

Date: 26 February 2009
On behalf of: Travelzest plc ("Travelzest" or "the Group")
Embargoed until: 0700 hrs

Travelzest plc

Preliminary results for the year to 31 October 2008

Travelzest plc (AIM:TVZ), the online travel group offering specialist travel programmes, is pleased to announce its preliminary results for the year to 31 October 2008.

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))

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

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

Commenting on the results, Chris Mottershead, Chief Executive said:

"I am delighted to be able to report another year of underlying operating profit growth. We have demonstrated the delivery of an improved underlying result in a difficult economic environment. We have also taken the right decisions for the business with the closure of the in-house operations of Holiday Express. We will continue to review our strategy in 2009 to ensure that it continues to be appropriate given the global financial turmoil through which all businesses must navigate over the coming year."

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Chairman's statement

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 has 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, they 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

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 have 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 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.

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	2007
	£000's	£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

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.

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 makes 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

Consolidated income statement

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

Consolidated balance sheet

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

Consolidated cash flow statement

		Year ended 31 October 2008	Year ended 31 October 2007
		Unaudited £000's	Unaudited £000's
	Notes		
Cash flows from operating activities			
Cash generated from operations	6	(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 & 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

Statement of Recognised Income and Expenses

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

1 Principal accounting policies

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 make 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 believe 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.

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.

Judgements and estimates (continued)

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.

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 bases 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.

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.

Goodwill and other intangible assets (continued)

Costs that directly associated with the purchase and implementation of web sites 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 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 and cash and cash equivalents are accounted for in accordance with the policies set out below.

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 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 probably 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 profit and loss 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.

Total transaction value and revenue recognition (continued)

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 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 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 measured at fair value are 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 share 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 maintain its covenants resulting from the loan taken out in 2008.

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	2007
	£000's	£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	
	Year to 31 October		Year to 31 October		Year to 31 October	
	2008	2007	2008	2007	2008	2007
	£000s	£000s	£000s	£000s	£000s	£000s
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 PPE	-	-	-	-	-	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	
	Year to	Year to	Year to	Year to
	31	31 October	31	31 October
	October	2007	October	2007
	2008	2007	2008	2007
	£000s	£000s	£000s	£000s
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 Finance income/expenses

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

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

4 Income tax expense

Tax expense comprises:

	2008	2007
	£000s	£000s
Current income taxes:		
UK Corporation Tax	-	307
Overseas taxation	584	1,178
(Over)/under-provision in prior year	451	(300)
Deferred tax – share options	203	(27)
Deferred tax – ACA's	101	-
Tax on profit on ordinary activities	<u>1,339</u>	<u>1,158</u>

Reconciliation from expected to actual income tax expense:

	2008	2007
	£000s	£000s
(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 under IFRS 3	623	287
Expenses with no tax effect	437	268
Temporary differences - share options	203	-
Depreciation in excess of capital allowances	101	(25)
Effective tax expenses and income relating to other periods	451	(300)
Losses carried forward	513	152
Rates differences	17	78
Actual income tax expense	<u>1,339</u>	<u>1,158</u>

All deferred tax has been recognised in the income statement.

5 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)..

6 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	2007
		Restated
	£000s	£000s
Operating (loss)/profit	(2,322)	2,905
Amortisation	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
	<u>(2,311)</u>	<u>2,477</u>

7 Publication of non statutory accounts

The financial information set out in this preliminary announcement does not constitute statutory accounts as defined in section 240 of the Companies Act 1985.

The summarised balance sheet at 31 October 2008 and the summarised profit and loss account, summarised cash flow statement and associated notes for the year then ended have been extracted from the Group's financial statements. Those financial statements have not yet been delivered to the Registrar, nor have the auditors reported on them.