Mitford retired as Non-executive Chairman and stepped down from the Board. I succeeded Mike as Non-executive Chairman and would like to extend the Board's thanks to Mike for the contribution he made as Chairman to Travelzest. I would also like to thank my fellow Non-executive Directors, Richard Hall and Peter Thomson for their contribution to the Group during the year.

Whilst excellent senior leadership is essential to deliver a successful business, the enthusiasm and commitment of everyone who works for us is equally important. I would like to thank everybody in the Group for their hard work and dedication throughout the last 12 months.

Outlook

Our ambition for the year to 31 October 2006 was to acquire and start businesses that had the potential to grow quickly under our ownership and complemented our strategy. I am pleased that we have done this successfully.

In the coming year, we will focus on developing each of the businesses in the Travelzest Group. We will also consider further acquisitions which broaden the range of holidays offered to our customers. We look forward to the coming year with confidence.

Mark T J Molyneux
Chairman
26 January 2007

TRAVELZEST PLC CHIEF EXECUTIVE'S STATEMENT /2006



I am very pleased to report that Travelzest has achieved the objectives it set itself at the beginning of the financial year. These were firstly, to improve the performance of the businesses in the Group at the start of the year. Secondly, acquire or start up new businesses to generate the opportunity for significant future profit. Finally, to attract and recruit the very best travel professionals in the industry in order to maximise the potential that all our businesses offer.

Continuing businesses

VFB Holidays, the Group's founding business, provides a range of specialist holidays principally to France. The core revenue of the business has traditionally been generated from the sale of French cottage holidays. In 2006 we achieved significant growth in two particular areas, namely river cruise holidays and short breaks that specialise in providing themed excursions. I am particularly pleased with the performance of VFB Holidays as in 2004 this was a breakeven business. Following a number of changes to the business model VFB Holidays achieved strong profit growth in 2006.

Holiday Express, which operates the websites www.holiday.co.uk and www.flight.co.uk, has undergone a year of development and exciting new websites will be launched imminently. www.holiday.co.uk moves from being a third party package holiday distributor to a full service online holiday portal providing a broad range of holidays, including dynamic packaging and access to the content of the Group's specialist tour operators. www.flight.co.uk has undergone a similar transformation and is expected to grow volumes during 2007 as well as provide purchasing benefits to the Group's specialist businesses.

During the year the corporate team was strengthened with the addition of a full time Finance Director, Colin McKinlay and Group Distribution Director, Nishma Robb. Whilst this has increased our cost base it enhances the skills and experience of the central management team. Furthermore, additional central costs have been incurred with the growth and development of the Group. The central infrastructure is now sufficient to meet the Group's demands for the foreseeable future.

New businesses

The Group acquired a number of specialist businesses which fit with our acquisition criteria. All of these acquisitions have made a positive contribution to the Group's results for the year.

Best of Morocco specialises in high quality, tailor-made holidays to Morocco for individuals or small groups. It is also the premier agent for the Marathon des Sables, a foot race that takes place in the Sahara in April each year. The combination of these activities creates a sales cycle that generates profits in the winter and summer months. Best of Morocco was acquired in November 2005 and has completed a successful 11 months post acquisition trading.

Peng Travel was formed in 1971 to arrange naturist holidays for the UK market. Since then, it has grown to become Britain's biggest naturist tour operator and has unrivalled experience of its market. The business was acquired in May 2006 and has made encouraging progress in the post acquisition period.

Fair's Fare was established in 1995 and is one of the UK's leading firms of airfare analysts, offering a unique travel planning service to both private and business clients. The Company seeks out the very best financial options, on all major airlines, primarily for long-haul travellers in the first and business class cabins of the world's leading airlines. I am very pleased with the contribution this business has made to the Group's results since it was acquired in June 2006.

In August 2006 we launched Faraway Holidays (www.farawayholidays.co.uk), specialising in tailor-made holidays to many of the world's top exotic destinations. The management of this business has extensive experience of providing high quality holidays at great value for money. The start up has been funded from existing cash resources.

The acquisition of iTravel2000.com in October 2006 significantly changed the size and shape of the Group. The Canadian market is counter cyclical to the UK and as a result the business generates the majority of its profits and cash in the winter period. In addition, the market does not have the same level of vertical integration when compared to the UK. iTravel has capitalised on this to secure its position as the largest pure online travel retailer in Canada.

iTravel2000.com has significant organic growth potential which will be generated by the introduction of its own dynamic packaging system. In addition, by creating a link to the specialist content provided by the UK tour operating businesses there is an opportunity to expand the accessibility of specialist holidays to the Canadian market.

Following the year end, the Group acquired Tapestry Travel Limited which specialises in selling holidays to Turkey and Crete. In December 2006 we announced the acquisition of Wow House Limited which offers an exclusive portfolio of large, prestigious houses to rent for short breaks in the UK.

Group performance and key indicators

Total transaction value, (being the gross value of holidays sold by the Group's tour operators and online travel agents), increased by 261% from £12.2 million to £44.1 million. Turnover increased 70% to £19.2 million from £11.3 million in 2005 with the resulting profit before tax and goodwill amortisation increasing by 1,066% from £74,000 to £863,000. Profit before tax increased by 597% to £404,000 (2005 £58,000) and earnings per share increased by 28% from 0.81 pence to 1.04 pence. Normalised diluted earnings per share (adding back goodwill amortisation) increased by 290% from 1.09 pence in 2005 to 4.25 pence this year.

The number of passengers carried by the Group's tour operators and booked through our online distribution channels, during the period these companies were part of the Group, increased by over 300% to over 98,000. I am pleased to report that the gross profit percentage has increased to 37.8% from 26% in the previous year. This reflects the acquisition of high margin businesses during the year and an improved performance in VFB Holidays.

At the end of the financial year the Group employed 282 staff compared with 107 staff at the end of the previous year.

Financing

The Group completed two share placings during the course of the year. The first in June 2006 raised £2.6 million (before expenses) and the second in October 2006 raised £5.3 million (before expenses). The proceeds were used to finance acquisitions and for working capital requirements.

In addition the Group raised £11 million in October 2006 through a debt facility provided by Barclays Corporate Leveraged Finance to fund the cash element of the iTravel2000.com purchase consideration.

International Financial reporting Standards ("IFRS")

As an AIM listed business Travelzest will report under IFRS in the financial year ending 31 October 2008 with comparative information. Planning is underway to achieve this. In 2007 the Group's results will include for the first time the effect of FRS 20 Share Based Payment.

Summary

Having built the key foundations for the Group in 2006, Travelzest is well positioned to drive profitable growth. We look forward to the coming year with confidence and to delivering the full year benefit of the acquisitions made during 2006.

