



TRAVELZEST PLC
ANNUAL REPORT 2008

travelzest

TRAVELZEST PLC 2008

FINANCIAL AND OPERATIONAL HIGHLIGHTS



FINANCIAL HIGHLIGHTS

- » Total transaction value increased 7% to £181.9 million (2007: £169.9 million)
- » Revenue increased 15% to £44.3 million (2007: £38.5 million)
- » Operating profit of £5.1 million (2007: £3.8 million) before amortisation and separately disclosed items
- » Separately disclosed items of £3.6 million (2007: £0.5 million)
- » Operating profit margin (before amortisation and separately disclosed items) increased from 9.8% to 11.6%
- » Profit before tax, amortisation and separately disclosed items increased 19% to £3.8 million (2007: £3.2 million)
- » Normalised* fully diluted earnings per share increased by 22% to 7.8 pence (2007: 6.4 pence (restated))

OPERATIONAL HIGHLIGHTS

- » Acquisition of a second Canadian business, The Cruise Professionals Limited in June 2008
- » Continued strong performance from Canadian online travel retailer, itravel2000.com
- » Encouraging performance from UK specialist tour operators
- » Closure of in-house operations of Holiday Express

* Normalised earnings per share is adjusted for amortisation, separately disclosed items and excludes the exercise of options and warrants

CONTENTS

| | | | |
|----|-------------------------------------|----|--|
| 01 | Financial highlights | 20 | Consolidated income statement |
| 02 | Chairman's statement | 21 | Consolidated balance sheet |
| 04 | Chief Executive's statement | 22 | Consolidated cash flow statement |
| 06 | Directors | 23 | Statement of recognised income and expenses |
| 08 | Senior management | 24 | Notes to the consolidated financial statements |
| 10 | Directors' report | 43 | Company balance sheet |
| 14 | Independent Auditor's report | 44 | Company principal accounting policies |
| 15 | Group principal accounting policies | 45 | Notes to the Company financial statements |
| | | 50 | Company information |



The year to 31 October 2008 saw the continued development of Travelzest. The Group reported an increase in underlying operating profits, acquired and integrated a second Canadian business and continued to improve its operational efficiency. Also, the management team proved its ability to make tough decisions by closing the internal operations of Holiday Express and licensing the use of the domain names holiday.co.uk and flight.co.uk to a third party.

The crisis which engulfed global financial markets in 2008 and the ensuing economic recession have created trading conditions which leave very few businesses unaffected. It is not yet clear how changing consumer confidence will impact on future demand for the products offered by Travelzest Group companies.

However, Travelzest remains committed to owning a decentralised portfolio of low risk tour operating businesses in the UK. We have no over-dependence on one destination or type of customer. We sell to a high percentage of clients over the age of 50. We believe that this strategy means that Travelzest is well placed to weather the uncertain conditions we may experience in our markets. In addition, our retail businesses in Canada continue to provide counter-cyclical profits and cash flows from a different market, further diversifying the portfolio of the Group.

RESULTS

Total transaction value has grown 7% from £169.9 million to £181.9 million. Revenue increased 15% to £44.3 million from £38.5 million, gross profit increased 9% to £22.4 million and underlying operating profit for the year before separately disclosed items and amortisation has increased by 34% from £3.8 million to £5.1 million.

Normalised diluted earnings per share (adding back separately disclosed items (£3.6 million) and amortisation (£3.8 million)) increased by 22% from 6.4 pence to 7.8 pence.

In August 2008, the Board announced it was in discussions with a potential bidder for the entire issued and to be issued share capital of the Company. In November 2008 we were informed by the bidder that, as a consequence of current uncertainties in the financial markets, it had decided not to proceed with an offer. As a result of the potential takeover, costs were incurred which have been separately disclosed and are detailed further in the Chief Executive's statement.

Travelzest continued to generate an operating profit in both the first and the second half of the year, thanks to the balanced nature of its portfolio. This balance provides our business with resilience as the Group is not dependent on any one market, destination or season for its profit and cash generation.

The Group will continue to invest the cash generated from operations in its future development and the repayment of debt. Consequently no dividend is proposed.

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

ACQUISITIONS

In June 2008, the Group successfully acquired The Cruise Professionals Limited in Canada for a maximum consideration of CAD 13 million (£6.5 million) payable to the vendor. At the same time the Group raised £2 million through a new equity placing and renewed and extended its debt facilities.

PEOPLE

Excellent leadership is essential to deliver a successful business and this is even more important when there is uncertainty in the wider economic environment. I believe we have this, together with the commitment of everyone who works for us. I would like to thank everybody in the Group for their continued hard work and dedication.

OUTLOOK

Inevitably, in the current economic climate, the travel market for 2009 is uncertain and it is hard to look forward with our usual confidence. We are reassured that our diversified portfolio provides resilience to the worst of any downturn. In the UK, our customers are booking nearer to their departure dates, resulting in sales below those of last year. By contrast in Canada, while it is early in the winter trading cycle, overall sales to date are encouraging.

Your Board will continue to review the Group's strategy in 2009 to ensure that it is appropriate for these market conditions.

MARK T J MOLYNEUX
Chairman
26 February 2009

TRAVELZEST PLC 2008

CHIEF EXECUTIVE'S STATEMENT

I am pleased to report that Travelzest has delivered a significant increase in underlying operating profits for the year to 31 October 2008. This was achieved in a very challenging economic environment and demonstrates the strength of our diversified portfolio of companies.

ONLINE AND AGENCY ITRAVEL2000.COM

The Canadian market continues to be counter-cyclical to the UK, with the business generating the majority of its profits and cash in the winter period. While the Canadian economy is not immune to the pressures we have seen in the USA and Europe, to date it appears to be faring better than that of its neighbour.

The year saw the successful introduction of a new dynamic packaging system and entry into the Quebec market. The business also moved premises and upgraded its IT systems enabling it to improve the efficiency of its operations. These projects generated a number of one-off costs detailed below and separately disclosed in the accounts.

FAIR'S FARE

Fair's Fare is one of the UK's leading firms of airfare analysts, offering a unique travel planning service to both private and business clients. The business seeks out the very best fares for first and business class long-haul travellers. In 2008 the business delivered another solid performance and continued to provide a firm base of profits for the Group.

HOLIDAY EXPRESS

Holiday Express operated the websites holiday.co.uk and flight.co.uk. In 2007 we reported that the sites would be re-launched in 2008 with the introduction of new technology. Unfortunately the re-launch was delayed due to system complexity. Following a review of the business, it was decided to close the internal operations and license the use of the domain names to a third party. The non-recurring losses of the business, which include redundancy costs and the write-off

of web development expenditure, have been separately disclosed in the accounts.

THE CRUISE PROFESSIONALS

During the year, Travelzest added The Cruise Professionals Limited in Canada to its portfolio. This was financed through an equity placing and a renewal and extension of the Group's debt facilities. I am pleased with the progress this business has made in the post-acquisition period. The Founder of the business, Mary Jean Tully, has an excellent reputation in the luxury end of the cruise market and will continue to lead the business.

TOUR OPERATIONS VFB HOLIDAYS

VFB Holidays provides a range of specialist holidays, principally to France. The majority of the revenue was traditionally generated from the sale of French cottage holidays. Over the last few years the product range has been expanded to include new destinations and river cruises across Europe. In the second half of 2008, the business suffered a downturn in demand for short break holidays as customers reviewed their ongoing holiday plans.

BEST OF MOROCCO

Best of Morocco specialises in high-quality, tailor-made holidays to Morocco. It is also the premier agent for the Marathon des Sables, a foot race run through the Sahara Desert. This combination creates a sales cycle generating profits in winter and summer. Morocco experienced a downturn in demand from the UK in the second half of 2008. It is traditionally a third or fourth annual break destination and experienced a downturn as consumers cut out these breaks from their annual holiday itineraries.

PENG TRAVEL

Peng Travel arranges naturist holidays overseas for UK customers. It has grown to be Britain's biggest naturist tour operator and has unrivalled experience of its market. The new management team has continued to improve the profitability of the business.

FARAWAY HOLIDAYS & MALAYSIA EXPERIENCE

Faraway Holidays specialises in luxury tailor-made holidays and tours to Vietnam, Cambodia, Bali and Thailand. The business was restructured in 2008 and also purchased the assets of Malaysia Experience. New websites for both brands have been developed and we are experiencing encouraging sales levels for Malaysia Experience which was the first website to be completed in August 2008.

THE TAPESTRY COLLECTION

The Tapestry Collection provides high-quality and bespoke programmes in Turkey, Crete and Cephalonia. The business has a very strong reputation in these markets and a loyal customer base. It is performing well and the business has continued to grow in 2008. I also believe that Turkey will perform well in 2009 and Tapestry is well placed to take advantage of this opportunity.

THE WOW HOUSE COMPANY

Wow House is a property rental agent for 25 luxury homes in the UK. In 2008 we moved the business to the offices of VFB Holidays to better utilise resources.

CAPTIVATING CUBA

Captivating Cuba, an award-winning specialist, offers over 200 properties on the Caribbean island. The business performed well in its first full year of ownership, with the objectives set at the time of acquisition being met. We expect growth of this business in 2009.

JMB TRAVEL CONSULTANTS

JMB Travel is a leading UK specialist in opera holidays offering an extensive range of destinations noted for their classical concerts and music festivals. Travelzest acquired the business in September 2007 and it performed well in its first full year of ownership.

GROUP PERFORMANCE

The increase in total transaction value of 7% to £181.9 million from £169.9 million is attributed to our online agency businesses and the inclusion of the full year's total transaction value of the acquisitions made in 2007 together with the impact of The Cruise Professionals Limited from June 2008.

Revenue increased from £38.5 million to £44.3 million with an increase of £3 million or 8% coming from the Group's online agency businesses. Our Canadian businesses generated 37% of the Group's turnover.

Included in the reported operating profit are a number of one-off items which are separately disclosed and set out below. In addition to these items, net finance costs include a non-cash charge of £403,000 in respect of IAS 39 (Financial Instruments: Recognition and Measurement), marking

SEPARATELY DISCLOSED ITEMS

During the year the Group incurred certain costs set out below totalling £3.6 million. These have been separately disclosed to enable a better understanding of the results of the Group. With the exception of the share based payment charge, the items are not expected to reoccur. The share based payment charge, termination of warrant agreement and elements of the Holiday Express non recurring costs and ittravel move and new project start up costs, which total £2.6 million, are non-cash items.

| | 2008 £000's | 2007 £000's |
|--|----------------|----------------|
| Aborted acquisition costs | 316 | – |
| Aborted takeover costs | 125 | – |
| Holiday Express non-recurring costs | 1,237 | – |
| Ittravel move and other new project start up costs | 693 | – |
| Termination of warrant agreement | 956 | – |
| Share-based payment charge | 298 | 481 |
| Total | 3,625 | 481 |

to market open interest rate hedge arrangements at the year end which did not qualify under the rules of IAS 39 for hedge accounting.

I am also pleased to report that the Group increased underlying profit margin from 9.8% to 11.6%. This reflects continued operating improvements and the inclusion of the high-margin businesses of JMB Travel and Captivating Cuba for a full year in 2008.

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, remained consistent with the prior year.

At the end of the financial year the Group employed 341 staff compared with 297 staff at the end of the previous year.

FINANCING

During the year the Company issued 2.2 million new ordinary shares for cash at a price of 90 pence to institutional and other investors, raising approximately £2 million.

In addition as part of financing the acquisition of The Cruise Professionals Limited in June 2008 the Group renewed and extended its debt facilities to £16 million for a period of four years to May 2012.

The debt facility was fully drawn at 31 October 2008 and net debt was £10.8 million (2007: £0.1 million). Since the year end the Group made debt capital repayments of £1 million. Further capital repayments are due in May and November each year until May 2012.

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

As an AIM listed business Travelzest reports for the first time under IFRS in the financial year ending 31 October 2008 with comparative information. Details on the transition to IFRS were disclosed when the Group issued its interim results for the period to 30 April 2008 and these are included in the Directors' report.

SUMMARY

After two years of acquiring and improving 11 businesses, our 2008 results demonstrate the value of our strategy. Travelzest now has three online travel agencies which have the potential to grow substantially. We have two rapidly growing and profitable Canadian businesses. We also have a portfolio of specialist tour operators in the UK operating low-risk business models that make them more resilient to changes in customer demand.

In 2009 we will continue to review the Group's strategy in what is proving to be one of the most challenging economic environments the travel industry has experienced.

CHRIS MOTTERSHEAD
Chief Executive
26 February 2009

TRAVELZEST PLC 2008

DIRECTORS

CHRIS MOTTERSHEAD CHIEF EXECUTIVE



Chris, 50, has extensive experience in the travel industry, having worked 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, Airtours plc. He originally joined Airtours Holidays in 1993 as Finance Director and later became Managing Director. He joined Airtours from Aspro Travel & Inter European Airways where he was Group Finance Director.

Recent accolades:-

- » 2007 Finalist for M&A Personality of the Year, M&A Awards;
- » 2007 Finalist for Entrepreneur of the Year, Quoted Company Awards;
- » 2007 Finalist for Credit Suisse Entrepreneur of the Year Awards for the South East of England, National Business Awards.

NISHMA ROBB GROUP DISTRIBUTION DIRECTOR



Nishma, 35, has extensive online travel distribution experience and has previously held senior commercial roles within the media industry. As Group Distribution Director she is responsible for developing the Group's online capability and marketing.

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 of Teletext Holidays, Nishma had strategic and P&L responsibility for the advertising revenues generated from the services on TV and online.

Nishma has received numerous accolades including Asian Women of Achievement's Asian Business Woman of 2004, Travolution's Most Powerful Online People (2007), Media Week's Top 30 Executives under 30 (2000), and Trade Travel Gazette's Top 50 women in travel.

COLIN MCKINLAY ACA GROUP FINANCE DIRECTOR



Colin, 39, has held a number of senior financial positions within the travel industry. Operating at an international level, he has extensive experience in periods of aggressive growth and 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, working closely with its then Chief Executive Chris Mottershead.

Colin qualified as a chartered accountant at Coopers & Lybrand in Manchester.

JONATHAN CARROLL ITRAVEL2000.COM



Jonathan Carroll, President of itravel2000, co-founded the Company in 1994 with long time best friend 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 the Canadian consumer.

Jonathan is a strong believer in giving back to the community. Jonathan's charity work extends into the community through his extensive work with Jays Care Foundation. He is also a founding Board member of the Lakefield College School Foundation, which boasts his Royal Highness, the Duke of York as a Trustee. Jonathan also sits on the Board of the charity ONEXONE.

In 2006 Jonathan Carroll was awarded the prestigious Top 40 Under 40 Award honouring the best and most accomplished young professionals in Canada.

MARK MOLYNEUX CHAIRMAN



Mark Molyneux, 54, was appointed to the Travelzest Board as a Non-Executive Director in October 2006. He is a chartered accountant and also Chairman of two private equity backed companies. Until 2006 he was a Managing Partner at Ernst & Young (UK) and member of the four-man Main Board responsible for 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.

RICHARD HALL TD, MA, FCA NON-EXECUTIVE DIRECTOR 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 Technology plc and National Telecommunications plc, both of which companies he took to the main market. Since 1989, Richard has run his own consultancy with 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 (name changed to Travelzest in 2005) prior to the Company joining the OFEX market.

PETER THOMSON NON-EXECUTIVE DIRECTOR



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.

TRAVELZEST PLC 2008

SENIOR MANAGEMENT

JONATHAN WHITE VFB HOLIDAYS



Jonathan White joined French specialist VFB holidays in 1997, becoming Head of Product and Marketing in 1999 and appointed Managing Director in 2006. In this time, he has been 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.

RANJIT ANAND FAIR'S FARE



Ranjit founded Exptel in 1971, which remains to this day the market leader in the UK hotel-bookings agency industry. Following the acquisition in 1981 of the ticket agency Keith Prowse, Group turnover grew to £250 million with some 500 employees internationally.

The business suffered during the first Gulf War, forcing the sale of key elements of the business. Ranjit reinvented himself with Fair's Fare, a niche travel agency for premium travellers.

CORRI BOYLE PENG TRAVEL



Corri Boyle joined Peng Travel from Greece specialist Laskarina, where she was General Manager from 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 various 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, CAPTIVATING CUBA, FARAWAY HOLIDAYS AND THE MALAYSIA EXPERIENCE



Steve Diederich joined Best of Morocco from Greece specialist Laskarina, where he was Managing Director from 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. Since taking on the role of MD for Best of Morocco, Steve has been able to dramatically improve both the revenue and profitability of the business. He was given additional responsibility for Captivating Cuba in 2007 and for Faraway Holidays and The Malaysia Experience in 2009.

NICK WRIGHTMAN TAPESTRY COLLECTION



After graduating from Aston University, Nick became a graduate trainee within the Thomson Holidays Group. Following four years as Marketing Executive and Product Manager he moved on to Sunmed Holidays as General Manager for New Products. In 1986 he set up First Resort Holidays until it was taken over by Mosaic Holidays, part of Nobel Reardon plc. In 1991 he set up the award-winning Tapestry Holidays. In November 2006, Travelzest acquired the assets of Tapestry Holidays and, with Nick, has relaunched the product as The Tapestry Collection.

JONATHAN BLIZARD JMB TRAVEL AND THE WOW HOUSE COMPANY



Jonathan has over 28 years' experience in the travel industry working mainly for specialist companies. He began his career working for an independent retail travel agent, Malvern Travel, in 1979 and progressed to its tour operation division MTS Safaris, specialising in Kenya and South Africa. In 1983 he joined the luxury travel Group Serenissima Travel as Contracts Manager. During that time he was responsible for developing new products and destinations for the Company before creating his own Company JMB Travel, a leading opera travel specialist, building on his keen interest in classical music. Jonathan took over responsibility for The Wow House Company in February 2009.

MARY JEAN TULLY THE CRUISE PROFESSIONALS



Mary Jean Tully is Founder, Chairman and CEO of The Cruise Professionals. In 1987 she identified and seized the opportunity to target the cruise-only market niche in North America. The Cruise Professionals has since grown from its initial staff of three to encompass 41 seasoned travel professionals. Sitting on the Board for Crystal Cruises, Holland America, Silversea and Condé Nast Traveller, Mary Jean is renowned in the industry for her knowledge of travel, hard work and determination. The agency has received numerous awards and recognition identifying it as one of the best luxury travel agencies in the world.



The Directors present their report and the financial statements of the Group for the year ended 31 October 2008.

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 online and specialist 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 Chairman's statement.

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 2008 | At 31 October 2007 or on appointment |
|-------------------|----------------|--------------------|---|
| J G Carroll | – | – | – |
| R G Hall | Ordinary 2p | 21,100 | 21,100 |
| C G McKinlay | Ordinary 2p | 40,000 | 40,000 |
| M T J Molyneux | Ordinary 2p | 39,682 | 39,682 |
| C A L Mottershead | Ordinary 2p | 82,539 | 82,539 |
| N Robb | 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 October 2008 | 31 October 2007 or on appointment |
| C G McKinlay | 3 April 2016 | 127.5p | 156,862 | 156,862 |
| | 30 January 2017 | 144.5p | 69,204 | 69,204 |
| | 1 April 2017 | 168.0p | 59,524 | 59,524 |
| | 17 September 2017 | 140.0p | 250,000 | 250,000 |
| C A L Mottershead | 30 January 2010 | 122.5p | 81,632 | 81,632 |
| N Robb | 18 April 2016 | 129.5p | 77,220 | 77,220 |
| | 30 January 2017 | 144.5p | 27,682 | 27,682 |
| | 17 September 2017 | 140.0p | 150,000 | 150,000 |

C A L Mottershead had interests in 2,559,693 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.

J G Carroll had interests in 2,999,850 exchangeable 2p ordinary shares.

RETIREMENT OF DIRECTORS

In accordance with the Company's Articles of Association, N Robb and P Thomson will retire and, being eligible, will offer themselves for reelection at the forthcoming Annual General Meeting.

MAJOR SHAREHOLDERS

On 25 January 2009 the Company's share register showed the following interests in 3% or more of the Company's shares:

| | Class of share | Number | Percentage of class |
|---|-----------------|-----------|------------------------|
| Pershing Keen Nominees Limited | Ordinary 2p | 2,816,732 | 13.8% |
| Mr and Mrs M J Bruce-Mitford | Ordinary 2p | 2,166,300 | 10.6% |
| Vidacos Nominees Limited | Ordinary 2p | 2,003,368 | 9.8% |
| Chase Nominees Limited | Ordinary 2p | 1,385,429 | 6.8% |
| HSBC Global Custody Nominees Limited | Ordinary 2p | 1,319,108 | 6.5% |
| Giltspur Nominees Limited | Ordinary 2p | 1,280,478 | 6.3% |
| Charles Anderson | Ordinary 2p | 793,350 | 3.9% |
| Ranjit Singh Anand | Ordinary 2p | 787,315 | 3.8% |
| Andrew Gardener | Ordinary 2p | 751,285 | 3.7% |
| BNY Gil Client Account Nominees Limited | Ordinary 2p | 738,217 | 3.6% |
| BNY (OCS) Nominees Limited | Ordinary 2p | 735,051 | 3.6% |
| Mary Jean Tully | Ordinary 2p | 682,000 | 3.3% |
| S G Carroll | Exchangeable 2p | 2,999,850 | 28.57% |
| J G Carroll | Exchangeable 2p | 2,999,850 | 28.57% |
| J D Mackenzie | Exchangeable 2p | 2,999,850 | 28.57% |
| J B Hewlitt | Exchangeable 2p | 1,500,450 | 14.29% |

See note 15 to the financial statements for details of the Exchangeable shares.

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 February 2009 the Board comprised the Non-Executive Chairman, two further independent Non-Executive Directors and four Executive Directors. The Board structure ensures that no individual or Group dominates the decision-making process. The Board meets eleven 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/she was appointed or last reappointed by the Group in general meeting, shall retire and be eligible for reappointment.

AUDIT COMMITTEE

The Audit Committee, which intends to meet up to 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), R G Hall and M J T Molyneux, all of whom are independent Non-Executive Directors and meets as necessary. The Committee is responsible for the Executive Directors' remuneration and other benefits and terms of employment, including performance related bonuses and share options.

GOING CONCERN

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out previously in this report. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the following financial statements and notes to the financial statements. In addition this report includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The current economic conditions create uncertainty particularly over the level of demand for the Group's products and the exchange rate between sterling and operational currencies. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facility, details of which are outlined in note 17 to the accounts. 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.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Details of the Group's financial risk management objectives and policies are detailed in note 27 to the financial statement.

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

As an AIM listed Company Travelzest has reported under IFRS for the first time, for the financial year ending 31 October 2008, with comparative information for the prior year.

IFRS 1 "First-time Adoption of International Financial Reporting Standards" provided guidance for entities applying IFRS for the first time. It also provided a number of exemptions; the following significant exemptions were adopted by the Group:

IFRS 3 "Business Combinations" has not been applied retrospectively to business combinations prior to the date of transition 1 November 2006, therefore the amount of goodwill carried on the Group's IFRS balance sheet at transition is the same as was carried on the Group's UK GAAP balance sheet and the Group has not restated its comparative information for IFRS 7 and IAS 39.

The application of IFRS has resulted in a number of significant changes in accounting policy, most notably:

IFRS 3 "Business Combinations" prohibits the amortisation of goodwill but requires an annual test of impairment.

IAS 38 "Intangible Assets" requires that expenditure on advertising and promotions is written off as incurred; current Group policy states such expenditure is charged to the profit and loss in the year to which it relates. IAS 38 also requires computer software that is not an integral part of the related hardware be treated as an intangible asset.

IAS 39 "Financial Instruments" requires derivative instruments to be carried at their fair values on the balance sheet.

IFRS 1 "First-time Adoption of International Financial Reporting Standards", the Group has elected that the cumulative translation differences that existed for all foreign operations under UK GAAP will be deemed to be zero at the date of transition to IFRS, 1 November 2006.

The changes from the adoption of IFRS in the year ending 31 October 2008 are accounting changes only and do not affect the underlying operations or cash flows of the Group.

DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and IFRS as adopted by the European Union in respect of the Group and United Kingdom (United Kingdom Generally Accepted Accounting Practice) for the Company.

Company law requires the Directors to prepare financial statements for each financial year which are required by law to give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. In preparing these 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 and 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 Group and 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 Group and 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 Group's and 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 the auditors in accordance with the Companies Act.

By order of the Board

R G HALL
Director and Company Secretary
26 February 2009

We have audited the Group and parent Company financial statements (the "financial statements") of Travelzest plc for the year ended 31 October 2008 which comprise the principal accounting policies, the Group income statement, the Group balance sheet, the Group cash flow statement, the Group statement of recognised income and expense, Group notes to the financial statements 1 to 27, the Company balance sheet and Company notes to the financial statements A to O. 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 Group financial statements in accordance with United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and for preparing the parent Company 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 whether the financial statements have been 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. The information given in the Directors' report includes that specific information presented in the Chairman's statement and Chief Executive's statements that is cross referred from the Business Review section of the Directors' report.

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. The other information comprises only the Directors' report, the Chairman's statement and the Chief Executive's 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 judgements 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 Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 October 2008 and of its loss for the year then ended;
- » the Group financial statements have been properly prepared in accordance with the Companies Act 1985;
- » the parent Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent Company's affairs as at 31 October 2008;
- » the parent Company 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
BRISTOL
26 February 2009

BASIS OF PREPARATION

STATEMENT OF PREPARATION

These consolidated financial statements are presented for the first time in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. These standards have been adopted with effect from 1 November 2006 as required under AIM rules and therefore the comparative figures for the year ended 31 October 2007 have been restated to include the effect of adoption.

JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The following are critical management judgements in applying the accounting policies of the Group that have the most critical effect on the financial statements:

Revenue

Management makes critical judgement in determining when to recognise income. The recognition is based on whether the entity is a travel agent or tour operator. Revenue is recognised when it can be measured reliably; revenue and direct expenses relating to tours arranged by the Group's tour operators are taken to the income statement on holiday departure. Revenue relating to travel agency commission receivable on third party leisure travel products is recognised when earned, which is on receipt of the full payment from the customer. In both cases recognition occurs when it is probable that the economic benefits associated with the transaction will flow into the Group, the costs incurred or to be incurred can be measured reliably.

Impairment

An impairment loss is recognised for the amount by which the cash-generating unit's carrying amount exceeds its recoverable amount. Determining whether goodwill is impaired requires an estimate of value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate future cash flows from the cash-generating units and a suitable discount rate in order to calculate a fair value. In the process of measuring expected future cash flows management makes assumptions about future gross profits. These assumptions relate to future events and circumstances. In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors.

Information about significant judgements, estimates and assumptions that management believes have the most significant effect on recognition and measurement of assets, liabilities, income and expenses are discussed below: The actual results may differ from the judgements, estimates and assumptions made by management, and will seldom equal the estimated results.

Business combinations

On initial recognition, the assets and liabilities of the acquired business are included in the consolidated financial statements at their fair value. In measuring the fair value, management uses estimates about future cash flows and discount rates; however, the actual results may vary. Any measurement changes upon initial recognition would affect the measurement of goodwill. Details of acquired assets and liabilities are given in note 25.

Share-based payments

Management uses valuation techniques in determining the fair values of share-based payments at the date of grant; it adopts the Black-Scholes pricing model. Significant inputs into the calculation include the market price at the date of grant and exercise prices. Furthermore, the calculation takes into account the future dividend yield, the share price volatility rate and risk-free interest rate.

Fair value of financial instruments

Management uses active market quotes to measure the fair value of financial instrument hedges. The effectiveness of financial instrument hedges is assessed by considering the underlying liability to which the hedge relates. If the conditions for hedge accounting are no longer met and the previously designated hedged item is measured by means of the effective interest method, the necessary adjustment of the carrying amount of the underlying transaction had to be effected over its remaining term.

Deferred tax assets

The assessment of the probability of future taxable income in which deferred tax assets can be utilised is based on the Group's latest approved budget which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. If a positive forecast of taxable income indicates the probable use of a deferred tax asset, especially when it can be utilised without a time limit, that deferred tax asset is usually recognised in full.

TRAVELZEST PLC 2008

PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

BUSINESS COMBINATIONS

Business combinations are accounted for using the purchase method. The purchase method involves the recognition of the acquiree's identifiable assets and liabilities, including contingent liabilities, regardless of whether they were recorded in the financial statements prior to acquisition. On initial recognition, the assets and liabilities of the acquired subsidiary are included in the consolidated financial statements at their fair values, which is also used as the basis for subsequent measurement in accordance with the Group's accounting policies. Any deferred consideration in respect of the acquisition is held as a liability until payment is due and reflected in the initial carrying value of the subsidiary. Any subsequent changes to the amount of deferred consideration would be represented in the carrying value and the liability reduced. Goodwill is stated after separating out identifiable assets where applicable.

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill arising on acquisition represents any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired. Due to the application of IFRS, goodwill is no longer amortised. Goodwill is recognised as an asset, and is reviewed for impairment at least annually whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Any impairment is recognised immediately in the Group's income statement and is not subsequently reversed. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Impairment tests for goodwill were conducted on the basis of cash-generating units. According to the IFRS rules, a cash-generating unit is the smallest identifiable Group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or Groups of assets. Cash-generating units were established for the individual tour operators, and for the travel agency businesses, in specific countries. The expected cash flows generated are discounted using rates that represent estimated weighted average cost of capital for the respective business. The approach, assumptions and results of the impairment test are set out in note 9.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 2006 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

Costs directly associated with the purchase and implementation of websites and unique software by the Group are recognised as intangible assets. Expenditures that enhance and extend the benefits of these items and lives are recognised as a capital improvement and added to the original cost of the website's and software.

Factors that are considered important and which could trigger an impairment review include the following:

- » obsolescence;
- » significant changes in technology;
- » significant underperformance relative to expected histories or projected future operating results;
- » significant negative industry or economic trends; and
- » significant changes in the strategy of the business.

Other intangibles are accounted for using the costs method whereby capitalised costs are amortised over their respective lives. Acquired computer software and website development are capitalised on the basis of costs incurred to acquire and install.

| | | |
|---------------------|---|--------------|
| Other | – | 1 to 5 years |
| Website development | – | 3 to 5 years |
| Computer software | – | 3 to 5 years |

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost, net of depreciation and any provision for impairment.

Where costs are incurred as part of the start-up or commissioning of an item of property, plant or equipment, and that item is available for use but incapable of operating in the manner intended by management without such a start-up or commissioning period, then such costs are included within the cost of the item. Costs that are not directly attributable to bringing an asset to the location and condition necessary for it to be capable of operating in the manner intended by management are charged to the income statement as incurred.

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life:

| | | |
|---|---|--------------|
| Property improvements | – | 5 years |
| Fixtures and fittings | – | 3 to 5 years |
| Office equipment and computer equipment | – | 3 to 5 years |
| Motor vehicles | – | 3 to 5 years |

FINANCIAL ASSETS

Financial assets include cash and cash equivalents, trade and other receivables and derivative financial instruments. For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories:

- » trade and other receivables;
- » derivatives designated as hedging instruments; and
- » cash and cash equivalents.

The Group determines the classification at initial recognition and measures initially at fair value. The subsequent measure depends on classification; for example trade and other receivables which are fixed price are carried at amortised cost (if applicable) using an effective interest method if the time value money is significant. Due to the nature of the businesses credit risk is deemed low, therefore amortisation or impairment is unlikely, although would be recognised as a separately disclosed item from administrative expenses. Derivatives are accounted for in accordance with the policy set out below and cash and cash equivalents are accounted for in accordance with the policy on page 19.

FINANCIAL LIABILITIES

The Group's financial liabilities include borrowings, trade and other payables and derivative financial instruments. Financial liabilities are classified as financial liabilities measured at amortised cost or derivatives designated as hedging instruments.

The Group determines the classification at initial recognition and measures initially at fair value. The subsequent measure depends on classification; for example financial liabilities measured at amortised cost having been initially recognised at fair value (in the case of borrowing, fair value of proceeds net of issue costs), are subsequently measured at amortised cost (if applicable) using an effective interest method taking into account discounts and issue costs. The category of financial liability includes borrowings and trade and other payables.

Derivatives are accounted for in accordance with the policy set out below.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

Derivative financial instruments are initially measured at the fair value attributable to them on the day of the conclusion of the agreement. The follow-up measurement is also effected at the fair value applicable at the respective balance sheet date. The method applied in recording profits and losses depends on whether the derivative financial instrument is classified as a hedge, and on the type of hedged item. As a matter of principle, the Group classifies derivative financial instruments either as fair value hedges to hedge exposure to changes in the fair value of assets or liabilities or as cash flow hedges to hedge exposure to risks of varying cash flows from highly probable future transactions.

Upon inception of the transaction, the Group documents the hedging relationship between the hedge and the underlying item, the risk management goal and the strategy pursued in entering into the hedges. In addition, an assessment is made both at the beginning of the hedge relationship and on a continual basis as

to whether the derivatives used for the hedge compensate for the changes in the fair values or cash flows of the underlying transactions in a highly effective manner. The changes in the fair value of derivatives designated to hedge exposure to changes in the fair value and qualify the hedge as a fair value hedge are carried in the income statement together with the changes in the fair value of the hedged assets or liabilities allocable to the hedged risk. If the conditions for hedge accounting are no longer met and the previously designated hedged item is measured by means of the effective interest method, the necessary adjustment of the carrying amount of the underlying transaction had to be effected over its remaining term. The effective part of changes in the fair value of derivatives drawn to hedge the cash flow and qualify as cash flow hedges was recognised in equity. The ineffective part of such changes in the fair value, in contrast, was taken directly to the income statement with an effect on results. Amounts taken to equity were reclassified into the income statement and carried as income or expenses in the period in which the underlying transaction had an effect on results. Where a hedged future transaction results in the recognition of a non-financial asset or a non-financial liability, the income or expenses previously carried in equity are included in the first time with an effect on results. Changes in the fair values of derivative financial instruments not achieving the criteria for hedge accounting are directly carried in the income statement with an effect on results.

TOTAL TRANSACTION VALUE AND REVENUE RECOGNITION

Total transaction value, which is stated net of value added tax, does not represent the Company's statutory revenue. Where companies within the Group act as agent or cash collector, total transaction value represents the price at which goods or services have been sold to the consumer.

Revenue represents the aggregate amount of gross consideration receivable from inclusive tours, travel agency commissions receivable and other services supplied to the customers in the ordinary course of business. Revenue is recognised when it can be measured reliably; revenue and direct expenses relating to the inclusive tours arranged by the Group's leisure travel providers are taken to the income statement on holiday departure. Revenue relating to travel agency commission receivable on third party leisure travel products is recognised when earned, which is on receipt of the full payment from the customer.

In both cases recognition occurs when it is probable that the economic benefits associated with the transaction will flow into the Group; the costs incurred or to be incurred can be measured reliably. Other revenue and associated expenses are taken to the income statement as earned or incurred. Revenue and expenses exclude intra-Group transactions.

INCOME STATEMENT PRESENTATION

Profit or loss from operations includes the results from operating activities of the Group.

Separately disclosed items are those that are unusual because of their size, nature or incidence which the Group's management consider should be disclosed separately to enable a full understanding of the Group's results.

TAX

Tax represents the sum of tax currently payable and deferred tax. Tax is recognised in the income statement unless it relates to an item recognised directly in equity, in which case the associated tax is also recognised directly in equity.

Tax currently payable is provided on taxable profits based on the tax rates and laws that have been enacted and or substantively enacted at the balance sheet date that result in an obligation to pay more tax, or a right to pay less tax, in the future, except as set out below. This is calculated on a non-discounted basis by reference to the average tax rates that are expected to apply in the relevant jurisdictions and for the periods in which the temporary differences are expected to reverse.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is provided on the initial recognition of goodwill, or on initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided that they are enacted or substantively enacted at the end of the reporting period. Deferred tax liabilities are always recorded in full. Deferred tax assets are recognised to the extent that it is possible that they will be able to be utilised against future taxable income.

PENSIONS

Pension costs charged against profits in respect of the Group's defined contribution schemes represent the amount of the contributions payable to the schemes in respect of the accounting period.

FOREIGN CURRENCY

In the Group's financial statements, all assets, liabilities and transactions of the Group's entities are translated into sterling, the functional currency of the parent Company. Average exchange rates are used to translate the income and expenses of all subsidiaries that have a functional currency other than sterling where there has been no significant fluctuation in the rate. The balance sheets of such entities are translated at period end exchange rates. The resulting exchange differences are dealt with through equity.

Non-monetary items measured at historical cost are translated using the exchange rates at the date of transaction (not retranslated). Non-monetary items are measured at fair value and translated using the exchange rates at the date when the fair value was determined.

SHARE-BASED PAYMENTS

The Group issues share-based instruments to certain employees as part of their total remuneration at fair value. The fair values of these instruments are calculated at the date of grant, using the Black-Scholes pricing model. These fair values are charged to the income statement on a straight-line basis over the expected vesting periods of the instruments, with a corresponding increase in equity reserves. Any waivers to share-based payments are treated as cancellations by the Group.

BASIS OF CONSOLIDATION

The Group financial statements consolidate those of the Company and of its subsidiary companies drawn up to 31 October 2008. Intra-Group transactions are eliminated on consolidation and all figures relate to external transactions only. Acquisitions of subsidiaries are dealt with by the purchase method of accounting except for those qualifying as Group reconstructions where merger accounting is used prior to 1 November 2006. The results of newly acquired companies are consolidated from the date that control passed. Any deferred consideration is recognised as a liability on the balance sheet and reflected in the initial carrying value of the subsidiary.

EQUITY AND RESERVES

Share capital presents the nominal value of shares that have been issued. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of shares and share awards are recognised as a deduction from equity, net of any tax effects.

Share premium includes any premiums received on the issue of share capital. Any transaction costs associated with the issuing of shares are deducted from the share premium, net of any related income tax benefits.

The translation and hedge reserve includes the effects of foreign currency translation differences arising on the translation of the Group's foreign entities and the gains and loss on certain financial instruments are also included.