Chris Mottershead

**Chief Executive
26 January 2007**

TRAVELZEST PLC DIRECTORS AND MANAGEMENT / 2006



Chris Mottershead
Chief Executive

Chris, 48, has extensive experience in the travel industry and in working for both large and small organisations. He was Managing Director of TUI UK between 2001 and 2004 with responsibility for Thomson Holidays, Lunn Poly, Travelhouse and other travel businesses based in the UK. During that time, he steered the Company through one of the most difficult periods for travel and still achieved record profits. Prior to this, he was President and CEO of North American Leisure Group, part of Airtours plc, which he joined in 1993 and where his roles included Managing Director and Finance Director of Airtours Holidays. He joined Airtours from Aspro Travel & Inter European Airways where he was Group Finance Director.



Colin McKinlay
Group Finance Director

Colin, 37, has held a number of senior finance positions within the travel industry. Operating at an international level, he has extensive experience in periods of aggressive growth, expansion and the handling of restructuring and turnaround environments. Colin was previously Chief Financial Officer of Thomas Cook UK & Ireland where he was responsible for all aspects of finance, IT, and central support functions during a period of record profitability.

Prior to this, he enjoyed a nine year career in MyTravel Group (formerly Airtours Plc). During that time he gained considerable international experience both in continental Europe and Canada where he was Chief Financial Officer of MyTravel's North American Leisure Group. Colin qualified as a Chartered Accountant at Coopers & Lybrand in Manchester.



Nishma Robb
Group Distribution Director

Nishma, 33, is Group Distribution Director of Travelzest, with responsibility for developing the Group's online capability. She joined Travelzest from Teletext Holidays, a subsidiary of Associated Newspapers (a division of Daily Mail & General Trust plc) of which she was a Board Director. As Managing Director at Teletext Limited Nishma had strategic and P&L responsibility for Teletext Holiday services available on TV (analogue and digital text). Her remit included managing a team in excess of 100 employees, leading product development of new technology systems, devising and delivering a multi million pound campaign to increase usage of digital TV services and negotiating distribution deals for service carriage with broadcasters.

Nishma has received numerous accolades including Asian Women of Achievement's Asian Business Woman of 2004, Media Week's Top 30 Executives under 30, and Trade Travel Gazette's Top 50 women in travel.

Mark Molyneux
Chairman

Mark Molyneux was appointed to the Travelzest Board as a Non-executive Director in October 2006. He stepped down as a Managing Partner at Ernst & Young (UK) and member of the four man Main Board earlier this year, having held the position since 1997. He was jointly responsible for the day-to-day management of the accountancy and consulting firm during a period of unprecedented growth and profitability. Mark built his career as a chartered accountant at Ernst & Young and was made a Partner in 1986. His initial specialisation was audit, mainly entrepreneurial companies, later moving into corporate finance with a focus on M&A, due diligence and restructuring.

Peter Thomson
Non-executive Director (NED)

Peter joined ICI Paints after reading mathematics and economics at Cambridge. After a spell in North America, he was successively Marketing Manager, General Sales Manager and European Manager, and played a significant role in developing the Dulux brand. He moved on to Courtaulds as Group Marketing Director and was subsequently Group Managing Director of the seven office furniture companies then owned by Wagon Industrial Holdings. Since 1983, he has worked with a number of small or medium-sized developing companies as a part-time Director or Adviser. He is a Fellow-Commoner of Downing College, Cambridge.

Richard Hall
NED and Company Secretary

With a Cambridge degree in engineering and law, Richard qualified as a Chartered Accountant in 1966 and carried out the duties of Finance Director and Company Secretary for a number of international companies including INMOS International Plc. He was latterly Finance Director of Information Plc and National Telecommunications Plc, both of which companies he took to the main market. Since 1989, Richard has run his own consultancy and has a number of Non-executive Directorships, including an AIM-listed company offering corporate, commercial and financial advice to major clients. He joined the Board of VFB in 2003 prior to the Company's joining the OFEX market.

Ranjit Anand
Fair's Fare

Ranjit founded Expotel in 1971, which remains to this day the market leader in the UK hotel-bookings agency industry. Following the 1981 acquisition of ticket agency Keith Prowse, Group turnover grew to £250m with some 500 employees internationally. The business suffered during the first Gulf War, forcing the sale of key elements. Ranjit re-invented himself with Fair's Fare, a niche travel agency for premium travellers, with an annual turnover of £16m.

Jonathan Carrol
itravel2000.com

Jonathan Carroll, President of itravel2000, co-founded the Company in 1994 with Jeffrey MacKenzie. With Jonathan's vision and leadership skills, both he and Jeffrey formed a team of dedicated travel professionals that set the standard in the Canadian market place. Through the positioning of Jonathan as itravel2000's spokesperson, he has become a trusted resource in the Canadian market on travel topics by the media and speaks often as an advocate of Canadian consumers. This year, Jonathan Carroll was awarded the prestigious Top 40 Under 40 Award honouring the best and most accomplished young professionals in Canada.

Corri Boyle
Peng Travel

Corri Boyle joined Peng Travel from Greece specialist Laskarina, where she had been General Manager since 2005. Her career in travel began overseas in 1984 before returning to the UK as Operations Manager for Just Holidays. In 1990 she moved to Panorama Holidays as Ski Product Manager, with additional responsibility for some summer programmes. In 2000 she moved to French Life as Product Manager for short breaks before being recruited back to Panorama as Head of Specialist Products in 2002.

Steve Diederich
Best of Morocco

Steve Diederich joined Best of Morocco from Greece specialist Laskarina, where he was Managing Director since 2004. His career in travel began in 1982 as an overseas Manager for ILG, for which he also held a number of sales and marketing roles, before he moved to Avro in 1994. In 1995 he became head of sales for Kuoni and then, after a brief time as head of e-miles for Air Miles, started his own business and marketing consultancy before joining Laskarina.

TRAVELZEST PLC DIRECTORS AND MANAGEMENT / 2006

Carol Dray

flight.co.uk

Carol joined flight.co.uk in November 2006 from Thomas Cook where she held the position of Director of e-commerce since 2004. She began her career in travel with Avis in 1985 holding various positions in operations and sales with her final role as Head of Travel, before joining Hertz in 1992 as European Sales Manager. From Hertz she joined British Airways in 1996 in the position of Sales Manager – Leisure, where she remained until 2000 when she joined Australian retailer Flightcentre UK as Commercial Director leaving in 2002 to join Lastminute.com as Director of Flights and Dynamic Packaging, prior to joining Thomas Cook in 2004.

David Oak

Faraway Holidays

David Oak joined Travelzest to set up Faraway Holidays in June 2006, from THG Holidays (TUI UK) where he was Head of Sales and Product. With over 40 years travel experience he started his travel career at Swans Tours in 1961 before joining the original Lunn Poly. Then in 1969 he joined P&O Travel as a Branch Manager, rising to Managing Director before he left in 1979 to set up his own business, Air Ticket Centres. In 1999 he sold his business to Thomson Holidays (TUI UK) and set up THG Holidays for them.