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.

Retained earnings include all current and prior period retained profits.

BROCHURE AND ADVERTISING COSTS

The costs of brochure publication and advertising including web-based advertising are charged to the income statement as incurred.

OPERATING LEASE AGREEMENTS

In accordance with IAS 17 Leases, 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. The Group has no financial leases whereby in accordance with IAS 17, the economic ownership of the leased assets is transferred to the lessee if the lessee bears substantially all of the benefits and risks of ownership.

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 held on the balance sheet and are credited to the profit and loss account to match the expenditure to which they relate.

CASH AND CASH EQUIVALENTS

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

Highly liquid investments 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. These comprise term deposits of less than one year (other than cash).

CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The Group's capital management objectives are:

- » to ensure the Group's ability to continue as a going concern; and
- » to provide an adequate return to shareholders.

By pricing holidays effectively and considering the level of risk. The Group monitors capital on the basis of the carrying value of equity plus its loan, less cash and cash equivalents as presented in the face of the financial statements. The Group's goal in capital management is to maintain its covenants resulting from the loan taken out in 2008.

NEW AND AMENDED STANDARDS NOT YET ADOPTED BY THE EUROPEAN UNION AND THE GROUP AMENDED TO IAS 1 – PRESENTATION OF FINANCIAL STATEMENTS: A REVISED PRESENTATION

The amendments affect the presentation of owner changes in equity and comprehensive income. They do not change the recognition, measurement or disclosure of specific transactions and events required by other standards.

AMENDED TO IAS 32 – BORROWING COSTS

The amendments remove the option to expense interest on qualifying assets.

REVISED IFRS 3 – BUSINESS COMBINATIONS

The main changes in the revised IFRS 3 include the separate accounting of acquisition related costs, changes to business combinations achieved in stages and the accounting of business combinations where less than 100% is acquired. These changes will be effective for a business purchased after 1 July 2009 and as such no assessment of their impact can be made.

REVISED IAS 27 – CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

The revisions made to IAS 27 specify that changes in a parent's ownership interest in a subsidiary that do not result in a loss of control must be accounted for as equity transactions.

AMENDMENTS TO IFRS 2 – SHARE-BASED PAYMENT: VESTING CONDITIONS AND CANCELLATIONS

The amendment clarifies that vesting conditions are service conditions and performance conditions only. It further clarifies that cancellations whether by the entity or other parties should receive the same accounting treatment, which results in the acceleration of the charge.

TRAVELZEST PLC 2008

CONSOLIDATED INCOME STATEMENT

| | Notes | 31 October 2008 £000's | 31 October 2007 £000's |
|---|-------|------------------------------|------------------------------|
| Total transaction value | 2 | 181,945 | 169,853 |
| Revenue | 2 | 44,318 | 38,467 |
| Cost of sales | | (21,953) | (17,903) |
| Gross profit | | 22,365 | 20,564 |
| Administrative expenses | | (24,687) | (17,659) |
| Operating (loss)/profit | 3 | (2,322) | 2,905 |
| Analysed as: | | | |
| Underlying operating profit | | 5,140 | 3,758 |
| Separately disclosed items | 3 | (3,625) | (481) |
| Amortisation of intangible assets and goodwill impairment | | (3,837) | (372) |
| | | (2,322) | 2,905 |
| Finance income | 6 | 175 | 382 |
| Finance costs | 6 | (1,445) | (959) |
| (Loss)/profit on ordinary activities before taxation | | (3,592) | 2,328 |
| Income tax expense | 7 | (1,339) | (1,158) |
| (Loss)/profit for the period | 15 | (4,931) | 1,170 |
| Basic (loss)/profit earnings per share | 8 | (17.19)p | 4.83p |
| Fully diluted earnings per share | 8 | - | 3.82p |

TRAVELZEST PLC 2008

CONSOLIDATED BALANCE SHEET

| | Notes | 31 October 2008 £000's | 31 October 2007 £000's |
|--|-------|------------------------------|------------------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Intangible assets – goodwill | 9 | 41,987 | 38,754 |
| Intangible assets – other | 10 | 3,435 | 1,684 |
| Property, plant and equipment | 11 | 1,373 | 1,021 |
| | | 46,795 | 41,459 |
| Current assets | | | |
| Inventories | | 33 | 2 |
| Tax assets | 14 | - | 27 |
| Trade and other receivables | 12 | 7,665 | 7,050 |
| Derivative financial instruments | 13 | 52 | 295 |
| Cash and cash equivalents | | 5,077 | 10,480 |
| | | 12,827 | 17,854 |
| Total assets | | 59,622 | 59,313 |
| EQUITY AND LIABILITIES | | | |
| Equity attributable to equity holders of the parent | | | |
| Share capital | 15 | 407 | 350 |
| Share premium | 15 | 16,779 | 14,233 |
| Exchangeable shares | 15 | 12,735 | 10,365 |
| Merger reserve | 15 | 2,320 | 2,320 |
| Translation and hedge reserve | 15 | (1,985) | 250 |
| Retained earnings | 15 | (291) | 3,386 |
| Total equity | | 29,965 | 30,904 |
| Non-current liabilities | | | |
| Trade and other payables | 18 | 41 | 4,976 |
| Borrowings | 17 | 14,349 | 9,860 |
| Deferred tax | 14 | 776 | - |
| | | 15,166 | 14,836 |
| Current liabilities | | | |
| Trade and other payables | 18 | 10,745 | 8,832 |
| Borrowings | 17 | 1,500 | 1,870 |
| Derivative financial instruments | 19 | 871 | 45 |
| Current tax liabilities | 18 | - | 1,230 |
| Revenue received in advance | 18 | 1,375 | 1,596 |
| | | 14,491 | 13,573 |
| Total liabilities | | 29,657 | 28,409 |
| Total equity and liabilities | | 59,622 | 59,313 |

These financial statements were approved by the Directors on 26 February 2009 and are signed on their behalf by:

C A L MOTTERSHEAD
Director

C G MCKINLAY
Director

TRAVELZEST PLC 2008

CONSOLIDATED CASH FLOW STATEMENT

| | Notes | 31 October 2008 £000's | 31 October 2007 £000's |
|---|-------|------------------------------|------------------------------|
| Cash flows from operating activities | | | |
| Cash generated from operations | 24 | (2,311) | 2,477 |
| Income taxes paid | | (1,767) | (236) |
| Net cash flow from operating activities | | (4,078) | 2,241 |
| Cash flow from investing activities | | | |
| Interest received | | 175 | 382 |
| Acquisition of subsidiary | | (5,473) | (2,739) |
| Purchase of property, plant & equipment and other intangibles | | (1,211) | (1,069) |
| Net cash used in investing activities | | (6,509) | (3,426) |
| Cash flow used in financing activities | | | |
| Repayment of borrowings | | (11,881) | (250) |
| Interest paid | | (1,042) | (959) |
| New bank loans raised | | 16,000 | – |
| Proceeds on issue of shares | | 1,855 | 1,537 |
| Net cash from financing activities | | 4,932 | 328 |
| Net decrease in cash and cash equivalents | | (5,655) | (857) |
| Cash and cash equivalents | | | |
| Cash and cash equivalents at beginning of year | | 10,480 | 10,989 |
| Effect of foreign exchange rate changes | | 252 | 348 |
| Net movement in cash and cash equivalents | | (5,655) | (857) |
| Cash and cash equivalents at end of period | | 5,077 | 10,480 |
| Cash and cash equivalents comprise: | | | |
| Cash | | 5,077 | 10,480 |
| Overdrafts | | – | – |
| | | 5,077 | 10,480 |

TRAVELZEST PLC 2008

STATEMENT OF RECOGNISED INCOME AND EXPENSES

| | Notes | 31 October 2008 £000's | 31 October 2007 £000's |
|---|-------|------------------------------|------------------------------|
| Exchange difference on translating of foreign operations | 15 | (1,416) | 358 |
| Movement in fair value hedge | | (819) | – |
| Income and expenses directly recognised in equity | | (2,235) | 358 |
| Group (loss)/profit | 15 | (4,931) | 1,170 |
| Total income and expenses recognised in the financial year | | (7,166) | (1,528) |

TRAVELZEST PLC 2008

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The transition from United Kingdom GAAP to IFRS has been made in accordance with IFRS 1, "First-time Adoption of International Reporting Standards".

These consolidated financial statements are presented for the first time on the basis of International Financial Reporting Standards ("IFRS") as adopted by the European Union. These standards have been adopted with effect from 1 November 2006 as required under AIM rules and therefore the comparative figures for the year ended 31 October 2007 have been restated to include the effect of adoption.

The following reconciliations and the explanatory notes presented in the principal accounting policies thereto describe the effects of the IFRS opening balance sheet as at 1 November 2006 and for the financial period ended 31 October 2007. The remeasurement of the consolidated balance sheet items at the IFRS opening balance sheet date and at 31 October 2007 together with the reconciliation of the Group's equity reported under UK GAAP to its equity under IFRS as at 1 November 2006 and 31 October 2007, may be summarised as follows:

| | Note | Effects of transition £000's |
|----------------------------|------|---------------------------------|
| At 1 November 2006 | | |
| Total equity – UK GAAP | | 25,784 |
| Prepayments | 1.1 | (93) |
| Corporation tax | | (46) |
| Total equity – IFRS | | 25,645 |
| At 31 October 2007 | | |
| Total equity – UK GAAP | | 29,497 |
| Goodwill amortisation | 1.2 | 1,883 |
| Fixed tangible assets | 1.3 | (30) |
| Prepayments | 1.1 | (565) |
| Corporation tax | | (382) |
| Deferred tax | 1.4 | 251 |
| Financial derivatives | 1.5 | 250 |
| Total equity – IFRS | | 30,904 |

Profit and loss under UK GAAP for year ending 31 October 2007 is reconciled to IFRS as follows:

| | Effects of transition £000's |
|---|---------------------------------|
| Net result for the year ended 31 October 2007 – UK GAAP | (126) |
| Goodwill | 1,883 |
| Prepayments | (418) |
| Fixed tangible assets | (30) |
| Taxation | (139) |
| Net result for the year ended 31 October 2007 – IFRS | 1,170 |

1. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (CONTINUED)

1.1 BROCHURE AND PROMOTIONAL COSTS

IAS 38 "Intangible Assets" requires that expenditure on advertising and promotion is written off as incurred which may be different from the season to which it relates. The Group's previous accounting policy, in accordance with UK GAAP, was to charge such expenses to the profit and loss account over the season to which they relate.

1.2 GOODWILL AMORTISATION

IFRS 3 "Business Combinations" prohibits the amortisation of goodwill but requires annual tests of impairment. Goodwill charged under UK GAAP for the financial statements year ended 31 October 2007 was £1.9 million with a corresponding increase in net assets as at that date. IFRS 3 also provides for a consideration of any separable intangible assets and for these to be valued and disclosed separate from goodwill.

1.3 INTANGIBLE ASSETS

IAS 38 "Intangible Assets" requires that all computer software that is not an integral part of computer hardware be treated as an intangible asset. Consequently, there is a reclassification between other intangible assets and property, plant and equipment on the balance sheet and between depreciation and amortisation in the profit and loss account. There is no net effect on the profit in the year ended 31 October 2007. A website arising from development shall be recognised as an intangible asset if, and only if, in addition to complying with the general requirements described in IAS 38.21 for recognition and initial measurement, an entity can satisfy the requirements in IAS 38.57. In particular, an entity may be able to satisfy the requirement to demonstrate how its website will generate probable future economic benefits. An inability to demonstrate this will consequently cause all expenditure to be expensed as incurred.

1.4 DEFERRED TAX

Deferred tax assets are assessed at each balance sheet date and are only recognised to the extent that their recovery against future taxable profits is probable. Deferred tax liabilities are recognised for the retained earnings of overseas subsidiaries unless the Group is able to control the timing of the distribution of those earnings and it is probable that they will not be distributed in the foreseeable future.

1.5 DERIVATIVE FINANCIAL INSTRUMENTS

IAS 39 "Financial Instruments: Recognition and Measurement" requires derivatives are measured at their fair value. When a derivative does not qualify for hedge accounting, changes in fair value are recognised immediately in the income statement. When a derivative qualifies for hedge accounting, changes in fair value that are determined to be an effective hedge are recognised in the hedging reserve. Any ineffective portion of the change in fair value is recognised immediately in the income statement.

If a hedged transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the associated cumulative gain or loss is removed from the hedging reserve and is included in the initial cost or carrying amount of the asset or liability. For all other cash flow hedges, the associated cumulative gain or loss is removed from the hedging reserve and recognised in the income statement in the same period or periods during which the hedged or forecast transaction affects profit or loss.

1.6 CASH FLOW STATEMENT

The changes resulting from the adoption of IFRS are accounting changes only and do not affect the underlying operations and cash flows of the Group.

TRAVELZEST PLC 2008

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SEGMENT REPORTING

For management purposes, the Group is currently organised into two operating divisions: tour operators and travel agency businesses. These divisions are the basis on which the Group reports its primary segment information.

Within these divisions, businesses are classified by geographical location and this analysis is the basis for the secondary segmental information. Segmental information for these activities is presented below:

TOTAL TRANSACTION VALUE

| | 2008 £000's | 2007 £000's |
|-----------------|----------------|----------------|
| Tour operations | 21,341 | 18,518 |
| Travel agency: | | |
| Direct sales | – | 127 |
| Agency sales | 160,604 | 151,208 |
| | 181,945 | 169,853 |

PRIMARY REPORTING FORMAT – BUSINESS SEGMENTS

| | Tour operator | | Travel agency | | Total | |
|---|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| | 31 October 2008 £000's | 31 October 2007 £000's | 31 October 2008 £000's | 31 October 2007 £000's | 31 October 2008 £000's | 31 October 2007 £000's |
| Revenue | 21,341 | 18,518 | 22,977 | 19,949 | 44,318 | 38,467 |
| Results | | | | | | |
| Profit from operations | 807 | 487 | 4,333 | 3,269 | 5,140 | 3,756 |
| Separately disclosed items | – | – | – | – | (7,462) | (853) |
| Disposals of property, plant & equipment | – | – | – | – | – | 2 |
| (Loss)/profit before finance items | | | | | (2,322) | 2,905 |
| Finance income | | | | | 175 | 382 |
| Finance costs | | | | | (1,445) | (959) |
| (Loss)/profit before tax | | | | | (3,592) | 2,328 |
| Tax | | | | | (1,339) | (1,158) |
| (Loss)/profit for year | | | | | (4,931) | 1,170 |

SECONDARY REPORTING FORMAT – GEOGRAPHICAL LOCATION

| Location | Revenue | | Segment assets | |
|----------------|------------------------------|------------------------------|------------------------------|------------------------------|
| | 31 October 2008 £000's | 31 October 2007 £000's | 31 October 2008 £000's | 31 October 2007 £000's |
| United Kingdom | 27,960 | 25,901 | 42,950 | 46,297 |
| Canada | 16,358 | 12,566 | 16,672 | 13,016 |
| Group | 44,318 | 38,467 | 59,622 | 59,313 |

3. OPERATING (LOSS)/PROFIT

Operating loss is stated after charging:

| | 2008 £000's | 2007 £000's |
|--|----------------|----------------|
| Depreciation of owned fixed assets | 229 | 516 |
| Net loss on foreign currency translation | 252 | 358 |
| Auditor's remuneration – Group: | | |
| Audit fees | 125 | 115 |
| Taxation | 17 | 15 |
| Auditor's remuneration – Company: | | |
| Audit fees | 23 | 18 |
| Taxation | 4 | 3 |
| Operating lease costs: | | |
| Office equipment | 308 | – |
| Vehicles | – | 26 |
| Property | 523 | 100 |
| Separately disclosed items: | | |
| Amortisation of intangible fixed assets | 637 | 372 |
| Termination of rights under warrant agreement | 956 | – |
| Share-based payment charge | 298 | 481 |
| Aborted acquisition costs | 316 | – |
| itravel move and other new project start up costs | 693 | – |
| Aborted takeover costs | 125 | – |
| Impairment of goodwill carried in respect of Holiday Express | 2,100 | – |
| Holiday Express non-recurring costs | 1,237 | – |
| Write-off of assets in Holiday Express | 1,100 | – |

4. PERSONNEL COSTS

The aggregate payroll costs were:

| | 2008 £000's | 2007 £000's |
|--|----------------|----------------|
| Salaries | 9,452 | 8,342 |
| Social security costs | 1,072 | 524 |
| Share-based payments | 1,254 | 481 |
| Value of Company pension contributions to money purchase schemes | 161 | 132 |
| | 11,939 | 9,479 |

The average annual headcount employed by the Group during the year was:

| | 2008 No. | 2007 No. |
|----------------------|-------------|-------------|
| Administrative staff | 174 | 129 |
| Sales staff | 156 | 179 |
| | 330 | 308 |

TRAVELZEST PLC 2008

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. DIRECTORS

Remuneration of the Directors was:

| | 2008 £000's | 2007 £000's |
|--|----------------|----------------|
| Emoluments receivable | 1,572 | 1,232 |
| Value of Company pension contributions to money purchase schemes | 81 | 70 |
| | 1,653 | 1,302 |

Two Directors (2007: two) participated in money purchase pension schemes. Included in the above are emoluments, excluding pension contributions paid to:

| | 2008 £000's | 2007 £000's |
|-----------------------|----------------|----------------|
| Highest paid Director | 562 | 499 |

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

| | 2008 £000's | 2007 £000's |
|-----------------------|----------------|----------------|
| Highest paid Director | 45 | 41 |

In accordance with IFRS 2 share-based payments Directors also received share-based payments amounting to £1,145,000 (2007: £394,000). Included in this amount are share-based payments to the highest paid Director of £981,000 (2007: £230,000). This amount includes £956,000 relating to the waiver of the right for Chris Mottershead to receive further issues of warrants.

During the year no Directors (2007: nil) exercised their share options.

6. FINANCE INCOME/(EXPENSES)

| | 2008 £000's | 2007 £000's |
|-------------------------------|----------------|----------------|
| Interest income | 175 | 382 |
| Interest expenses | (1,042) | (959) |
| Expenses from interest hedges | (403) | – |
| | (1,270) | (577) |

The expenses arising from other interest rate hedges relate to the ineffective element of a basis points swap.

7. INCOME TAX EXPENSE

Tax expense comprises:

| | 2008 £000's | 2007 £000's |
|------------------------------------|----------------|----------------|
| Current income taxes: | | |
| UK Corporation Tax | – | 307 |
| Overseas taxation | 584 | 1,178 |
| Adjustments to prior years | 451 | (300) |
| Deferred tax – share options | 203 | (27) |
| Deferred tax – ACAs | 101 | – |
| Tax on loss on ordinary activities | 1,339 | 1,158 |

Reconciliation from expected to actual income tax expense:

| | 2008 £000's | 2007 £000's |
|---|----------------|----------------|
| (Loss)/profit on ordinary activities before taxation | (3,592) | 2,328 |
| Expected income tax expense (Corporation Tax rate 28%, 2007 30%) | (1,006) | 698 |
| Amortisation and impairment | 623 | 287 |
| Expenses not deductible | 437 | 268 |
| Depreciation in excess of capital allowances | 101 | (25) |
| Share options | 203 | – |
| Effective tax expenses and income relating to other periods | 451 | (300) |
| Losses carried forward | 513 | 152 |
| Rates differences | 17 | 78 |
| Actual income tax expense | 1,339 | 1,158 |

All deferred tax has been recognised in the income statement.

8. LOSS PER SHARE

Basic loss per share of 17.19p (2007: 4.83p) is based on an equity loss of £4,931,000 (2007 – profit of £1,170,000 (restated)) and 28,686,523 (2007 – 24,231,242) shares of 2p, being the average number of shares in issue during the year, including exchangeable shares.

The normalised pre-share-based payments earnings per share of 7.78p (2007: 6.36p) is based on an equity profit of £2,233,000, adding back the amortisation of intangible assets of £3,837,000 (including £2,100,000 relating to the impairment of Holiday Express) (2007: £372,000), share-based payments of £956,000 (2007: £nil) and other separately disclosed items of £2,371,000 (2007: £nil).

The diluted earnings per share in 2007 was based on average fully diluted share capital of 30,626,763.

9. GOODWILL

| | 31 October 2008 £000's |
|--|------------------------------|
| Historical cost | |
| At 1 November 2006 | 36,106 |
| Additions | 3,293 |
| Adjustment to deferred consideration in Fair's Fare Limited | (645) |
| At 1 November 2007 | 38,754 |
| Additions (see note 25) | 6,555 |
| Reduction in consideration for JMB Travel Consultants Limited | (13) |
| Reduction in deferred consideration of Tapestry Collection Limited | (436) |
| Foreign exchange movement | (773) |
| At 31 October 2008 | 44,087 |
| Impairment | |
| At 1 November 2007 | – |
| Impairment charge for the period | 2,100 |
| At 31 October 2008 | 2,100 |
| Carrying amount at 31 October 2008 | 41,987 |
| Carrying amount at 31 October 2007 | 38,754 |

Additions primarily relate to the acquisition of The Cruise Professionals Limited (£6,555,000) (see note 25). Annually or more frequently if events or a change in the economic environment indicate a risk of impairment, the Group assesses the recoverable amount of goodwill (determined by reference to the higher of fair value less costs to sell and the value in use of the continuing operations of the related businesses) as required by IAS 36: Impairment of Assets. IAS 36 requires that impairment tests are carried out following the level at which the Group's management measures returns on operations.

9. GOODWILL (CONTINUED)

Goodwill is allocated to the following cash-generating units:

| | Goodwill £000's |
|----------------------------------|--------------------|
| Best of Morocco Limited | 1,923 |
| Peng Travel Limited | 1,263 |
| Fair's Fare Limited | 5,451 |
| Tapestry Collection Limited | 274 |
| itravel2000.com | 23,969 |
| WOW House Limited | 167 |
| Captivating Cuba Limited | 1,290 |
| JMB Travel Consultants Limited | 295 |
| The Cruise Professionals Limited | 6,555 |

For the year ended 31 October 2008 management has undertaken a detailed review of the carrying value of these investments both at a consolidated and Company level and has determined that no impairment is required for the above businesses.

In making estimates of future profit and cash flows, growth rate assumptions have been applied to each business's current profits as deemed appropriate by management.

Growth rate estimates by their nature will include assumptions which have been considered in detail by management. In making assumptions, management has taken into account the following factors:

- » cash flow projections based on the Group's latest approved five-year budget plan;
- » historic results;
- » cash flows are discounted using the Group's weighted average cost of capital, adjusted as appropriate for business specific factors of sector risk, business size and other macro economic factors relevant to the specific businesses;
- » customer base to which the businesses sell;
- » the Group's weighted average cost of capital of 8% has been based on the range of historical values of the Group's weighted average cost of capital;
- » a growth rate of 3% and 10% over the next four years has been used depending on the cash-generating unit; and
- » the impact of business downturn and changes in interest rates in growth rate assumptions.

No terminal growth rate has been applied to the cash-generating units; this considers management's assessment of the impact of a business downturn and changes in interest rates, with the exception of Captivating Cuba.

In determining the growth rate of Captivating Cuba, management believe's a greater growth rate of 10% is more appropriate based on increased product, travel agent sales, rebranding of the website and a repricing of the product.

HOLIDAY EXPRESS (UK) LIMITED

A review of the carrying value of goodwill in respect of Holiday Express, a subsidiary of the Group, was conducted at the year end in light of poor trading performance, subsequent closure of operations and the decision to license the domain names owned by Holiday Express to a third party from 1 November 2009. The value in use was determined by discounting estimate future cash flows at the Group's weighted average cost of capital (8%). A growth rate of 5% has been assumed. The impairment charge reflected in the Group's income statement is £2.1 million reducing goodwill to £800,000.

The Group has incurred an impairment loss of £2,100,000 on goodwill in 2008 (2007: £nil) in order to reduce the carrying amount of goodwill to its recoverable amount. If the discount rate applied to each of the Group's subsidiaries had been increased by 1% this would have resulted in a further impairment loss of £100,000 in regard to Holiday Express only.

TRAVELZEST PLC 2008

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. INTANGIBLE FIXED ASSETS

| | Other intangible assets | Website development | Computer software | Total |
|---|-------------------------|---------------------|-------------------|--------------|
| | £000's | £000's | £000's | £000's |
| Historical cost | | | | |
| At 1 November 2006 | – | 648 | 1,429 | 2,077 |
| Additions | – | 1,016 | 126 | 1,142 |
| At 1 November 2007 (restated) | – | 1,664 | 1,555 | 3,219 |
| Additions | 1,782 | 934 | 610 | 3,326 |
| Disposals | – | (739) | (380) | (1,119) |
| Foreign exchange adjustments | – | (221) | – | (221) |
| At 31 October 2008 | 1,782 | 1,638 | 1,785 | 5,205 |
| Amortisation | | | | |
| At 1 November 2006 | – | 532 | 631 | 1,163 |
| Charge for year | – | 241 | 131 | 372 |
| At 1 November 2007 (restated) | – | 773 | 762 | 1,535 |
| Charge for year | 125 | 219 | 293 | 637 |
| Disposals | – | (184) | (217) | (401) |
| At 31 October 2008 | 125 | 808 | 838 | 1,770 |
| Carrying amount at 31 October 2008 | 1,657 | 830 | 947 | 3,435 |
| Carrying amount at 31 October 2007 | – | 891 | 793 | 1,684 |

Other intangible assets relates to the separately identifiable assets determined from the acquisition of The Cruise Professionals Limited and relates to customer relations (£1,500,000), order backlog (£206,000) and contractual agreements (£76,000) with residual lives of between one and six years. Amortisation of intangible assets is recognised within administrative expenses in the income statement.