Jonathan White

VFB Holidays

Jonathan White joined French specialist VFB holidays in 1997 and has been Head of Product and Marketing since 1999. In this time, he was responsible for launching VFB's award-winning Short Breaks programme and for developing VFB's online strategy, culminating in the relaunch in 2005 of a highly successful website. Jonathan has 20 years' experience in the travel industry including senior management positions at Inghams, where he managed the French ski and summer programmes between 1992 and 1997, and with specialist operator JAC Travel, as well as a number of overseas based positions. He is passionate about France, having lived and worked in many parts of the country and speaks fluent French.

Nick House

The WOW House Company

Nick House founded The Wow House Company in January 2006. Previously he had been Chief Executive of Rural Retreats for 14 years, establishing it as the leading holiday cottage agency at the premium end of the UK market. He started out life as a banker in London and New York, having had various marketing roles in corporate and personal finance. As a stepping stone to his career in travel, Nick gained an MBA at Cranfield.

David Powell

Holiday Express

David Powell has been in the travel industry for over 30 years. He entered in 1974 when a company, Cwmbran Travel, in which he was a shareholder wished to expand into tour operations. After building Cwmbran Travel to a 6 branch network plus a small tour operation he left in 1982 to set up Spanish Express which was later sold to a Welsh airline Airways Cymru. During this period he set up Holiday Express which expanded into a 20 branch agency network and a internet based call centre. In 2002 the agencies were sold to First Choice PLC and in 2005 the call centre was sold to Travelzest.

TRAVELZEST PLC DIRECTORS' REPORT

The Directors present their report and the financial statements of the Group for the year ended 31 October 2006.

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.

The business is reviewed in detail in the Chairman's and Chief Executive's statements. Management review a number of indicators when assessing the performance of the Group. Key amongst those are total transaction value, turnover, gross profit and passenger numbers. These are discussed in the Chief Executive's Statement.

Post balance sheet events are detailed in note 25 to the accounts.

The Directors and their interests

The Directors who served the Company during the year or up to the date of this report together with their beneficial interests in the shares of the Company were as follows:

	Class of share	At 31 October 2006 (or on appointment)	At 1 November 2005 (or on appointment)
M J Bruce-Mitford (resigned 30/11/06)	Ordinary 2p	2,746,300	2,746,300
R G Hall	Ordinary 2p	21,100	21,100
C G McKinlay (appointed 03/04/06)	Ordinary 2p	40,000	40,000
M T J Molyneux (appointed 01/11/06)	Ordinary 2p	39,682	39,682
C A L Mottershead	Ordinary 2p	82,539	82,539
N Robb (appointed 01/11/06)	Ordinary 2p	–	–
P Thomson	Ordinary 2p	180,000	180,000

The following Directors had interests in options to purchase shares in the Company:

	Expiry date	Exercise price	Number held at	
			31 Oct 2006	1 Nov 2005 (or on appt)
C G McKinlay	3 Apr 2016	127.5p	156,862	–
C A L Mottershead	31 Mar 2015	126.0p	40,000	40,000
	30 Jan 2016	122.5p	81,632	–
N Robb	18 Apr 2016	129.5p	77,220	77,220

C A L Mottershead had interests in 2,505,546 warrants to purchase shares in the Company at an exercise price ranging between 122.5p and 140p.

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

Retirement of Directors

In accordance with the Company's Articles of Association, C G McKinlay, M T J Molyneux and N Robb will retire and, being eligible, will offer themselves for re-election at the forthcoming Annual General Meeting.

TRAVELZEST PLC / 2006

DIRECTORS' REPORT (CONTINUED)

Major shareholders

On 19 January 2007 the Company's share register showed the following interests in 3 percent or more of the Company's shares:

	Class of share	Number	Percentage of class
Citygate Nominees Mr and Mrs	Ordinary 2p	4,973,743	31.7%
M J Bruce-Mitford	Ordinary 2p	2,746,300	17.5%
Chase Nominees	Ordinary 2p	1,071,429	6.8%
HSBC Global Custody Nominees	Ordinary 2p	1,056,106	6.7%
Pershing Keen Nominees	Ordinary 2p	1,038,341	5.8%
Vidacos Nominees	Ordinary 2p	801,039	5.1%
BNY (OCS) Nominees Limited	Ordinary 2p	794,351	5.1%
S G Carroll	Exchangeable 2p	2,268,109	28.57%
J G Carroll	Exchangeable 2p	2,268,109	28.57%
J D Mackenzie	Exchangeable 2p	2,268,109	28.57%
J B Hewlitt	Exchangeable 2p	1,134,452	14.29%

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.

Corporate governance

The Board of the Group is committed to high standards of corporate governance.

On 26 January 2007, the Board comprised the Non-executive Chairman, two further independent Non-executive Directors and three executive Directors. The Board structure ensures that no individual or Group dominates the decision making process.

It is proposed that the Board will normally meet twelve times a year. The Board receives appropriate and timely information, Board and Committee papers normally being sent out several days before meetings take place. All Directors have access to the advice and services of the Company Secretary. The Board delegates specific responsibilities to the Board Committees detailed below.

The Group's Articles of Association require that at the Annual General Meeting any Director then in office who has been appointed by the Board since the previous Annual General Meeting or has held office for three years or more since he was appointed or last re-appointed by the Group in general meeting, shall retire and be eligible for re-appointment.

Audit Committee

The Audit Committee, which intends to meet at least three times a year, comprises R G Hall (Chairman), M T J Molyneux and P Thomson, all of whom are independent Non-executive Directors.

The Committee's terms of reference include monitoring the integrity and clarity of the financial statements and any formal announcements relating to the Group's financial performance and reviewing any significant financial reporting issues and judgements which they contain; reviewing the consistency of, and any changes to, accounting policies, the application of appropriate accounting standards and the methods used to account for significant or unusual transactions; reviewing the effectiveness of the Group's internal controls and risk management systems; making recommendations as to the appointment, terms of engagement and remuneration of the external Auditors; assessing the external Auditors' independence, objectivity and effectiveness; approving the annual external audit plan and reviewing with the external Auditors the nature, scope and results of their audit and any issues raised by them.

Remuneration Committee

The Remuneration Committee comprises P Thomson (Chairman) and R G Hall both of whom are independent Non-executive Directors and meets as necessary.

Financial risk management objectives and policies

The Group uses various financial instruments. These include loans and cash together with various items, such as trade debtors and trade creditors, that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations and Group acquisitions.

The existence of these financial instruments exposes the Group to a number of financial risks, which are described in more detail below. In order to manage the Group's exposure to those risks, in particular the Group's exposure to interest rate risk and currency risk, the Group enters into a number of derivative transactions including, but not limited to, variable to fixed rate interest rate swaps and forward foreign currency contracts.

All transactions in derivatives are undertaken to manage the risks arising from underlying business activities and no transactions of a speculative nature are undertaken.