11. PROPERTY, PLANT AND EQUIPMENT

GROUP

| | Property improvements | Fixtures and fittings | Computer equipment | Office equipment | Motor vehicles | Total |
|------------------------------|-----------------------|-----------------------|--------------------|------------------|----------------|--------------|
| | £000's | £000's | £000's | £000's | £000's | £000's |
| Cost | | | | | | |
| At 1 November 2006 | 125 | – | 960 | 1,088 | 27 | 2,200 |
| Additions | – | – | 467 | 68 | – | 535 |
| Foreign exchange adjustments | 1 | – | – | (11) | – | (10) |
| At 1 November 2007 | 126 | – | 1,427 | 1,145 | 27 | 2,725 |
| Additions | 756 | 77 | 165 | 48 | – | 1,046 |
| Disposals | (110) | – | (574) | (500) | – | (1,184) |
| Foreign exchange adjustments | (140) | 13 | – | – | – | (126) |
| At 31 October 2008 | 633 | 90 | 1,018 | 693 | 27 | 2,461 |
| Depreciation | | | | | | |
| At 1 November 2006 | 52 | – | 956 | 424 | 27 | 1,459 |
| Charge for year | 19 | – | 99 | 398 | – | 516 |
| Disposals | – | – | (271) | – | – | (271) |
| At 1 November 2007 | 71 | – | 784 | 822 | 27 | 1,704 |
| Charge for the year | 26 | 63 | 51 | 89 | – | 229 |
| Disposals | (82) | – | (396) | (367) | – | (845) |
| At 31 October 2008 | 15 | 63 | 439 | 544 | 27 | 1,088 |
| Net book value | | | | | | |
| At 31 October 2008 | 618 | 27 | 579 | 149 | – | 1,373 |
| At 31 October 2007 | 55 | – | 643 | 323 | – | 1,021 |

12. TRADE AND OTHER RECEIVABLES

| | The Group | |
|-------------------------------|--------------|--------|
| | 2008 | 2007 |
| | £000's | £000's |
| Trade accounts receivable | 3,873 | 4,074 |
| Other receivables | 2,377 | 2,976 |
| Prepayment and accrued income | 1,415 | – |
| | 7,665 | 7,050 |

There are no overdue amounts included in the values above.

13. DERIVATIVE FINANCIAL INSTRUMENTS

| | The Group | |
|---|-----------|--------|
| | 2008 | 2007 |
| | £000's | £000's |
| Receivables from derivative financial instruments | 52 | 295 |

Derivative financial instruments, all with a remaining term of less than a year, primarily serve to hedge future operative business; all instruments are outlined in the Directors' report. The fair value of the financial derivative has been determined by relevant valuations obtained from Group bankers and comprise a total gain on euro forward contracts of £52,000, all recognised in equity; and relate to cash flows from November 2008 to October 2009. All financial instruments have been designated as hedging instruments as fair value hedges in accordance with IAS 39.

14. DEFERRED TAX

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

| | The Group | |
|-------------------------------------|--------------|--------|
| | 2008 | 2007 |
| | £000's | £000's |
| Deferred tax brought forward | 27 | 250 |
| Recognised in business combinations | (499) | – |
| Decrease in provision | (304) | (223) |
| | (776) | 27 |

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

| | The Group | |
|--|--------------|--------|
| | 2008 | 2007 |
| | £000's | £000's |
| Excess of taxation allowances over depreciation on plant and equipment | (277) | 395 |
| Recognised in business combinations | (499) | – |
| Provisions | – | (368) |
| | (776) | 27 |

TRAVELZEST PLC 2008

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. GROUP EQUITY

Authorised share capital:

| | 2008 £000's | 2007 £000's |
|--|----------------|----------------|
| 59,550,000 ordinary shares of £0.02 each | 1,191 | 1,191 |
| 450,000 deferred shares of £0.02 each | 9 | 9 |

Issues, called up and fully paid:

| | 2008 | | 2007 | |
|-------------------------------|------------|--------|------------|--------|
| | No. | £000's | No. | £000's |
| Ordinary shares of £0.02 each | 20,393,496 | 407 | 17,489,274 | 350 |

On 19 June 2008, the Company issued 682,000 ordinary 2p shares at a premium of 108p as partial consideration for the acquisition of The Cruise Professionals Limited.

On 19 June 2008, the Company issued 2,222,222 ordinary 2p shares at a premium of 88p to institutional investors as partial funding of the acquisition of The Cruise Professionals Limited.

All shares are equally entitled to receive dividends and the repayment of capital and represent one vote at shareholders' meeting.

EXCHANGEABLE SHARES

| | 2008 | | 2007 | |
|---------------------|------------|--------|-----------|--------|
| | No. | £000's | No. | £000's |
| Exchangeable shares | 10,572,614 | 12,735 | 8,065,327 | 10,365 |

0763756 BC Limited, an indirect wholly owned subsidiary of Travelzest plc, issued 2,507,287 exchangeable shares on 11 February 2008 as part deferred consideration for the acquisition of iTravel2000.com at 94.5p per share. These shares are to be exchanged on a one for one basis for ordinary 2p shares in Travelzest within five years of completion of the acquisition (13 October 2006). The exchange of the shares is not dependent on any other external factors. The shares were not issued at a discount.

RECONCILIATION OF MOVEMENT IN EQUITY

| | Share capital and exchangeable shares £000's | Translation and hedge £000's | Share premium account £000's | Merger reserve £000's | Profit and loss account £000's | Total equity £000's |
|-----------------------------------|---|------------------------------------|---------------------------------------|-----------------------------|--------------------------------------|------------------------|
| At 1 November 2006 (restated) | 10,316 | – | 11,632 | 2,320 | 1,377 | 25,645 |
| Profit for the year | – | – | – | – | 1,170 | 1,170 |
| Issue of shares | 399 | – | – | – | – | 399 |
| Premium on shares issued | – | – | 2,679 | – | – | 2,679 |
| Costs of share placing | – | – | (78) | – | – | (78) |
| Share-based payments | – | – | – | – | 481 | 481 |
| Movement in financial derivatives | – | 250 | – | – | – | 250 |
| Foreign exchange reserve | – | – | – | – | 358 | 358 |
| At 1 November 2007 | 10,715 | 250 | 14,233 | 2,320 | 3,386 | 30,904 |
| Issue of shares | 2,427 | – | – | – | – | 2,427 |
| Loss for the year | – | – | – | – | (4,931) | (4,931) |
| Premium on shares issued | – | – | 2,691 | – | – | 2,691 |
| Costs of share placing | – | – | (145) | – | – | (145) |
| Share-based payments | – | – | – | – | 1,254 | 1,254 |
| Movement in financial derivatives | – | (819) | – | – | – | (819) |
| Foreign exchange reserve | – | (1,416) | – | – | – | (1,416) |
| At 31 October 2008 | 13,142 | (1,985) | 16,779 | 2,320 | (291) | 29,965 |

16. SHARE-BASED PAYMENTS

SHARE OPTIONS

The Group has a share option scheme for certain employees. Options are exercisable at a price equal to the average quoted market price of the Company's shares on the date of grant. The vesting period is three years. If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

Details of the share options outstanding during the year are as follows:

| | 2008 | | 2007 | |
|--|--|--|--|--|
| | Number of share options 000's | Weighted average exercise price | Number of share options 000's | Weighted average exercise price |
| Outstanding at the beginning of the year | 1,320 | 136p | 696 | 128p |
| Granted during the year | 10 | 105p | 624 | 144p |
| Outstanding at the end of the year | 1,330 | 121p | 1,320 | 136p |
| Exercisable after more than one year | 1,330 | 121p | 1,320 | 136p |

The options outstanding at 31 October 2008 had a weighted average exercise price of £1.21 and a weighted average contractual life of nine years.

The fair value of options granted were determined using the Black Scholes pricing model. Significant inputs into the calculation include the market price at the date of grant and exercise prices. Furthermore, the calculation takes into account the future dividend yield, the share price volatility rate and risk-free interest rate.

The underlying expected share price volatility was determined by reference to historical data. The Company expects the volatility of its share price to reduce as it matures. The risk-free interest rate was determined by the implied yield available on a zero-coupon government bond.

The Group recognised total expenses of £298,257 and £480,627 related to equity-settled share-based payment transactions in 2008 and 2007 respectively.

In March 2009, the Company granted options of 9,552 ordinary 2p shares at an exercise price of 105p.

All share options must be exercised between three and ten years of the date of grant.

TRAVELZEST PLC 2008

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. SHARE-BASED PAYMENTS (CONTINUED)

WARRANTS

Details of the share warrants outstanding during the year are as follows:

| | 2008 | | 2007 | |
|--|--------------------------------|---------------------------------|--------------------------------|---------------------------------|
| | Number of share warrants 000's | Weighted average exercise price | Number of share warrants 000's | Weighted average exercise price |
| Outstanding at the beginning of the year | 5,247 | 140p | 5,219 | 135p |
| Granted during the year | – | – | 28 | 141p |
| Outstanding at the end of the year | 5,247 | 140p | 5,247 | 140p |
| Exercisable after more than one year | 5,247 | 140p | 5,247 | 140p |

The warrants outstanding at 31 October 2008 had a weighted average exercise price of £1.40 and a weighted average contractual life of nine years. The subscription rights attached to each warrant in issue must be exercised within ten years of the date of grant.

The fair value of warrants granted were determined using the Black Scholes pricing model. Significant inputs into the calculation include the market price at the date of grant and exercise prices. Furthermore, the calculation takes into account the future dividend yield, the share price volatility rate and risk-free interest rate.

The underlying expected share price volatility was determined by reference to historical data. The Company expects the volatility of its share price to reduce as it matures. The risk-free interest rate was determined by the implied yield available on a zero-coupon government bond.

The Group recognised total expenses of £956,000 related to an equity-settled share-based warrant payment, one-off non cash charge, that relates to the waiver of the right for Chris Mottershead to receive further issues of warrants (2007: £204,000).

17. FINANCIAL LIABILITIES

GROUP

| | 31 October 2008 | | | 31 October 2007 | | |
|----------------------|-----------------|--------------------|--------------|-----------------|--------------------|--------------|
| | < 1 year £000's | 1 – 5 years £000's | Total £000's | < 1 year £000's | 1 – 5 years £000's | Total £000's |
| Liabilities to banks | 1,500 | 14,349 | 15,849 | 750 | 9,860 | 10,610 |
| Loan notes | – | – | – | 1,120 | – | 1,120 |
| | 1,500 | 14,349 | 15,849 | 1,870 | 9,860 | 11,730 |

Interest on the liabilities to banks is payable at a variable rate, which is set at 2.75% above LIBOR of which 75% has been fixed by means of an interest rate swap agreement. The bank loan is secured on the assets of Travelzest plc.

During the year, the Group commenced a new facility of £16,000,000 of which £4,588,000 is denominated in Canadian dollars.

Repayment of the bank loan commenced in November 2008 with a £1 million repayment. Repayments are every six months thereafter with a balloon payment in May 2012. The loan notes were repaid in May 2008.

18. TRADE AND OTHER PAYABLES

| | 31 October 2008 | | | 31 October 2007 | | |
|---|-----------------|--------------------|--------------|-----------------|--------------------|--------------|
| | < 1 year £000's | 1 – 5 years £000's | Total £000's | < 1 year £000's | 1 – 5 years £000's | Total £000's |
| To third parties | 3,213 | – | 3,213 | 4,380 | – | 4,380 |
| Liabilities relating to social security and other taxes | 54 | – | 54 | 131 | – | 131 |
| Advance payments received | 1,375 | – | 1,375 | 1,596 | – | 1,596 |
| Other liabilities | 6,527 | 41 | 6,568 | 4,280 | 315 | 4,595 |
| Deferred consideration | 951 | – | 951 | 41 | 4,661 | 4,702 |
| | 12,120 | 41 | 12,161 | 10,428 | 4,976 | 15,404 |
| Other liabilities relating to income tax | – | – | – | 1,230 | – | 1,230 |
| Deferred tax | – | 776 | 776 | – | – | – |
| | 12,120 | 817 | 12,937 | 11,658 | 4,976 | 16,634 |

19. DERIVATIVE FINANCIAL INSTRUMENTS

| | The Group | |
|---|-------------|-------------|
| | 2008 £000's | 2007 £000's |
| Liabilities from derivative financial instruments | 871 | 45 |

Derivative financial instruments, all with a remaining term of less than a year, primarily serve to hedge future operative business; all instruments are outlined in note 27. The fair value of the financial derivative has been determined by relevant active market valuations obtained from Group bankers and comprise a total loss on US dollar forward contracts of £54,000 and Canadian dollar forward contracts of £74,000, all recognised in equity and relate to cash flows from November 2008 to October 2009. £743,000 relates to losses on interest rate swaps to mitigate against exposure of interest risk. All financial instruments have been designated as hedging instruments as fair value hedges in accordance with IAS 39.