The main risks arising from the Group's financial instruments are currency risk, liquidity risk, interest rate risk and credit risk. The Directors review and agree policies for managing each of these risks and they are summarised below. These policies have remained unchanged from previous years.

Currency risk

The Group is exposed to translation and transaction foreign exchange risk. In relation to translation risk, as far as possible the assets held in the foreign currency are matched to an appropriate level of borrowings in the same currency. Transaction exposures, including those associated with forecast transactions, are hedged when known, principally using forward currency contracts. Transaction exposures primarily comprise accommodation and other costs of overseas holidays payable in currencies other than sterling. Due to the nature of the transaction exposure the Group does not have material long term risk. Whilst the aim is to achieve an economic hedge the Group does not adopt an accounting policy of hedge accounting for these financial statements.

The table below shows the extent to which the Group had residual financial assets and liabilities at the year end in currencies other than sterling:

	2006		2005	
	Functional Currency of Operations		Functional Currency of Operations	
	Sterling £000's	Canadian Dollars £000's	Sterling £000's	Canadian Dollars £000's
Cash at Bank and in Hand				
Euros	280	–	59	–
Canadian dollars	116	326	–	–
US dollars	3	105	–	–
Other currencies	7	–	–	–
Bank Loans				
Canadian dollars	1,222	–	–	–

At the year end the Group had the following forward exchange contracts

	2006		2005	
	Total sterling commitment of contract £000's	Fair value of forward element £000's	Total sterling commitment of contract £000's	Fair value of forward element £000's
Euro	7,051	(80)	5,483	(126)
Canadian dollars	1,000	3	–	–
US dollars	227	(4)	–	–

Liquidity risk

The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. Currently the Group has no need for bank overdraft facilities to finance day-to-day operations.

Interest rate risk

The Group finances its operations through retained profits. Acquisitions are financed through a combination of share capital, loan notes and bank borrowings. The Group exposure to interest rate fluctuations on its borrowings is managed by the use of interest rate swaps. Details of interest rate bases on borrowings is given in note 15 to the accounts.

TRAVELZEST PLC /2006

DIRECTORS' REPORT (CONTINUED)

Credit risk

The principal credit risk arises from trade debtors. The Group seeks to reduce credit risk by securing advance payment for services wherever possible. Where credit facilities are provided, limits are set with reference to a combination of payment history and third party credit references.

Going concern

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Directors' responsibilities

The Directors are responsible for preparing the Annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

In so far as the Directors are aware:

- there is no relevant audit information of which the Company's Auditors are unaware; and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the Auditors are aware of that information.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements 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

R G Hall

Director

26 January 2007

TRAVELZEST PLC

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF TRAVELZEST PLC

We have audited the Group and parent company financial statements (the "financial statements") of Travelzest plc for the year ended 31 October 2006 which comprise the principal accounting policies, the Group profit and loss account, the Group and company balance sheets, the Group cash flow statement, the Group statement of total recognised gains and losses 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 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' responsibilities for preparing the Annual report and the financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the Directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions 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, Chief Executive'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 audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the parent company's affairs as at 31 October 2006 and of the Group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the financial statements.

GRANT THORNTON UK LLP
REGISTERED AUDITOR
CHARTERED ACCOUNTANTS
CHELTENHAM
26 January 2007

TRAVELZEST PLC /2006

PRINCIPAL ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared under the historical cost convention, and in accordance with UK GAAP. The accounting policies have remained unchanged from the previous year.

Basis of consolidation

The Group financial statements consolidate those of the Company and of its subsidiary companies drawn up to 31 October 2006. 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 Peng Travel Limited, Fair's Fare Limited and the settlement of outstanding consideration on the acquisition of Holiday Express Group Limited.

On acquisition, the investments in the Company's immediate subsidiary companies were 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 profit 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. The recognition as turnover and total transaction value of customer deposits is deferred until departure date. 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 and advertising costs

The costs of brochure publication and advertising are charged to the profit and loss account in the year 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. 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. Where internally generated software development gives long term benefits to the Group the costs of such development is capitalised as computer equipment. 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 a straight line basis:

Property improvements – 5 years
Fixtures and fittings – 2 to 5 years
Computer equipment – 2 to 5 years

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 un-discounted 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.

The financial statements of foreign subsidiaries are translated at the rate of exchange ruling at the balance sheet date. The exchange differences arising from the retranslation of the opening net investment in subsidiaries are taken directly to reserves. Where exchange differences result from the translation of foreign currency borrowings raised to acquire foreign assets (including equity investments) they are taken to reserves and offset against the differences arising from the translation of those assets. All other exchange differences are dealt with through the profit and loss account.

Financial instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

Cash and liquid resources

For the purpose of the cash flow statement, cash 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. Liquid resources comprise term deposits of less than one year (other than cash).

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Financial statements for the year ended 31 October 2006

	Note	2006 £000's	2005 £000's
Total transaction value	1		
Continuing operations		26,147	11,141
– Acquisitions		17,936	1,075
		44,083	12,216
Group turnover	1		
Continuing operations		13,840	11,141
– Acquisitions		5,349	151
		19,189	11,292
Cost of sales		(11,937)	(8,352)
Gross profit		7,252	2,940
Administrative expenses		(7,000)	(3,007)
Operating profit/(loss)			
Continuing operations		(679)	(38)
– Acquisitions		931	(29)
	2	252	(67)
Net interest receivable	5	152	125
Profit on ordinary activities before taxation		404	58
Tax on profit on ordinary activities	6	(297)	(32)
Profit for the financial year	21	107	26
Earnings per share	8		
Basic		1.04p	0.81p
Diluted		0.80p	0.70p

CONSOLIDATED BALANCE SHEET

Financial statements for the year ended 31 October 2006

	Note	2006 £000's	2005 £000's
Fixed assets			
Intangible fixed assets	9	36,106	3,916
Tangible assets	10	2,016	699
		38,122	4,615
Current assets			
Stock		2	–
Debtors	12	3,496	549
Cash at bank and in hand		10,989	5,753
		14,487	6,302
Creditors: amounts falling due within one year	13	(8,377)	(2,979)
Net current assets		6,110	3,323
Total assets less current liabilities		44,232	7,938
Creditors: amounts falling due after more than one year	14	(18,198)	(1,214)
Provisions for liabilities and charges			
Deferred taxation	16	(314)	(18)
		25,720	6,706
Capital and reserves			
Called-up equity share capital	20	313	162
Share premium account	21	11,632	4,442
Exchangeable shares	20	10,003	–
Merger reserve	21	2,320	799
Profit and loss account	21	1,452	1,303
Shareholders' funds	22	25,720	6,706

These financial statements were approved by the Directors on 26 January 2007 and are signed on their behalf by:

Directors
C A L Mottershead

C G McKinlay

COMPANY BALANCE SHEET

Financial statements for the year ended 31 October 2006

	Note	2006 £000's	2005 £000's
Fixed assets			
Tangible fixed assets	10	4	–
Investments	11	34,998	6,020
		35,002	6,020
Current assets			
Debtors	12	7,229	117
Cash at bank		5,565	2,561
		12,794	2,678
Creditors: amounts falling due within one year	13	(3,152)	(1,173)
Net current assets		9,642	1,505
Total assets less current liabilities		44,644	7,525
Creditors: amounts falling due after more than one year	14	(17,795)	(1,195)
		26,849	6,330
Capital and reserves			
Called-up equity share capital	20	313	162
Share premium account	21	11,632	4,442
Exchangeable shares	20	10,003	–
Merger reserve	21	3,357	1,836
Profit and loss account	21	1,544	(110)
Shareholders' funds	22	26,849	6,330

These financial statements were approved by the Directors on 26 January 2007 and are signed on their behalf by:

Directors

C A L Mottershead

C G McKinlay

CONSOLIDATED CASH FLOW STATEMENT

	Note	2006 £000's	2005 £000's
Net cash inflow/(outflow) from operating activities	23	1,520	(132)
Returns on investments and servicing of finance			
Interest received		217	126
Interest paid		(65)	(1)
Net cash inflow from returns on investments and servicing of finance		152	125
Taxation		(323)	(3)
Capital expenditure			
Purchases of tangible fixed assets		(409)	(36)
Receipts from sale of fixed assets		–	5
Net cash outflow from capital expenditure		(409)	(31)
Acquisitions			
Purchase of subsidiary companies		(16,730)	(1,815)
Net cash acquired with subsidiary companies		2,998	1,361
Net cash outflow for acquisitions		(13,732)	(454)
Cash outflow before financing		(12,792)	(495)
Financing			
Issue of equity share capital		7,317	4,525
Loans		10,741	–
Net cash inflow from financing		18,058	4,525
Increase in cash	23	5,266	4,030

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2006 £000's	2005 £000's
Profit for the financial year	107	26
Exchange difference arising on consolidation	42	–
Total gains and losses recognised in the period	149	26

NOTES TO THE FINANCIAL STATEMENTS

1. Segmental and geographical

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

	2006 £000's	2005 £000's
Tour operations	15,631	11,141
Travel agency:		
Direct sales	349	12
Agency sales	28,103	1,063
	44,083	12,216

Turnover

	2006 £000's	2005 £000's
Tour operations	15,631	11,141
Travel agency:		
Direct sales	349	12
Agency sales	3,209	139
	19,189	11,292

The total transaction value and turnover was attributable to the principal activities of the Group, which originate in:

	2006			2005		
	Turnover £000's	Profit before tax £000's	Net Assets £000's	Turnover £000's	Profit before tax £000's	Net Assets £000's
United Kingdom	18,658	186	24,586	11,292	58	6,706
Canada	531	218	1,134	-	-	-
	19,189	404	25,720	11,292	58	6,706



2. Operating profit/(loss)

Operating profit/(loss) is stated after charging/(crediting):

	2006 £000's	2005 £000's
Amortisation of goodwill	459	16
Depreciation of owned fixed assets	147	74
Loss on disposal of fixed assets	1	-
Auditors' remuneration – group:		
Audit fees	74	41
Taxation	12	7
Auditors' remuneration – company:		
Audit fees	5	7
Taxation	2	-
Net loss/(profit) on foreign currency translation	4	(8)
Operating lease costs:		
Office equipment	44	-
Vehicles	14	24
Property	189	71

3. Employees

The average numbers of staff employed by the Group during year were:

	2006 No	2005 No
Administrative staff	48	29
Sales staff	78	32
	126	61

The aggregate payroll costs were:

	2006 £000's	2005 £000's
Salaries	2,997	1,616
Social security costs	286	174
Other pension costs	79	52
	3,362	1,842

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Directors

Remuneration of the Directors was:

	2006 £000's	2005 £000's
Emoluments receivable	501	233
Value of company pension contributions to money purchase schemes	28	16
	529	249

In the year, two Directors (2005 – one) accrued benefits under company money purchase pension schemes.

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

	2006 £000's	2005 £000's
Highest paid Director	372	195

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

	2006 £000's	2005 £000's
Highest paid Director	21	9

5. Net interest receivable

	2006 £000's	2005 £000's
Bank interest receivable	217	126
Interest payable on bank borrowing	(65)	(1)
	152	125

6. Taxation on ordinary activities

(a) Analysis of charge in the year

Current tax:

	2006 £000's	2005 £000's
UK corporation tax based on the results for the year at 30% (2005 – 30%)	185	36
Overseas taxation	69	–
Under provision in prior year	27	–
Total current tax	281	36

Deferred tax:

Origination and reversal of timing differences	16	(4)
Tax on profit on ordinary activities	297	32

(b) Factors affecting current tax charge

	2006 £000's	2005 £000's
Profit on ordinary activities before taxation	404	58
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2005 – 30%)	121	18
Amortisation of goodwill not deductible for tax purposes	138	5
Depreciation for the year in excess of capital allowances	57	9
Short term timing differences	–	(2)
Utilisation of tax losses	(29)	–
Other adjustments	(42)	6
Differences between UK and overseas rate	9	–
Adjustment to prior years tax	27	–
Total current tax (note 6(a))	281	36

7. Profit attributable to shareholders of the parent company

The profit dealt with in the accounts of the parent company was £1,654,000 (2005 – loss of £215,000).

8. Earnings per share

Basic earnings per share is based on an equity gain of £107,000 (2005 – gain of £26,000) and 10,282,082 (2005 – 3,328,993) shares of 2p, being the average number of shares in issue during the year, including exchangeable shares.

The diluted earnings per share is based on average fully diluted share capital of 13,312,212 shares (2005 – 3,843,019 shares) derived as follows:

	Average number
Issued ordinary shares and exchangeable shares	10,282,082
Share options	301,498
Warrants	2,728,632
	13,312,212

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. Intangible fixed assets

Group	Goodwill £000's
Cost	
At 1 November 2005	3,932
Additions	33,623
Fair value adjustments	(974)
At 31 October 2006	36,581
Amortisation	
At 1 November 2005	16
Charge for the year	459
At 31 October 2006	475
Net book value	
At 31 October 2006	36,106
At 31 October 2005	3,916

Additions to goodwill relate to the acquisition of Best of Morocco Limited, Peng Travel Limited, Fair's Fare Limited and iTravel 2000.com. See note 24 for further details.