20. CONTINGENT LIABILITIES

Holiday Express (UK) Limited has provided bonds in favour of ABTA and IATA for £300,000 (2007 – £300,000). VFB Holidays Limited has provided a bond to AITOT for £695,000 (2007: £695,000) and JMB Travel Consultants to ABTOT for £10,000 (2007: £nil).

Barclays Bank plc holds an unlimited debenture over the assets of the 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.

21. COMMITMENTS UNDER OPERATING LEASES

At 31 October 2008 the Group's total operating lease payments are as set out below:

THE GROUP

| | 2008 | | 2007 | |
|--------------------------------|---------------------------|--------------------|---------------------------|--------------------|
| | Land and buildings £000's | Other items £000's | Land and buildings £000's | Other items £000's |
| Operating leases when payable: | | | | |
| Within 1 year | 472 | 218 | 580 | 263 |
| Within 2 to 5 years | 1,808 | 834 | 1,492 | 526 |
| After more than 5 years | 2,489 | 39 | 332 | – |
| | 4,769 | 1,091 | 2,404 | 789 |

TRAVELZEST PLC 2008

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. OTHER FINANCIAL COMMITMENTS

The Group had the following capital commitments at the year end:

| | 2008 £000's | 2007 £000's |
|---------------------|----------------|----------------|
| Website development | 210 | 71 |

23. RELATED PARTY TRANSACTIONS

During the year Holiday Express (UK) Limited sold holidays to C G McKinlay and N Robb amounting to £8,295 (2007: £12,983). All of the transactions were on normal commercial terms and an arm's length basis.

During the year, C A L Mottershead benefited from income received from the ownership of a villa that was marketed to Tapestry's clients, to the value of £11,907 (2007: £11,993); the balance outstanding at the year end was £nil (2007: £nil). In addition, the brother of C A L Mottershead, P Mottershead, benefited from income received from the ownership of a villa that was marketed to Tapestry's clients, to the value of £5,450 (2007: £nil); the balance outstanding at the year end was £5,450 (2007: £nil).

24. NOTES TO THE STATEMENT OF CASH FLOWS

The cash flow statement showed the flow of cash and cash equivalents on the basis of a separate presentation of cash inflows and outflows from operating, investing and financing activities:

RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

| | The Group | |
|---|----------------|----------------------------|
| | 2008 £000's | 2007 restated £000's |
| Operating (loss)/profit | (2,322) | 2,905 |
| Amortisation and impairment | 2,737 | 372 |
| Depreciation | 229 | 547 |
| Loss on disposal of property, plant and equipment | - | 2 |
| (Increase)/decrease in inventories | (31) | (1) |
| Change in operating receivables | (623) | (3,141) |
| Share-based payments | 1,254 | 481 |
| Change in operating payables | (3,555) | 1,312 |
| | (2,311) | 2,477 |

25. ACQUISITIONS

The Company acquired the 100% equity in the following the Company during the year:

| Company | Date | Business segment |
|----------------------------------|--------------|------------------|
| The Cruise Professionals Limited | 19 June 2008 | Travel Agency |

The acquisition was dealt with using the acquisition method of accounting and there is no difference between net book value and the fair value of assets required. The acquisition was partially funded by the issue of shares as consideration (see note 15).

25. ACQUISITIONS (CONTINUED)

The post acquisition results of The Cruise Professionals are as follows:

| | 2008 £000's |
|--|----------------|
| Total transaction value | 7,536 |
| Turnover | 2,371 |
| Cost of sales | (1,128) |
| Gross profit | 1,243 |
| Administrative expenses | (793) |
| Operating profit (before amortisation) | 450 |

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

| | Total £000's |
|-------------------------------|-----------------|
| Net assets acquired | |
| Property, plant and equipment | 50 |
| Trade and other receivables | 580 |
| Cash at bank and in hand | 418 |
| Trade and other payables | (591) |
| Fair value | 457 |
| Goodwill | 6,555 |
| Other intangible assets | 1,782 |
| | 8,794 |

The Company settled £6,134,000 of the total consideration; a further £2,660,000 was settled with other Group companies.

Goodwill is generated by entrance into a new market by the Group.

The deferred consideration in respect of The Cruise Professionals Limited is payable based on the results of the Company for the years ending 31 October 2008 and 31 October 2009 and due for payment on agreement of the calculation of the results. The maximum level of contingent consideration payable is £750,000. The consideration is payable in shares:

DEFERRED CONSIDERATION OUTSTANDING

| | 2008 £000's |
|---|----------------|
| At 1 November 2007 | 4,702 |
| Settled – cash | (1,686) |
| Settled – shares | (2,375) |
| Acquisitions in year | 750 |
| Reduction in deferred consideration of the Tapestry Collection (see note 9) | (436) |
| Reduction to consideration in JMB Travel Consultants Limited | (13) |
| Exchange adjustment | 9 |
| | 951 |
| Due within one year | 951 |

TRAVELZEST PLC 2008

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26. POST BALANCE SHEET EVENTS

There have been no significant post balance sheet events since 31 October 2008.

27. 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. As a matter of principle, all hedging transactions of the Group were based on appropriately recognised or future underlying items. The hedging transactions by the Group companies were based on the risk profile and hedge schedule of the respective Company. The existence of these financial instruments exposes the Group to a number of financial risks, market risk (in respect of foreign currency rate risk, fuel price risk and interest rate risk), liquidity risk (in respect of the Group's ability to meet its liabilities and credit risk (in respect of recovery amounts owing to the Group). 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.

The Group's key financial market risks are in relation to foreign currency rate and jet fuel prices. Currency risk results from the cross-border element of the Group's trading, and principally arises on purchases that are denominated in currency other than sterling. The risk is managed by the use of foreign exchange forward and swap contracts. The Group's exposure to jet fuel prices results from the procurement of flights within the Group's businesses.

CURRENCY RISK

The Group publishes its consolidated financial statements in sterling and as a result it is subject to foreign currency exchange translation risk in respect of the translation of the results and underlying assets of its foreign operations into sterling. 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. 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:

| | 2008 | | 2007 | |
|--------------------------|-----------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| | Functional currency of operations | | Functional currency of operations | |
| | Sterling £000's | Canadian dollars CAD\$ 000's | Sterling £000's | Canadian dollars CAD\$ 000's |
| Cash at bank and in hand | | | | |
| – Euros | 1,017 | – | 54 | – |
| – Canadian dollars | 1,278 | 2,437 | 1,744 | 462 |
| – US dollars | 69 | – | 61 | – |
| – Other currencies | 19 | – | – | – |
| Bank loans | | | | |
| – Canadian dollars | 4,291 | – | 1,329 | – |

The Group hedges its foreign currency exposures generally on a seasonal basis, that is winter and summer seasons. At the start of the season the Group will have hedged some of its foreign currency exposure for that season, using predominantly forward exchange contracts, most with a maturity of less than one year from the reporting date.

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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

| | 2008 | | 2007 | |
|------------------|-------------------------------------|---|-------------------------------------|---|
| | Total sterling commitment £000's | Fair value of forward element of contract £000's | Total sterling commitment £000's | Fair value of forward element of contract £000's |
| Euro | 9,530 | 52 | 4,771 | (32) |
| Canadian dollars | 2,000 | (74) | 2,139 | 168 |
| US dollars | 375 | (54) | 162 | (4) |

The following significant exchange rates to the Group's sterling presentation currency are illustrative of the rates applied during the current year and prior year:

| | 2008 | | 2007 | |
|------------------|--------------|-----------|--------------|-----------|
| | Average rate | Spot rate | Average rate | Spot rate |
| Euro | 1.3004 | 1.2634 | 1.4764 | 1.4321 |
| Canadian dollars | 1.9886 | 1.9926 | 2.1826 | 1.9701 |
| US dollars | 1.9444 | 1.6480 | 1.9833 | 2.0636 |

CREDIT RISK

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Trade and other receivables exposures are managed locally in the operating businesses where they arise; there is no concentration of credit risk with respect to trade and other receivables due a majority of holidays being paid for in advance. The maximum exposure to credit risk is outlined in note 12.

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. The Group's financial assets are highlighted below:

| | 2008 £000's | 2007 £000's |
|--|----------------|----------------|
| Trade accounts receivable | 3,873 | 4,074 |
| Other receivables | 2,377 | 2,976 |
| | 6,250 | 7,050 |
| Derivatives designated as fair value hedges: | | |
| Derivatives financial instruments | 52 | 295 |
| Cash | 5,077 | 10,480 |

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Currently the Group has no need for bank overdraft facilities to finance day to day operations. Further information on the borrowings of the Group are given in note 17 to the accounts. The table below provides details of the Group's undiscounted financial liabilities at the year end:

GROUP

| | 31 October 2008 | | | 31 October 2007 | | |
|--|--------------------|-----------------------|-----------------|--------------------|-----------------------|-----------------|
| | < 1 year £000's | 1 – 5 years £000's | Total £000's | < 1 year £000's | 1 – 5 years £000's | Total £000's |
| Financial liabilities measured at amortised cost: | | | | | | |
| Liabilities to banks | 2,725 | 17,013 | 19,738 | 1,222 | 9,860 | 11,082 |
| Loan notes | – | – | – | 1,120 | – | 1,120 |
| To third parties | 3,213 | – | 3,213 | 4,380 | – | 4,380 |
| Advance payments received | 1,375 | – | 1,375 | 1,596 | – | 1,596 |
| Other liabilities | 6,527 | 41 | 6,568 | 4,280 | 315 | 4,595 |
| Deferred consideration | 951 | – | 951 | 41 | 4,661 | 4,702 |
| | 14,791 | 17,054 | 31,845 | 12,637 | 14,836 | 27,475 |
| Derivatives designated as fair value hedges: | | | | | | |
| Derivative financial instruments | 871 | – | 871 | 45 | – | 45 |

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 rates on borrowings is given in note 17 to the accounts.

SENSITIVITY ANALYSIS

The sensitivity analysis is for illustrative purposes only and should be considered a projection of likely future events and gains or losses.

The sensitivity analysis includes the following assumptions:

- » change in market interest rates only affect interest income or expense of variable financial instruments;
- » change in market interest rates only affect interest income, or expense in relation to financial instruments with fixed interest rates are recognised at fair value;
- » change in market interest rates affect the fair value of derivative financial instruments designated as hedging instruments and all interest rate hedges are expected to be effective;
- » all foreign currency hedges are expected to be highly effective.

CURRENCY RISK

Under these assumptions, with a 10% strengthening of sterling against all other currencies, loss after tax would be reduced by £0.2 million (2007: £0.32 million) and equity would be increased by £2.82 million (2007: £1.92 million). A 10% weakening of sterling against all other currencies would result in an increased loss after tax of £0.22 million (2007: £0.22 million) and a reduction in equity of £2.32 million (2007: £1.62 million).

INTEREST RATE RISK

Under these assumptions, with a 1% (100 basis point) difference in market interest rates, loss after tax would have reduced or increased by £1.12 million (2007 £0.42 million).

| | Notes | 31 October 2008 £000's | 31 October 2007 £000's |
|--|-------|------------------------------|------------------------------|
| Fixed assets | | | |
| Tangible fixed assets | A | 22 | 18 |
| Investments | B | 38,849 | 38,464 |
| | | 38,871 | 38,482 |
| Current assets | | | |
| Debtors | C | 11,006 | 8,183 |
| Cash at bank | | 140 | 3,302 |
| | | 11,146 | 11,485 |
| Creditors: amounts falling due within one year | D | (4,247) | (2,907) |
| Net current assets | | 6,899 | 8,578 |
| Total assets less current liabilities | | 45,770 | 47,060 |
| Creditors: amounts falling due after more than one year | | | |
| | E | (13,947) | (14,521) |
| Provisions for liabilities and charges | | | |
| Deferred taxation | G | – | 203 |
| | | 31,823 | 32,742 |
| Capital and reserves | | | |
| Called-up equity share capital | I | 407 | 350 |
| Share premium account | J | 16,779 | 14,233 |
| Exchangeable shares | I | 12,735 | 10,365 |
| Merger reserve | J | 3,357 | 3,357 |
| Profit and loss account | J | (1,455) | 4,437 |
| Shareholders' funds | K | 31,823 | 32,742 |

These financial statements were approved by the Directors on 26 February 2009 and are signed on their behalf by:

C A L MOTTERSHEAD
Director

C G MCKINLAY
Director

BASIS OF ACCOUNTING

The financial statements of the Company have been prepared under the historical cost convention, and in accordance with UK GAAP.