10. Tangible fixed assets

Group	Property improvements £000's	Fixtures & fittings £000's	Computer equipment £000's	Total £000's
Cost				
At 1 November 2005	6	430	907	1,343
Additions	71	143	1,519	1,733
Disposals	–	(157)	(119)	(276)
Fair value adjustment	–	–	(250)	(250)
Exchange adjustments	(7)	(4)	(25)	(36)
At 31 October 2006	70	412	2,032	2,514
Depreciation				
At 1 November 2005	–	239	405	644
Charge for the year	5	47	95	147
On disposals	–	(157)	(118)	(275)
Exchange adjustments	–	(2)	(16)	(18)
At 31 October 2006	5	127	366	498
Net book value				
At 31 October 2006	65	285	1,666	2,016
At 31 October 2005	6	191	502	699

The Group acquired assets with a net book value of £1,324,000 during the year as part of the purchase of subsidiary companies. Further details are shown in note 24 to these financial statements.

10. Tangible fixed assets (continued)

Company	Computer equipment £000's
Cost	
At 1 November 2005	–
Additions	5
At 31 October 2006	5
Depreciation	
At 1 November 2005	–
Charge for the year	1
At 31 October 2006	1
Net book value	
At 31 October 2006	4
At 31 October 2005	–

11. Fixed asset investments

Company	Shares in group companies £000's
Cost	
At 1 November 2005	6,020
Additions	30,202
Fair value adjustment	(1,224)
At 31 October 2006	34,998
Net book value	
At 31 October 2006	34,998
At 31 October 2005	6,020

A further £6,000,000 was paid by 0763756 BC Limited, an indirect wholly owned subsidiary of Travelzest plc in respect of the iTravel2000.com acquisition.

The fair value adjustment relates to a reduction in the consideration payable in respect of the Holiday Express Group acquisition.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. Fixed asset investments (continued)

At 31 October 2006, the Group held more than 20% of the allotted share capital of the following trading and holding 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 agents
Digital Travel Services Limited	England & Wales	Ordinary	–	100%	Technology support
Best of Morocco Limited	England & Wales	Ordinary	–	100%	Tour operator
Peng Travel Limited	England & Wales	Ordinary	–	100%	Tour operator
Fair's Fare Limited	England & Wales	Ordinary	100%	–	Travel agents
4358736 Canada Inc. (trading as iTravel2000.com)	Canada	Common	100%	–	Travel agents
Montpelier Collection Limited	England & Wales	Ordinary	–	100%	Holding company
Travelzest Holdings Inc.	Canada	Common	–	100%	Holding company
0763756BC Limited	Canada	Common	100%	–	Holding company

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

12. Debtors

	The Group		The Company	
	2006 £000's	2005 £000's	2006 £000's	2005 £000's
Trade debtors	1,935	26	–	–
Amounts owed by group companies	–	–	6,736	–
VAT recoverable	170	158	151	96
Other debtors	676	32	307	3
Prepayments and accrued income	715	333	35	18
	3,496	549	7,229	117

13. Creditors: amounts falling due within one year

	The Group		The Company	
	2006 £000's	2005 £000's	2006 £000's	2005 £000's
Bank loans and overdraft	250	30	250	–
Loan notes	880	–	880	–
Trade creditors	2,315	634	554	–
Other creditors	784	11	–	–
Corporation tax	207	188	–	–
Social security and other taxes	187	237	21	61
Customer deposits	1,724	571	–	–
Accruals and deferred income	1,289	241	706	45
Deferred consideration (see note 24)	741	1,067	741	1,067
	8,377	2,979	3,152	1,173

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

	The Group		The Company	
	2006 £000's	2005 £000's	2006 £000's	2005 £000's
Bank loans	10,491	–	10,491	–
Loan notes	1,120	–	1,120	–
Customer deposits	94	–	–	–
Deferred consideration (see note 24)	6,184	1,195	6,184	1,195
Accruals and deferred income	309	19	–	–
	18,198	1,214	17,795	1,195

The bank loan is secured on the assets of Travelzest plc.

15. Creditors – capital instruments

Bank loans and loan notes are repayable:

	The Group		The Company	
	2006 £000's	2005 £000's	2006 £000's	2005 £000's
In one year or less or on demand	1,130	–	1,130	–
Between one and two years	1,870	–	1,870	–
Between two and five years	9,741	–	9,741	–
	12,741	–	12,741	–

Interest is payable on bank loans and loan notes:

	The Group		The Company	
	2006 £000's	2005 £000's	2006 £000's	2005 £000's
Variable interest rate	10,741	–	10,741	–
Fixed interest rate	2,000	–	2,000	–
	12,741	–	12,741	–

In respect of the variable rate instrument interest is set at 2.75% above LIBOR of which 75% has been fixed by means of an interest rate swap agreement. The loan notes carry an interest rate of 5%.

Repayment of the bank loan will commence in May 2007 with repayments every six months thereafter with a balloon payment in November 2009. Loan notes are repayable in May 2007, October 2007 and May 2008.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. Deferred taxation

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

	The Group		The Company	
	2006 £000's	2005 £000's	2006 £000's	2005 £000's
Provision brought forward	18	–	–	–
Acquired with subsidiaries	280	22	–	–
Increase/(decrease) in provision	16	(4)	–	–
Provision carried forward	314	18	–	–

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

	The Group		The Company	
	2006 £000's	2005 £000's	2006 £000's	2005 £000's
Excess of taxation allowances over depreciation on fixed assets	359	18	–	–
Other short term timing differences	(45)	–	–	–
	314	18	–	–

17. Commitments under operating leases

At 31 October 2006 the Group had annual commitments under non cancellable operating leases as set out below.

The Group

	2006		2005	
	Land and buildings £000's	Other items £000's	Land and Buildings £000's	Other items £000's
Operating leases which expire:				
Within 1 year	34	5	–	5
Within 2 to 5 years	244	106	–	7
After more than 5 years	–	3	88	–
	278	114	88	12

18. Contingent liabilities

The holding company has issued guarantees to the Civil Aviation Authority in respect of VFB Holidays Limited, Vacances Franco Britanniques Limited, Holiday Express UK Limited, Best of Morocco Limited, Peng Travel Limited and Fair's Fare Limited.

VFB Holidays Limited, Vacances Franco Britanniques Limited, Holiday Express UK Limited, Best of Morocco Limited, Peng Travel Limited and Fair's Fare Limited have jointly provided a bond in favour of the Civil Aviation Authority amounting to £1,155,875.

In previous periods the Company restructured its capital. This may have resulted in a PAYE and NIC liability of approximately £300,000. The Company is currently in negotiations with HM Revenue and Customs on this matter. To the extent that the Company actually suffers a liability to tax in this regard it intends to seek to recover any amounts actually paid from the relevant shareholders.

Barclays Bank plc holds an unlimited debenture over the assets of the holding company, including the shares in subsidiary companies in respect of loans made to the holding company. Barclays Bank plc holds an unlimited debenture over the assets of the Company and UK subsidiaries in respect of ancillary 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 to TCA Holidays Limited, a company of which M J Bruce-Mitford is a Director. The total value of flights sold during the year amounted to £256,044 (2005 – £0).

During the year, the Group rented office space from Normandy Holdings Limited, a company owned and controlled by M J Bruce-Mitford and M F Bruce-Mitford. Rent paid during the year amounted to £77,972. The lease has now been surrendered with a contribution from the Group to Normandy Holdings Limited of £5,000 in lieu of making good dilapidations.

Lloyds TSB Bank plc held 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 £2,239 (2005 – £4,025) for this facility. The arrangement has now ceased.

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

20. Share capital

Authorised share capital:

	2006 £000's	2005 £000's
59,550,000 ordinary shares of £0.02 each (2005 – 25,000,000 shares)	1,191	500
450,000 deferred shares of £0.02 each	9	9

Allotted, called up and fully paid:

	2006		2005	
	No	£000's	No	£000's
Ordinary shares of £0.02 each	15,670,784	313	8,122,233	162

The Company issued shares during the year as follows:

On 31 January 2006, 355,901 ordinary 2p shares as part settlement of deferred consideration for the purchase of the Holiday Express Group at a premium of 119.7p per share.

On 14 February 2006, 40,000 ordinary 2p shares for cash at a premium of 123.5p per share.

On 05 May 2006, 317,951 ordinary 2p shares at a premium of 127.65p per share, as partial consideration for the acquisition of Peng Travel Limited (see note 24 for further details).

On 10 June 2006, 542,636 ordinary 2p shares at a premium of 127p per share, as partial consideration for the acquisition of The Montpelier Collection Limited (holding company of Fair's Fare Limited – see note 24 for further details).

On 10 June 2006, a further issue was made of 2,085,714 ordinary 2p shares for cash at a premium of 124p per share.

On 06 October 2006, 4,206,349 ordinary 2p shares for cash at a premium of 124p per share.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20. Share capital (continued)

Of the £8,711,443 total premium on issue of these shares (net of share issue expenses) £7,040,533 has been credited to the share premium account. The balance of £1,521,025 being the premium on shares issued as partial consideration for the acquisitions of Holiday Express Group Limited, Peng Travel Limited and Fair's Fare Limited qualifies for merger relief and has therefore been charged to the merger reserve.

Share Options

On 05 December 2005, the Company granted share options over 72,727 ordinary 2p shares at an exercise price of 137.5p per share. The options form part of an approved EMI scheme.

On 31 January 2006, the Company granted share options over 81,632 ordinary 2p shares at an exercise price of 122.5p per share. 40,489 of the options form part of an approved EMI scheme.

On 3 April 2006, the Company granted share options over 156,862 ordinary 2p shares at an exercise price of 127.5p per share. 78,431 of the options form part of an approved EMI scheme.

On 19 April 2006, the Company granted share options over 77,220 ordinary 2p shares at an exercise price of 129.5p per share. The options form part of an approved EMI scheme.

On 6 October 2006, the Company granted share options over 31,496 ordinary 2p shares at an exercise price of 1.27p per share. The options form part of an approved EMI scheme.

All share options must be exercised between 3 and 10 years of the date of grant.

Exchangeable Shares

0763756 BC Limited, an indirect wholly owned subsidiary of Travelzest plc, issued 7,938,780 exchangeable shares on 13 October 2006 as part consideration for the acquisition of iTravel2000.com at £1.26 per share. These shares are required to be exchanged on a one-for-one basis for ordinary 2p shares in Travelzest within 5 years of completion of the Acquisition (13th October 2006). The exchange of the shares is not dependent on any other external factors.

If all the exchangeable shares were to be exchanged then the holders of the exchangeable shares would account for 33.6% of the shareholders.

Warrants

During the year the Company issued the following warrants:

Date of Grant	Number Issued	Exercise Price
2 December 2005	18,182	137.5p
31 January 2006	109,383	122.5p
14 February 2006	10,000	125.5p
3 April 2006	39,216	127.5p
19 April 2006	19,305	129.5p
5 May 2006	79,488	129.65p
10 June 2006	657,088	127.5p
6 October 2006	2,110,453	126.0p

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

21. Reserves

Group

	Share Account Premium £000's	Merger reserve £000's	Profit and loss account £000's
At 1 November 2005	4,442	799	1,303
Profit for the year	–	–	107
Premium on shares issued	7,190	–	–
Merger relief on issue of new shares	–	1,521	–
Exchange difference arising on consolidation	–	–	42
At 31 October 2006	11,632	2,320	1,452

Company

	Share Account Premium £000's	Merger reserve £000's	Profit and loss account £000's
At 1 November 2005	4,442	1,836	(110)
Profit for the year	–	–	1,654
Premium on shares issued	7,190	–	–
Merger relief on issue of new shares	–	1,521	–
At 31 October 2006	11,632	3,357	1,544

22. Reconciliation of movements in shareholders' funds

Group

	2006 £000's	2005 £000's
Profit for the financial year	107	26
Issue of shares	18,865	5,311
Exchange difference arising on consolidation	42	–
Net addition to shareholders' equity funds	19,014	5,337
Opening shareholders' equity funds	6,706	1,369
Closing shareholders' equity funds	25,720	6,706

Company

	2006 £000's	2005 £000's
Profit/(loss) for the financial year	1,654	(215)
Issue of shares	18,865	5,311
Net addition to shareholders' equity funds	20,519	5,096
Opening shareholders' equity funds	6,330	1,234
Closing shareholders' equity funds	26,849	6,330

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23. Notes to the statement of cash flows

Reconciliation of operating profit/(loss) to net cash inflow/(outflow) from operating activities

	2006 £000's	2005 £000's
Operating profit/(loss)	252	(67)
Amortisation	459	16
Depreciation	147	74
Loss on disposal	1	–
Decrease in stock	1	–
Increase in debtors	(571)	(50)
Increase/(decrease) in creditors	1,243	(105)
Cash exchange differences taken to reserves	(12)	–
Net cash inflow/(outflow) from operating activities	1,520	(132)

Reconciliation of net cash flow to movement in net funds

	2006 £000's	2005 £000's
Increase in cash in the period	5,266	4,030
New bank loans	(10,741)	–
Change in net funds	(5,475)	4,030
Net funds at 1 November 2005	5,723	1,693
Net funds at 31 October 2006	248	5,723

Analysis of changes in net funds

	At 1 Nov 2005 £000's	On acquisitions £000's	Cash flows £000's	At 31 Oct 2006 £000's
Net cash:				
Cash in hand and at bank	5,753	3,396	1,840	10,989
Bank overdraft	(30)	(398)	428	–
Bank loan	–	–	(10,741)	(10,741)
Net funds	5,723	2,998	(8,473)	248

24. Acquisitions

Travelzest plc made the following acquisitions during the year:

	Date	Business segment
Best of Morocco Limited	30 November 2005	Tour Operations
Peng Travel Limited	05 May 2006	Tour Operations
The Montpelier Collection Limited (holding company of Fair's Fare Limited)	09 June 2006	Travel Agency
4358736 Canada Inc. (trading as iTravel2000.com)	13 October 2006	Travel Agency

These acquisitions have been dealt with using the acquisition method of accounting.