ACCOUNTING CONVENTION

The financial statements are prepared on a going concern basis, which assumes that the Company will continue in operational existence for the foreseeable future.

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 (4) of the Companies Act 1985. The loss dealt with in the accounts of the parent Company is £7,563,000 under UK GAAP (2007 – profit of £1,203,000).

Under Financial Reporting Standard No.1 (revised), the Company is exempt from the requirement to prepare a cash flow statement as its cash flows are included within the published consolidated cash flow statement of Travelzest plc.

The Company has taken advantage of the exemption contained within Financial Reporting Standard No.8 and has not therefore disclosed transactions or balances with entities that form part of the Group.

The Company has taken advantage of the exemption contained within Financial Reporting Standard No.29 and has not provided the required financial instruments disclosure on the basis that the Group's consolidated financial statements include consolidated IFRS 7 disclosures which are compliant with the requirements of FRS 29.

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.

INVESTMENTS

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

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 a straight line basis:

Office equipment and computer equipment – two to five years.

OPERATING LEASE AGREEMENTS

Rentals applicable to land and building 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.

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

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.

SHARE-BASED PAYMENTS

The Group issues share-based instruments to certain employees as part of their total remuneration. The fair values of these instruments are calculated at the date of grant, using the Black Scholes pricing model. These fair values are charged to the income statement on a straight line basis over the expected vesting periods of the instruments, with a corresponding increase in equity reserves. Any waivers to share-based payments are treated as cancellations by the Group.

DIRECTORS

Details of Directors' remuneration, share-based payments and pension entitlements in the current period and prior period are contained in note 5 to the consolidated financial statements. Details of share-based payments are also contained in note 16 to the consolidated financial statements.

A TANGIBLE FIXED ASSETS

| | Office equipment £000's | Computer equipment £000's | Total £000's |
|---------------------------|-------------------------------|---------------------------------|-----------------|
| Cost | | | |
| At 1 November 2007 | 8 | 16 | 24 |
| Additions | – | 15 | 15 |
| At 31 October 2008 | 8 | 31 | 39 |
| Depreciation | | | |
| At 1 November 2007 | 2 | 4 | 6 |
| Charge for the year | 3 | 8 | 11 |
| At 31 October 2008 | 5 | 12 | 17 |
| Net book value | | | |
| At 31 October 2008 | 3 | 19 | 22 |
| At 31 October 2007 | 6 | 12 | 18 |

B FIXED ASSET INVESTMENTS COMPANY

| | Shares in Group companies £000's |
|---|---|
| Cost | |
| At 1 November 2007 | 38,464 |
| Additions (see note 25) | 6,134 |
| Reduction in the carrying value of the investment in Holiday Express (UK) Limited | (5,300) |
| Reduction to consideration in JMB Travel Consultants Limited | (13) |
| Reduction in deferred consideration of Tapestry Collection Limited | (436) |
| At 31 October 2008 | 38,849 |
| Net book value | |
| At 31 October 2008 | 38,849 |
| At 31 October 2007 | 38,464 |

A review of the carrying value of the investment held in the Company in respect of Holiday Express, a subsidiary of the Company, was conducted at the year end in light of poor trading performance, subsequent closure of operations and the decision to license the domain names owned by Holiday Express to a third party. This has resulted in an impairment charge reflected in the Company's profit and loss account of £5.3 million.

Post completion a review of the acquired assets of JMB Travel Consultants resulted in a repayment by the vendor of £13,000. An adjustment to the deferred consideration of Tapestry Collection was made to reflect the achievement of lower results determining a reduction in the potential earnout payable.

TRAVELZEST PLC 2008

NOTES TO THE COMPANY FINANCIAL STATEMENTS

B FIXED ASSET INVESTMENTS (CONTINUED)

At 31 October 2008, the Company 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 Company | Nature of business |
|----------------------------------|-------------------------|-----------------------------|----------------------------|--------------------|
| VFB Holidays Limited | England & Wales | Ordinary | 100% | Tour operator |
| Holiday Express (UK) Limited | England & Wales | Ordinary | 100% | Travel agents |
| Best of Morocco Limited | England & Wales | Ordinary | 100% | Tour operator |
| Peng Travel Limited | England & Wales | Ordinary | 100% | Tour operator |
| Montpelier Collection Limited | England & Wales | Ordinary | 100% | Holding Company |
| Travelzest Canco Limited | England & Wales | Ordinary | 100% | Holding Company |
| Tapestry Collection Limited | England & Wales | Ordinary | 100% | Tour operator |
| Wow House Limited | England & Wales | Ordinary | 100% | Tour operator |
| Captivating Cuba Limited | England & Wales | Ordinary | 100% | Tour operator |
| JMB Travel Consultants Limited | England & Wales | Ordinary | 100% | Tour operator |
| The Cruise Professionals Limited | Canada | Common | 100% | Travel agents |

The shareholdings above also represent the proportion of voting rights held. All subsidiaries have been included in the consolidated accounts. The Company also indirectly owns the following companies:

| | Country of registration | Class of share capital held | Proportion held by Group | Nature of business |
|--|-------------------------|-----------------------------|--------------------------|--------------------|
| Travelzest Holdings Inc | Canada | Ordinary | 100% | Holding Company |
| 0763756BC Limited | Canada | Ordinary | 100% | Holding Company |
| 4358736 Canada Inc (trading as iTravel 2000.com) | Canada | Common | 100% | Travel agents |

C DEBTORS

| | 2008 £000's | 2007 £000's |
|---------------------------------|----------------|----------------|
| Amounts owed by Group companies | 10,591 | 7,795 |
| Other debtors | 130 | 308 |
| Prepayments and accrued income | 285 | 80 |
| | 11,006 | 8,183 |

D CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 2008 £000's | 2007 £000's |
|--------------------------------------|----------------|----------------|
| Bank loans and overdraft | 1,500 | 750 |
| Loan notes | – | 1,120 |
| Trade creditors | 146 | 121 |
| Social security and other taxes | 201 | 42 |
| Corporation tax | 294 | – |
| Accruals and deferred income | 1,155 | 833 |
| Deferred consideration (see note 25) | 951 | 41 |
| | 4,247 | 2,907 |

The loan notes relates to the deferred consideration payable on acquisition on Fair's Fare Limited.

E CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

| | 2008 £000's | 2007 £000's |
|--------------------------------------|----------------|----------------|
| Deferred consideration (see note 25) | – | 4,661 |
| Bank loans | 13,947 | 9,860 |
| | 13,947 | 14,521 |

F CREDITORS – CAPITAL INSTRUMENTS

Bank loans and loan notes are repayable:

| | 2008 £000's | 2007 £000's |
|----------------------------------|----------------|----------------|
| In one year or less or on demand | 1,500 | 1,870 |
| Between one and two years | 2,750 | 1,500 |
| Between two and five years | 11,197 | 8,360 |
| | 15,447 | 11,730 |

Interest is payable on bank loans and loan notes:

| | 2008 £000's | 2007 £000's |
|------------------------|----------------|----------------|
| Variable interest rate | 15,447 | 10,610 |
| Fixed interest rate | – | 1,120 |
| | 15,447 | 11,730 |

Interest on the liabilities to banks is payable at a variable rate, which is set at 2.75% above LIBOR of which 75% has been fixed by means of an interest rate swap agreement.

During the year, the Group commenced a new facility of £16,000,000 of which £4,588,000 is denominated in Canadian dollars.

Repayment of the bank loan commences in November 2008 with repayments every six months thereafter with a balloon payment in May 2012. The loan notes were repaid in May 2008.

The bank loan is secured on the assets of the Company.

G DEFERRED TAXATION

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

| | 2008 £000's | 2007 £000's |
|----------------------------------|----------------|----------------|
| Provision brought forward | (203) | (64) |
| Increase/(decrease) in provision | 203 | (139) |
| Provision carried forward | – | (203) |

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

| | 2008 £000's | 2007 £000's |
|-------------------------------------|----------------|----------------|
| Other short-term timing differences | – | (203) |

TRAVELZEST PLC 2008

NOTES TO THE COMPANY FINANCIAL STATEMENTS

H COMMITMENTS UNDER OPERATING LEASES

At 31 October 2008 the Company had annual commitments under non-cancellable operating leases as set out below.

| | 2008 | | 2007 | |
|--------------------------------|------------------------------|-----------------------|------------------------------|-----------------------|
| | Land and buildings £000's | Other items £000's | Land and Buildings £000's | Other items £000's |
| Operating leases which expire: | | | | |
| Within 2 to 5 years | 18 | – | 18 | – |
| | 18 | – | 18 | – |

I SHARE CAPITAL

Authorised share capital:

| | 2008 £000's | 2007 £000's |
|--|----------------|----------------|
| 59,550,000 ordinary shares of £0.02 each | 1,191 | 1,191 |
| 450,000 deferred shares of £0.02 each | 9 | 9 |

Allotted, called up and fully paid:

| | 2008 | | 2007 | |
|-------------------------------|------------|--------|------------|--------|
| | No. | £000's | No. | £000's |
| Ordinary shares of £0.02 each | 20,393,496 | 407 | 17,489,274 | 350 |

On 19 June 2008, the Company issued 682,000 ordinary £0.02 shares at a premium of 108p as partial consideration for the acquisition of The Cruise Professionals Limited.

On 19 June 2008, the Company issued 2,222,222 ordinary £0.02 shares at a premium of 88p to institutional investors to partially fund the acquisition of The Cruise Professionals Limited.

EXCHANGEABLE SHARES

| | 2008 | | 2007 | |
|---------------------|------------|--------|-----------|--------|
| | No. | £000's | No. | £000's |
| Exchangeable shares | 10,572,614 | 12,735 | 8,065,327 | 10,365 |

0763756 BC Limited, an indirect wholly owned subsidiary of Travelzest plc, issued 2,507,287 exchangeable shares on 11 February 2008 as the remaining consideration for the acquisition of iTravel2000.com at 94.5p per share. These shares are required to be exchanged on a one for one basis for ordinary 2p shares in Travelzest within five years of completion of the acquisition (13 October 2006). The exchange of the shares is not dependent on any other external factors.

J RESERVES

| | Share premium account £000's | Merger reserve £000's | Profit and loss account £000's |
|---|------------------------------------|-----------------------------|--------------------------------------|
| At 1 November 2007 | 14,233 | 3,357 | 4,437 |
| Loss for the year | – | – | (7,563) |
| Foreign exchange differences arising from translation | | | 417 |
| Premium on shares issued | 2,691 | – | – |
| Share-based payments | – | – | 1,254 |
| Costs of share placing | (145) | – | – |
| At 31 October 2008 | 16,779 | 3,357 | (1,455) |

K RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

| | 2008 £000's | 2007 £000's |
|--|----------------|----------------|
| (Loss)/profit for the financial year | (7,563) | 1,203 |
| Issue of shares | 4,973 | 3,000 |
| Foreign exchange differences arising from translation | 417 | 1,145 |
| Share-based payments | 1,254 | 481 |
| Net (reduction)/addition to shareholders' equity funds | (919) | 5,829 |
| Opening shareholders' equity funds | 32,742 | 26,913 |
| Closing shareholders' equity funds | 31,823 | 32,742 |

L LOSS ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT COMPANY

The loss dealt with in the accounts of the parent Company was £7,563,000 (2007: profit £1,203,000).

M CONTINGENT LIABILITIES

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.

N POST BALANCE SHEET EVENTS

There have been no significant post balance sheet events since 31 October 2008.

O PRIOR YEAR ADJUSTMENT

A prior adjustment has been made in the accounts of the Company relating to a foreign exchange credit of £1,145,000 recognised in 2007 arising from the accounting treatment of a loan made to ittravel2000.com to Travelzest plc which is held at historic cost. In 2007, the credit was removed on consolidation so there was no effect on the profit and loss of the Group. In 2008, the effect on consolidation recognised in 2007 has been reflected in the Company.

| | |
|-----------------------------|--|
| Company registration number | 04520457 |
| Registered office | Farm Cottage Heath House Wedmore BS28 4UG |
| Principal place of business | Ashridge Business Centre Berkhamsted House 121 High Street Berkhamsted Hertfordshire HP4 2DJ 01442 874322 |
| Executive Directors | J G Carroll C G McKinlay C A L Mottershead N Robb |
| Non Executive Directors | R G Hall M T J Molyneux (Chairman) P Thomson |
| Company Secretary | R G Hall |
| Bankers | Barclays Bank plc Pall Mall Corporate Group 80 Pall Mall London SW1A 1QA |
| Solicitors | Joelson Wilson & Co. 30 Portland Place London W1B 1LZ |
| Broker | Investec Bank (UK) Limited 2 Gresham Street London EC2V 7QP |
| Auditor | Grant Thornton UK LLP Chartered Accountants Registered Auditors Hartwell House, 55-61 Victoria Street Bristol BS1 6FT |