The post acquisition results of the companies are as follows:

	Best of Morocco £000's	Peng Travel £000's	Fair's Fare £000's	iTravel 2000.com £000's	Total £000's
Total transaction value	2,222	1,727	7,222	6,765	17,936
Turnover	2,222	1,669	953	531	5,375
Cost of sales	(1,571)	(1,347)	–	(1)	(2,919)
Gross profit	651	322	953	530	2,456
Administrative expenses	(334)	(145)	(537)	(238)	(1,254)
Operating profit (before amortisation)	317	177	416	292	1,202

The fair values in respect of these acquisitions are summarised as follows:

	Best of Morocco £000's	Peng Travel £000's	Fair's Fare £000's	iTravel 2000.com £000's	Total £000's
Net assets acquired:					
Tangible fixed assets	11	–	11	1,302	1,324
Stock	3	–	–	–	3
Debtors	118	17	584	1,657	2,376
Cash at bank and in hand	1,723	1,420	253	(398)	2,998
Creditors and provisions	(894)	(595)	(965)	(1,668)	(4,122)
Fair value	961	842	(117)	893	2,579
Goodwill	1,923	1,088	6,094	24,518	33,623
	2,884	1,930	5,977	25,411	36,202

Satisfied by:

Cash	2,669	620	1,250	9,260	13,799
Shares	–	412	700	–	1,112
Exchangeable shares	–	–	–	10,003	10,003
Loan notes	–	–	2,000	–	2,000
Deferred consideration	–	741	1,750	4,506	6,997
Acquisition Costs	215	157	277	1,642	2,291
	2,884	1,930	5,977	25,411	36,202

The fair values of the net assets acquired in respect of Peng Travel Limited and iTravel2000.com are provisional.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24. Acquisitions (continued)

The deferred consideration in respect of the Peng Travel Limited acquisition is payable on agreement of the calculation of the fair value of net assets on acquisition.

The contingent deferred consideration in respect of the Fair's Fare acquisition is payable based on the results of Fair's Fare Limited for the years ended 31 December 2006 and 31 December 2007 and due for payment on agreement of the calculation of the results. Based on management expectations of future results an amount of £1,750,000 has been provided. The maximum level of contingent consideration payable is £3,500,000 and the minimum is £0. The consideration is payable in ordinary shares.

The contingent deferred consideration in respect of the iTravel2000.com acquisition is payable based on the results of iTravel2000.com for the year ended 31 October 2007 and due for payment on agreement of the calculation of the results. The maximum level of contingent consideration payable is £4,506,000 and the minimum is £0. The consideration is payable 50% in cash, 50% in exchangeable shares. In addition an amount may become due based on final confirmation of the net asset values on acquisition, as at the date of this report this has not yet been finalised, the Directors expect an amount of approximately £300,000 will become payable. There would be no additional consideration payable if the vendors chose not to exchange the exchangeable shares.

None of the amounts of deferred consideration have been discounted.

Holiday Express Group

Shares to the value of £433,000 were issued and cash of £640,000 was paid in part settlement of the contingent deferred consideration on the acquisition of the Holiday Express Group.

iTravel2000.com Accounting Policy Adjustments

The following adjustments were made to the book value of the assets of iTravel2000.com:

Net assets acquired

	Book value £000's	GAAP Adjustments £000's	Fair value adjustments £000's	Fair value (provisional) £000's
Intangible fixed assets	54	-	(54)	
Tangible fixed assets	1,302	-	-	1,302
Debtors	5,350	(3,693)	-	1,657
Cash at bank and in hand	(398)	-	-	(398)
Creditors and provisions	(5,150)	3,482	-	(1,668)
	1,158	(211)	(54)	893

Goodwill	24,518
	25,411

iTravel2000.com accounts for turnover when the customer places an unconditional order, the GAAP adjustment adjusts to the Group policy of recognition on receipt from the customer of the final balance.

24. Acquisitions (continued)

Deferred consideration outstanding

	£000's
At 1 November 2005	2,262
Settled – cash	(640)
Settled – shares	(433)
Acquisitions in year	6,997
Fair value adjustment	(1,189)
Exchange adjustment	(72)
	6,925
Due within one year	741
Due after more than one year	6,184
	6,925

The profit/(loss) after taxation of the companies acquired for the latest financial period to the date of the acquisition were as follows:

	Best of Morocco 01 Aug 05 to 30 Nov 05 £000's	Peng Travel 01 Jan 05 to 05 May 06 £000's	Fair's Fare 01 Jan 06 to 31 May 06 £000's	iTravel 2000.com 01 Sept 05 to 13 Oct 06 £000's
Total transaction value	598	499	6,841	98,792
Turnover	598	457	1,025	9,531
Cost of sales	(436)	(368)	-	(144)
Gross profit	162	89	1,025	9,387
Administrative expenses	(194)	(103)	(670)	(7,758)
Operating (loss)/profit	(32)	(14)	355	1,629
Interest receivable (net)	19	24	-	(143)
(Loss)/profit before taxation	((13)	10	355	1,486
Tax on (loss)/profit on ordinary activities	(9)	(21)	(52)	(652)
(Loss)/profit after taxation	(22)	(11)	303	834

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

COMPANY INFORMATION

24. Acquisitions (continued)

The profit after taxation of the companies acquired for the full financial period prior to the period of the acquisition were as follows:

	Best of Morocco 01 Aug 05 to 31 Jul 05 £000's	Peng Travel 01 Jan 05 to 31 Dec 05 £000's	Fair's Fare 01 Jan 05 to 31 Dec 05 £000's	iTravel 2000.com 01 Oct 04 to 30 Sept 05 £000's
Total transaction value	2,442	2,585	17,392	81,208
Turnover	2,442	2,585	2,063	8,980
Cost of sales	(1,703)	(2,095)	–	–
Gross profit	739	490	2,063	8,980
Administrative expenses	(611)	(256)	(3,238)	(7,609)
Operating profit /(loss)	128	234	(1,175)	1,371
Interest receivable (net)	65	56	(15)	(156)
Profit /(loss) before taxation	193	290	(1,190)	1,215
Tax on profit /(loss) on ordinary activities	(29)	(61)	79	(579)
Profit/(loss) after taxation	164	229	(1,111)	636

25. Post balance sheet events

On 10 November 2006, the Company subscribed to the entire share capital of Tapestry Travel Limited of £255,000.

On 21 December 2006 the Company acquired the share capital of Wow House Limited for an initial payment of £95,000. In addition the vendor will be eligible for an earnout payable in shares in Travelzest plc.

On 29 December 2006, at the request of the holder, the Company redeemed £523,000 of loan notes in advance of their maturity date of 31 May 2007.

Company registration number

04520457

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P Thomson

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